0002

Declassified E.O. 12356 Section 3.3/NND No. 785015

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REORGANIZATION, ALLIED COMMISSION
OCT. 1944 – JUNE 1945

0004

Declassified E.O. 12356 Section 3.3/NND No. 785015

LIST OF PAPERS

Office of the Chief Commissioner

ALLIED COMMISSION

File under No. 102 REORGANIZATION, ALLIED COMMISSION
(Contents: New Deal for Italy - Macmillan Plan and New Directive to Alcom)

SECRET Confidential

From: 16 Oct 44 to 18 Jan 45

Vol. I

Final Phase

SERIAL NUMBER	FROM—	DATE	TO—	SYNOPSIS
37	AFHQ G-5: 100-1	17 Mar 45	AC, CC	Proposal to transfer currency respons ibility to IG; new draft to TAM 445-1e.
37a	SAC (P) (45) 9 Addendum	20 Mar 45		Proposal to transfer currency respons ibility to IG.
38	Draft Cbl AFHQ	21 Mar 45	CCS	Proposal to transfer currency respons ibility to IG;new draft ans TAM445- 1e.
39	SAC(P)(45) 4th Meeting	22 Mar 45		Proposal to transfer currency respons ibility to IG.
40	Cbl AFHQ, MAT-595 FX-48300	23 Mar 45	CCS	Proposal to transfer currency respons ibility to IG.
41	7002/EC, Fiske	24 Mar 45	VPs,S/Cs,LOs	Functions of AC Liaison Officers in Ital Govt Territory.
41a	Ltr CAO AFHQ Gen Robertson	29 Mar 45	CC AC	FAN 487; extended action based on CC ltr 4001/3C of 19 Feb, & confirmation
42	AFHQ Admin Memo 19	31 Mar 45		Functions of AC as per FAN 487.
43	4001/EC, Stone	18 Apr 45	AFHQ, CAO	Confirmation of AC actinn taken on New CCS Directive- FAN 487.
44	4001/EC, Stone	18 Apr 45	Bonomi	IG to keep AC informed of negotiation with foreign governments,per FAN 487.
45	4001/202/EC, Stone	19 Apr 45	A/Pres	Confirmation of AC action taken on New CCS Directive - Fan 487.
46	Y/685, de Gasperi	30 Apr 45	Stone	Recapitulation of negotiations held with foreign governments.
47	Cbl AFHQ, F-74570	12 May 45	AC	Undertakings to be signed by any new It Govt.
48	CC 225-8, Stone	12 Jun 45	Bonomi	Undertakings which must be signed by any new IG.

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Declassified

Confidential

SECRET Confidential

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102/CC
Office of the
Chief Commissioner
ALLIED COMMISSION

LIST OF PAPERS

*File under No.*102 REORGANIZATION, ALLIED COMMISSION (New Deal for Italy - Macmillan Plan & New Directive for Allied Commission)

Related: 1001/CC
FINAL PHASE

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SERIAL NUMBER	FROM—	DATE	TO—	SYNOPSIS
25	G-5/100-1, Spofford	21 Feb 45	Hq AC	Reply to TAM 445 redrafted at AFHQ: US/UK fin relations with IG.
25a	Itinerary	21 Feb 45		Procedure for communicating 'New Deal' to ACI, IG and the public.
26	Cbl AFHQ, F-32004 (TAM 471)	23 Feb 45	Macmillan	No public announcement of FAN 487 on Govt'al level. Guidance to AC.
27	Statement, CC	24 Feb 45	Advisory Council	New CCS Directive to AC, (implications of FAN 487).
27a	Cbl AFHQ, MAT 554	24 Feb 45	CCS	Anser to TAM 445; US/UK fin rela w IG.
28	Aide Memoire, Macmillan	24 Feb 45	It PM	Aide-Memoire for communication to IG by Actg Pres of contents of New Directive on the functions of Alcom.
28a	Meeting Adv Council(Sp)	24 Feb 45		ACI discusses new directive.
29	4001/154/EC, Stone	24 Feb 45	AFHQ	IG & ACI informed; withdrawal of AC offrs by 1 Apr; transfer of territory papers will be issued in amended form.
30	Press Release	25 Feb 45		Macmillan, Stone, Bonomi, de Gasperi discussed "New Deal for Italy".
31	4001/155/EC, Stone	27 Feb 45	RCs, SCAOs, VPs, SCs	Pending detailed directive, Aide-Memoire forwarded for info/guidance.
31a	Ltr COS AFHQ	28 Feb 45	CC, AC	No change now in It Army standing.
32	SAC (P) (45) 9	27 Feb 45		Proposal to transfer currency responsibility to IG; draft answer to TAM 445.
32a	Press Conference, Morgenthau	(15 Jan)		US does not intend assume liability to redeem "invasion money"....
33 34	SAC (P) (45) 2nd Mtg	2 Mar 45		Proposal to transfer currency responsibility to IG; draft answer to TAM 445
34	Cbl AFHQ, F-39108	7 Mar 45	Alcom	Plan for withdrawal AC offrs fr IG territory being studied by AFHQ secs.
35	7002/97/EC, Lush	7 Mar 45	President	Comments on AFHQ Cbl F-39108 (34).
36	SAC(P)(45) 3rd Meeting	16 Mar 45		Proposal to transfer currency responsibility to IG; no action yet.

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LIST OF PAPERS

Office of the
Chief Commissioner

ALLIED COMMISSION

File under No. 102 (New Deal for Italy)
REORGANIZATION, ALLIED COMMISSION
(Macmillan Plan, & New Directive for AC)
(Also see 1001/CC)

FINAL PHASE

[redacted]-SECRET

SERIAL NUMBER	FROM—	DATE	TO—	SYNOPSIS
16	Cbl, CCS, FAN 487 (WX-29633)	31 Jan 45	SACMED	New Directive from CCS as implementation of FDR-Churchill Statement 26 Sept 44 to relax control of It Govt.
17	Cbl CCS, TAM 445	1 Feb 45	SACMED	Proposals for modification of US/UK financial relations with It Govt (incl transfer of AFA to AFHQ, etc)
17a	Ltr 4001/COS Lush	5 Feb 45	All VPs	Meeting to be held to discuss FAN 487, copy attached.
17b	Ltr 4001/COS Lush	?6 Feb 45	Stone	Encl: notes on FAN 487, to help
18	Draft Ltr(Densmore)Stone	?6 Feb 45	Bonomi	AC will relax control of It Govt under surrender instrument as implementation of FDR-Churchill 26 Sep declaration.
18a	Minutes Mtg Office of CC	6 Feb 45		Meeting on implications of FAN 487
18b	Amendment to Minutes	7 Feb 45		Amendment to minutes of mtg 6 Feb 45
19	Draft Cbl to CCS (Fin)	?7 Feb 45	CCS	Financial proposals in TAM 445 agreed in principle but timing of change questioned.
19a	Memo, Macmillan	7 Feb 45	CC	Comments on TAM 487.
19b	Memo, Br VP Pol Sec	8 Feb 45	CC	Comments on abolition of Pol Sec
20	13214/F, Grafftey-Smith	8 Feb 45	Actg Pres	On proposals for modification financial relations with IG.
21	CC-102, Quayle	12 Feb 45	Distr	Corrigendum to (19) draft cbl to CCS on financial proposals in TAM 445.
22	Cbl AFHQ G5, F-26406	13 Feb 45	AC for Stone	USPOLAD requests addition new para to draft cbl reply to TAM 445.
3329				
22a	SAC(P)(45) 4	17 Feb 45		'Implications of FAN 487.'
23	Ltr 4001/EC Stone	19 Feb 45	G-5 AFHQ	New CCS Directive on the Allied Commission; proposed implementation, with INCL: Draft directive on withdrawal of Southern officers, & draft ltr to Prime Minister covering new terms
24	SAC (P) (45) 1st Mtg	20 Feb 45		SAC notes FAN 487 and OKs Macmillan's proposed action in informing Bonomi & Press correspondents, & Advisory Council.

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102/CC

Office of the
Chief Commissioner

LIST OF PAPERS

ALLIED COMMISSION

File under No. 102 REORGANIZATION, ALLIED COMMISSION
(MacMillan plan, & New Directive for AC)
(See also 1001/CC)

SECRET

FINAL PHASE

SERIAL NUMBER	FROM—	DATE	TO—	SYNOPSIS
1	9/1A/CA Upjohn	18 Nov 44	A/Pres AC	Approval of the appointment of Ital Govt officials
2	251/63/CCS Lush	19 Nov 44	Chief Comm	Work achieved in London: infiltration of Brit Civilians
3	4/2.1/CA Upjohn	19 Nov 44	Chief of Staff	Functions of the Sub-Commissions of Civil Affairs Section in Ital Govt Territory
4	9/17B/CA Upjohn	19 Nov 44	A/Pres AC	Approval of Decrees passed by the Italian Govt
5	Agenda A/Pres Mtg			From Lush, CCS
6	Roster			Economic Section S/C Heads etc
7	Notes on agenda			From Lush, CCS: Future of Commission; Removal of "Control"
8	216/COS Minutes A/Pres Mtg 20/11	21 Nov 44		Minutes of Acting President's Conference, 20 Nov; see memos
8a	4001/COS, Macmillan	5 Jan 45		Macmillan's 'New Deal' Plan.
9	Memo A/Pres' PA	22 Jan 45	MacMillan	Note of US treasury's proposals
10	Memo A/Pres PA	23 Jan 45	MacMillan	Redraft of American proposal
11	Memo A/Pres	23 Jan 45	Stone	Atchd are proposals of Americans MacMillan has wired to Eden, re extending scope of New Deal to cover financial opeations
12	Memo PRES/45204/1/ SI MacMillan	26 Jan 45	CC & COS	Draft Directive: Financial claus Will be urged thru CCS soonest
13	Cbl AFHQ F-15693	26 Jan 45	AC	Spofford says new It directive cleared by CCAC and issue by CCS may be expected shortly.
13a	Text Draft Statement	26 Jan		DraftText of US-UK Joint Statement.
14	Pres/45204/1/SI PA to Pres.	29 Jan 45	Quayle, Talbot	Background info on draft joint US-UK statement on Mac's"New Deal".
15	DO Ltr, Stone	29 Jan 45	Macmillan	CC comments on draft joint US-UK statement on Macmillan "New Deal".

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LIST OF PAPERS

(New Deal, First Phase)

File under No. 102 REORGANIZATION, ALLIED COMMISSION
(MacMillen Plan, & New Directive for AC)

Secret

FIRST PHASE

SERIAL NUMBER	FROM—	DATE	TO—	SYNOPSIS
A1	Minutes of Mtg	16 Oct 44		Meeting: Lush, Mitchell, Jackson. Discussion of whole reorganization.
A2	Minutes of Meeting	23 Oct 44		Meeting in Res Min's Office: result of Mitchell-Marris-Jackson mission, re mostly imported supplies & New Deal
A3	PC (44) 30th Mtg AFHQ Pol Comm - Extract	24 Oct 44		Supply situation in Italy: re mission of Mitchell & Marris. Questions arising from Sept 26th statement.
A4	Draft telegrams to CCS			The New Deal for Italy: Civil Supplies. Rehabilitation program
A5	AFHQ Ltr G-5	27 Oct 44		Economic & Supply problem of Italy. Minutes of meeting held 26 Oct 44 under MacMillian with Kirk, Stone, Clark
A6	Ltr 4001/10/CCS Lush	31 Oct 44	DCOS Econ S	The New Deal for Italy: pls take action re atchd minutes of mtg 26 Oct

5327

0009

Declassified E.O. 12356 Section 3.3/NND No. 785015

CC 225-6

12 June 1945.

My dear Mr. Prime Minister,

I have been instructed by Field Marshal Alexander, Supreme Allied Commander, Mediterranean Theater, that any new Italian Government would be requested to confirm adherence to the obligations under the terms of surrender subject to the reservations made in the Macmillan Aide-Memoire of 24 February 1945. The obligation with respect to the terms of surrender which your Government gave 18 June 1944 and again on 10 December 1944 will therefore be modified as above indicated and is attached hereto in the form of enclosure "A".

I am also instructed by the Supreme Allied Commander that any new Italian Government will be required to give the same undertaking regarding the institutional question as was given by your Government on 15 June 1944 and 10 December 1944, a copy of which is attached as enclosure "B".

I am further instructed by the Supreme Allied Commander that appointments to the positions of Minister of War, Minister of Marine, and Minister of Air and to certain other positions having military significance will require the approval of the Supreme Allied Commander as set forth in Appendix "A" to the Macmillan Aide-Memoire of 24 February 1945, a copy of which is attached hereto as enclosure "C".

Very truly yours,

ELLERY W. STONE
Rear Admiral, USNR
Chief Commissioner

His Excellency Ivanoe Bonomi,
The President of the Council of Ministers,
Italian Government,
Rome.

cc: American Ambassador
British Ambassador
G-5, AFHQ
Exec. Comm.
CC Files

0010

Declassified E.O. 12356 Section 3.3/NND No. 785015

IL PRESIDENTE DEL CONSIGLIO
DEI MINISTRI

ENCLOSURE "A"

To: Rear Admiral Ellery W. Stone, USN.
Chief Commissioner.
Allied Commission.
APO 394.

On behalf of the Royal Italian Government I accept all obligations towards the allies entered into by the former Italian Governments since the conclusion of the Armistice signed on the 3rd September, 1943. It is understood that the rights under the Armistice and surrender instrument with respect to control of the Italian Government will be held in reserve in the matter of day to day administration, subject to overriding military needs.

I declare that every member of the Government has acquainted himself personally with the terms of all such obligations including the terms of the Armistice signed on the 29th September 1943.

ROME, June 1945.

3345

PRESIDENT OF THE COUNCIL
OF MINISTERS

(12)

0011

Declassified E.O. 12356 Section 3.3/NND No. 785015

IL PRESIDENTE DEL CONSIGLIO
DEI MINISTRI

ENCLOSURE "B"

To: Rear Admiral Ellery W. Stone, USN.
Chief Commissioner.
Allied Commission.
APO 394.

Without the prior consent of the Allied Governments the Royal Italian Government undertakes not to re-open the institutional question until such time as Italy has been liberated and the Italian people have the opportunity of themselves determining the form of government.

ROME, June 1945.

PRESIDENT OF THE COUNCIL OF MINISTERS

3324

(18)

0012

Declassified E.O. 12356 Section 3.3/NND No. 785015

ENCLOSURE "C"

Minister of War

Minister of Marine

Minister of Air

Any other Minister of Armed Forces who may be created

Under Secretary for Telecommunications

Director of Railroads

Director General of Pubblica Sicurezza

Commanding General, CC.RR

Chief of Staff, CC.RR

Commanding General, GD.FF.

Appointments in the Army, Navy, and Air Force in accordance with current practice.

3329

18

0013

Declassified E.O. 12356 Section 3.3/NND No. 785015

F 74570
MAY 122213B

E/552
MAY 130930
PRIORITY

AFHQ SIGNED SACMED CITE FHCEG.
HQ ALCOM ROME.

SECRET.

Refer ALCOM 7111

In accordance with para 2 c of FAN 487 any new Italian Government will be requested to confirm adherence to obligations under armistice. Consider it appropriate, however, that at same time to reaffirm the general principle of FAN 487. Accordingly undertaking will include following sentence; "It is understood that the rights under the armistice and surrender instrument with respect to control of the Italian Government will be held in reserve in the matter of day to day administration, subject to overriding military needs".

2. Undertaking regarding institutional question required as heretofore.

3. Terms of FAN 487 will be followed regarding SACMEDS approval of service ministers and appointments.

DIST
ACTION - HX COMM2
INFO - A/PRESIDENT
CHIEF COMMISSIONER
FILE

0914

Declassified E.O. 12356 Section 3.3/NND No. 785015

CC 1542
MAY 1 RECD

Translation

The Minister of Foreign Affairs

Y/685 Rome, 30 April 1945

Dear Admiral,

in your note n. 4001/2 of April 18th, you asked His Ex. the President of the Council for a summary of all the negotiations concluded or still unconcluded with other Governments, in conformity with the Macmillan memorandum of February 24th.

I will briefly sum up the situation.

All the discussions of an economic character go through the competent Sub-Commission of the A.C. which is therefore perfectly well informed.

In political matters, the only negotiation brought to an end was that with France, about the resumption of direct realtions, and the regime of the Italians in Tunis. Official communiques were at that time published in all the newspapers.

Soundings are being made for the resumption of relations with Yugoslavia, and conversations are taking place for the relief of Interned Italians in Poland and Albania.

I want to remind you that the Allies have, as you know, our codes, and are therefore perfectly well informed about all the above mentioned initiatives.

I remain, my dear Admiral,

Sincerely yours,

3321

A. De Gasperi

Admiral Ellery W. Stone
Chief of the Allied Commission
R o m e

(46) c.c.

A.C. DIST - 1 MAY 45

ACTION: - EX COMGR.
INFO - CHIEF COMGR
POL AFF (A)
" " (B)

0016

Declassified E.O. 12356 Section 3.3/NND No. 785015

Ref. 4001/202/20 19 April 45

To: A/President

From: Chief Commissioner

Report on the carrying out of the new Italian Directive

In reference to your note of the 15th on this subject, you will be interested to know that the completed report, as called for by General Robertson in his letter on FAN 487, has been sent forward this date.

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202/1

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E. W. S.

45

0016

Declassified E.O. 12356 Section 3.3/NND No. 785015

Ref: 4001/96.

18 April 1945.

My dear Mr. Prime Minister:

You will remember that in the Aide-Memoire left with you on 24 February by Mr. Macmillan and myself paragraph 3 required of the Italian Government that it keep the Allied Commission informed of any negotiations in which it might engage with other governments, and it was suggested that a periodic summary should be furnished of all negotiations completed and pending with other governments.

While it is understood that your Government accepted this proposal, this Commission has in fact never been informed of any such negotiations, nor has it received the suggested summary.

I therefore would ask you, my dear Prime Minister, to give this matter your attention so that I may be kept promptly informed of negotiations in line with paragraph 3 of the above-mentioned Aide-Memoire, and to give your confirmation of your acceptance of this procedure.

See paragraph 1 folder 43.

Yours very truly,

/s/ Ellery W. Stone

ELLERY W. STONE
Rear Admiral, USNR
Chief Commissioner

See 46

J319

His Excellency Ivanoie Bonomi
The President of the Council of Ministers
Italian Government
Rome

Copy to: Political Adviser (A)
" " (B)

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DOCUMENT "A"

TERMS OF RESTORATION OF
ADDITIONAL ITALIAN TERRITORY.

WHEREAS, successively on the 11th February 1944, on the 20th July 1944, on the 15th August 1944 and on the 16th October 1944, certain territory in Italy previously occupied by the Allied Forces has been restored to the jurisdiction of the Italian Government, and

WHEREAS, since said last mentioned date additional territory in Italy has been liberated from German domination, and

WHEREAS, the Italian Government has requested that certain additional areas now occupied by the Allied Forces be restored to the jurisdiction of the Italian Government, and

WHEREAS, it is the desire of the United Nations to comply with this request in so far as may be compatible with the successful prosecution of the war, and

WHEREAS, it is necessary for the successful prosecution of the war that certain rights, powers and immunities in all Italian territory which has been liberated from German domination be retained by the Allied Forces

NOW, THEREFORE, I, SIR HAROLD R.L.G. ALEXANDER, G.C.B., C.S.I., D.S.O., M.C., A.D.C., Field Marshal, Supreme Allied Commander, Mediterranean Theater and Military Governor, hereby terminate Allied Military Government in the territory described below. The Italian Government will resume the government of that territory, subject to the terms and conditions hereinafter set forth.

Territory Restored: That portion of Italy comprising the Provinces of

Terms of Restoration: Without prejudice to any rights, powers and immunities of the United Nations under the Armistice terms heretofore granted to the Italian Government, all of which remain in full force and effect throughout all Italian territory, there are hereby reserved to the United Nations and to the Supreme Allied Commander, Mediterranean Theater and to such officers or other representatives, including the Allied Commission, as he may designate, the rights, powers and immunities described below, in any part of the said territory and in all other Italian territory which has been liberated from German domination and is now under the jurisdiction of the Italian Government, hereinafter referred to as "the Unoccupied Territory."

1. There will be made available to the Allied

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WHEREAS, the Italian Government has requested that certain additional areas now occupied by the Allied Forces be restored to the jurisdiction of the Italian Government, and

WHEREAS, it is the desire of the United Nations to comply with this request in so far as may be compatible with the successful prosecution of the war, and

WHEREAS, it is necessary for the successful prosecution of the war that certain rights, powers and immunities in all Italian territory which has been liberated from German domination be retained by the Allied Forces

NOW, THEREFORE, I, SIR HAROLD R.L.G.ALEXANDER, G.C.B., C.S.I., D.S.O., M.C., A.D.C., Field Marshal, Supreme Allied Commander, Mediterranean Theater and Military Governor, hereby terminate Allied Military Government in the territory described below. The Italian Government will resume the government of that territory, subject to the terms and conditions hereinafter set forth.

Territory Restored: That portion of Italy comprising the Provinces of

Terms of Restoration: Without prejudice to any rights, powers and immunities of the United Nations under the Armistice terms heretofore granted to the Italian Government, all of which remain in full force and effect throughout all Italian territory, there are hereby reserved to the United Nations and to the Supreme Allied Commander, Mediterranean Theater and to such officers or other representatives, including the Allied Commission, as he may designate, the rights, powers and immunities described below, in any part of the said territory and in all other Italian territory which has been liberated from German domination and is now under the jurisdiction of the Italian Government, hereinafter referred to as "the Unoccupied Territory."

1. There will be made available to the Allied Forces such facilities, utilities and installations as may be required by the Supreme Allied Commander, Mediterranean Theater or his agents for such dispositions, use or operation as may be determined.

2. The right to maintain and quarter troops in such parts of the Unoccupied Territory as they may see fit.

3. The right to hold or require the Italian Government to hold in custody prisoners of war and civilian internees as may be directed by the Supreme Allied Commander, Mediterranean Theater.

/The right to declare....

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4. The right to declare any area to be a Military Zone and to exercise therein the rights of an occupying power or enforce such other controls as may be determined by the Supreme Allied Commander, Mediterranean Theater.

5. The right to convene Allied Military Tribunals for the trial of any person violating any order or regulation issued by the Allied Military Authorities and of any person otherwise doing any act hostile to the Allied Forces or any member thereof in any part of the Unoccupied Territory, and to inflict such punishment upon such person as such Tribunals may direct.

6. The right to conduct and carry to ultimate conclusion the trial by Allied Military Tribunals of any person charged with an offence heretofore committed and cognizable under any proclamation or order heretofore issued by or on behalf of the Allied Military Governor.

7. The right to requisition private and public property and services.

8. The right to reoccupy the whole or any part of the Unoccupied Territory at any time or to take such other steps or exercise such other powers in any part of such territory as may from time to time be deemed necessary for the proper prosecution of the war.

9. The right to import and export and to control and supervise the distribution to the civilian population of such civilian supplies as the Allied Forces may determine without the payment of any impost, tax, charge or duty of any kind whatsoever either to the Italian Government or to any of its political sub-divisions or agencies except as may from time to time be agreed by the Supreme Allied Commander, Mediterranean Theater.

10. The right to engage in such operations and import and export such military or other supplies or property of any nature as may be deemed necessary for the proper prosecution of the war free from the imposition of any impost, tax, charge or duty of any kind whatsoever by the Italian Government or any of its political sub-divisions or agencies.

11. Any official or other representative or, in respect of any activities for official account, any agent of the

Declassified E.O. 12356 Section 3.3/NND No. 18515

6. The right to conduct and carry to ultimate conclusion the trial by Allied Military Tribunals of any person charged with an offense heretofore committed and cognizable under any proclamation or order heretofore issued by or on behalf of the Allied Military Governor.

7. The right to requisition private and public property and services.

8. The right to reoccupy the whole or any part of the Unoccupied Territory at any time or to take such other steps or exercise such other powers in any part of such territory as may from time to time be deemed necessary for the proper prosecution of the war.

9. The right to import and export and to control and supervise the distribution to the civilian population of such civilian supplies as the Allied Forces may determine without the payment of any impost, tax, charge or duty of any kind whatsoever either to the Italian Government or to any of its political subdivisions or agencies except as may from time to time be agreed by the Supreme Allied Commander, Mediterranean Theater.

10. The right to engage in such operations and import and export such military or other supplies or property of any nature as may be deemed necessary for the proper prosecution of the war free from the imposition of any impost, tax, charge or duty of any kind whatsoever by the Italian Government or any of its political subdivisions or agencies.

11. Any official or other representative or, in respect of any activities for official account, any agent of the United Nations, civilian or military, may enter and remain within the Unoccupied Territory free from the imposition of any impost, tax, charge or duty of any kind whatsoever by the Italian Government or any of its political sub-divisions or agencies.

12. No member of the Allied Forces or any official or other representative or agent of the United Nations, civilian or military, shall be brought to trial in any Italian Court for any cause whatsoever either civil or criminal without the consent of the Supreme Allied Commander, Mediterranean Theater.

/ 13. All expenses.....

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13. All expenses and costs arising from the maintenance of Allied troops or other personnel within the Unoccupied Territory will be chargeable to the Italian Government as a part of the cost of occupation.

14. As in the case of prior restoration of territory to its jurisdiction, the Italian Government will duly and promptly issue such decrees and proclamations as require repetition in such a form and manner as to be applicable to the additional territory now being restored.

Field Marshal
Supreme Allied Commander, Mediterranean
Theater and Military Governor.

I have read the above terms and on behalf of the Italian Government agree to accept the territory to be restored on such terms. I further undertake to execute and publish a Proclamation by the Italian Government (hereto annexed as Document "C").

I also agree that the said restoration shall take place on

Witness:

Witness:

0021
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Field Marshal
Supreme Allied Commander, Mediterranean
Theater and Military Governor.

I have read the above terms and on behalf of the Italian Government agree to accept the territory to be restored on such terms. I further undertake to execute and publish a Proclamation by the Italian Government (hereto annexed as Document "G").

I also agree that the said restoration shall take place on

Witness:

Witness:

(43)

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SECRET

DOCUMENT "B"

Allied Military Government of Occupied Territory

PROCLAMATION NO.16(D)

WHEREAS, I assumed all powers of government and jurisdiction in the territory of Italy occupied by my troops and over its inhabitants and military government was established to exercise those powers in such territory under my direction, and

WHEREAS, in the exercise of such powers, Proclamations and Orders have been issued from time to time by me or my predecessor or under my or his authority throughout such territory, and

WHEREAS, the United Nations have consented at the request of the Italian Government to restore as much of the said occupied territory to the jurisdiction of the Italian Government as may be compatible with military exigencies;

NOW, THEREFORE, I, SIR HAROLD R.L.G.ALEXANDER, G.C.B., C.B.E., D.S.O., M.C., A.D.C., Field Marshal, Supreme Allied Commander, Mediterranean Theater and Military Governor, hereby proclaim as follows:

Allied Military Government established by me or my predecessor and all Proclamations and Orders heretofore issued by me or by him or under my or his authority in that portion of Italy comprising the Provinces of

are hereby terminated as of 0001 hours on the day of 1945. The Italian Government will thereafter administer the above territory, subject to all powers, rights and immunities of the United Nations and of the Supreme Allied Commander, Mediterranean Theater and the Allied Commission.

Field Marshal
Supreme Allied Commander, Mediterranean
Theater and Military Governor.

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[redacted] was established to exercise these powers in such territory under my direction, and

WHEREAS, in the exercise of such powers, Proclamations and Orders have been issued from time to time by me or my predecessor or under my or his authority throughout such territory, and

WHEREAS, the United Nations have consented at the request of the Italian Government to restore as much of the said occupied territory to the jurisdiction of the Italian Government as may be compatible with military exigencies;

NOW, THEREFORE, I, SIR HAROLD R.L.G.ALEXANDER, G.C.B., C.S.I., D.S.O., M.C., A.D.C., Field Marshal, Supreme Allied Commander, Mediterranean Theater and Military Governor, hereby proclaim as follows :

Allied Military Government established by me or my predecessor and all Proclamations and Orders heretofore issued by me or by him or under my or his authority in that portion of Italy comprising the Provinces of

are hereby terminated as of 0001 hours on the day of 1945. The Italian Government will thereafter administer the above territory, subject to all powers, rights and immunities of the United Nations and of the Supreme Allied Commander, Mediterranean Theater and the Allied Commission.

Field Marshal
Supreme Allied Commander, Mediterranean
Theater and Military Governor.

Dated:

4/3

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Declassified E.O. 12356 Section 3.3/NND No. 785015

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DOCUMENT "C"

Proclamation by the Italian Government to be signed by the President of the Council

PROCLAMATION.

To the Italian people:

The United Nations have acceded to the request of the Italian Government that further territory, in addition to that already restored, be restored to Italian Government administration as of today's date, in accordance with the terms and conditions necessary for the conduct of the war.

The provisions hereof concern the Provinces of

The restoration is subject to the following conditions:

1. Military Government in the territory restored as of this date having been terminated by the Allied Military Government, all powers of government and jurisdiction in the territory restored and over its inhabitants, and final administrative responsibility, subject only to the rights reserved to the United Nations, are vested in the Government of Italy.

2. All Proclamations and Orders heretofore issued by the Military Governor or under his authority by his delegates in the said territory and which have been terminated therein by the Military Governor as upon its restoration, are hereby recognised by the Italian Government as having been validly issued during the time they were operative and are declared to be of the same legal effect as if they had been issued by the Italian Government in accordance with Italian law, and they will be so recognised by all Italian courts and officials.

3. All acts done by any member of the Allied Forces in pursuance of such Proclamations or Orders, and all official action of any nature taken by the Allied Military Government in pursuance thereof including all appointments to and removals from any office, public or private, will be recognised by all Italian courts and officials as legal, valid and binding.

4. All sentences imposed by Allied Military Courts are hereby recognised by the Italian Government as valid and legal and of the same effect as if imposed by an Italian court and will be so recognised by all Italian courts and Italian officials unless set aside or modified by or with the consent of the

Declassified E.O. 12356 Section 3.3/NND No. 785015

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President of the Council of Ministers.

BONOMI

Rome.

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0027

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400/ec

18 April 1945

SUBJECT: FAN 407

TO : Chief Administrative Officer, AFHQ

Reference your letter dated 29 March 1945, subject as above.

1. As requested in paragraph 2 thereof, the following confirmations and answers are submitted:

a. Para 2 a. The United States and British Embassies have nominated their representatives to the Commission. Ambassador Kirk has designated Mr. H. C. Bowling and Mr. Robert Aldrich to act during his absence as Political Advisers to the Chief Commissioner. In their letter W.162/45 of 5 March 1945 the British Embassy have nominated Mr. H. A. d'A. Hopkinson and Mr. A. G. Halford as Political Advisers to the Chief Commissioner in the absence of the Ambassador.

b. Para 2 b.

(1) (ii) While the Italian Government has given oral assurance that they will keep the Commission advised of any negotiations in which they may engage with other governments, I am not wholly satisfied that the Commission is being fully informed. Accordingly, I am now taking steps to correct this situation with the Prime Minister.

(2) (iii) The Italian Government has officially appointed as its Ambassador to Prince Ligor Giuseppe Carugat, who is expected to arrive at his new post not later than 20 April 1945. My Political Advisers inform me that according to information received at the American and British Embassies, the Italian Government have so far made no official approach to either the Yugoslav or Greek Governments with a view to resuming direct relations. Similarly, neither the Yugoslav nor the Greek Governments have made any approach to the Italian Government to the same end.

c. Para 2 d.

(1) The only effective alteration in Document "A" is the deletion of the previous Article 7 which required

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consent of SACMED to the removal of Italian officials hitherto appointed by AMG. The deletion of this clause does not, in the opinion of Allied Commission, involve the necessity for any other alteration to the terms of the document.

(2) The wording of Article 14 of Document "A" has been simplified because all those provisions requiring repetition on the occasion of each successive restoration have now been made applicable by specific decrees to all future restorations, and therefore it is the opinion of the Allied Commission that the Italian Government need only be required on this occasion to issue the form of decree defining the territory plus the President of Council's proclamation. This is in accordance with the policy of simplification as originally planned.

(3) Document "B" is substantially unaltered.

(4) Document "C" is substantially unaltered.

(5) Paragraph 3 of the Proclamation recognizes as legal, valid and binding all appointments to and removals from offices effected by the Allied Military Government; this clause is obviously necessary to protect officials who have acted under AMG authority, and in the case of appointments made by AMG and expressed by them to be temporary, does not bind the Italian Government to continue the office-holders in office. In any case, this clause is not affected by the proposed change in the terms of restoration since the recognition of the legal, valid and binding nature of the appointments could not be varied by any subsequent consent of SACMED to the removal of the officials concerned.

(6) No document is required for the purpose of preserving the right of veto of military appointments since this right, which springs from an agreement between Lt. Gen. Mason MacFarlane and Marshal Badoglio dated 13 March 1944, is preserved by the Aide Memoire of 24 February 1945 for the appointments concerned.

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d. Para 2 f.

(1) Negotiations are already taking place between the Italian Government, The British Council, and the U.S.I., with regard to the matters mentioned in para 2f of FAN 437.

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Ltr [illegible], 4001/50,
Sub: FAI 487
To: AMG

(2) So far as this Commission is concerned, the Minister of Public Instruction is most anxious for an interchange of knowledge and learning and he has set up the following Committees to formulate plans to put before the Allied Commission:

(a) Two Committees to consider the interchange of professors and students between Italy and the United Nations. These Committees have been asked to report on the facilities that can be made available to foreign students and professors in Italian universities and also on the facilities which they would like to receive from the United Nations.

The Minister has asked that the United Nations might also begin formulating plans.

(b) A third Committee is formulating a plan to facilitate the exchange of books and periodicals between the United Nations and Italy. In the first place this Committee will confine its attention to scholarly publications published during the war years, when the interchange was interrupted.

This Committee will also prepare lists of former foreign subscribers to Italian periodicals with a view to asking these subscribers to resume their subscriptions; the Committee will also furnish a list of Italian bodies which formerly subscribed to United Nations publications, with a view to resuming their subscription.

(3) In the field of medical science discussions are only at a preliminary stage and the Italian Government is considering the formulation of proposals for an interchange of scientific journals and also of medical representatives. The Italian Government have already requested the presence of Dr. Hackett of the Rockefeller Foundation this summer to make a survey of Italian public health administrative methods and to make a recommendation for improvement.

(4) Italian Scout Organizations are already in contact with the International, British and American Scout Organizations and Lady Baden Powell has expressed the desire to visit Italy this summer with a view to reviving the Italian Girl Guide movement.

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(5) A number of educational books of the United Nations are already being translated and printed in Italian.

e. Para 2 g.

(1) Italian Government Territory:

(a) A Decree-Law of 25 September 1944 and a Ministerial Decree of 18 October 1944 have been made by the Italian Government and provide for the compilation of electoral lists or registers of voters. The preparation of the registers is proceeding. The Government state that the earliest date on which the registers can be completed is about 15 May 1945.

(b) The Italian Government are preparing a decree as to the conduct of local elections: they intend to revive the pre-fascist law. It appears that the electoral procedure proposed to be re-introduced is in several respects not adapted to ensure freedom and secrecy of voting. It has been decided to tender advice to the Italian Government as to the improvements that might be made.

(2) Military Government Territory:

(a) Consent has been given to the taking in Military Government Territory of two measures preliminary to the compilation of electoral lists. Firstly, instructions have been given for the revision of the "anagrafe" or population registers. Secondly, the forms, regulations and other matter for use in compiling the lists have been distributed to Provincial Capitals, Allied Commission having provided the transport.

(b) At the suggestion of the Allied Commission, the Italian Government have agreed to amend the decrees referred to in para. (1)(a) above so as to permit the preparation of electoral lists to be commenced on dates to be fixed by AMG.

f. Para 2 h. The Commission is prepared to segregate officers of Headquarters, Allied Commission, dealing with AMG functions from those dealing only with AC functions, insofar as it may be practicable. There are obvious

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Declassified E.O. 12356 Section 3.3/NND No. 785015

Ltr HQ AC, 4001/EC
Sub: PAN 487
To: AFHQ

difficulties in this segregation, particularly with respect to duplication of personnel which would be necessary if the headquarters is separated. The Commission is now so short of personnel that in the interest of conservation of manpower, it is essential that this duplication be avoided. This is particularly necessary in the more important subcommissions of the Economic Section which, as PAN 487 so rightly points out, are concerned with supply programs in which Italy must be treated as a whole.

The particular subcommissions which you mentioned in the above-cited paragraph as forming a part of AC Headquarters, as being almost solely concerned with AMG territory, do nevertheless have certain important functions with respect to the Italian Government which they could not perform if not located at the Headquarters of the Commission. For example:

LOCAL GOVERNMENT SUBCOMMISSION. The primary function of this Subcommission is to provide Prefects and other officials for Provinces in AMG territory. This necessitates almost daily consultation with the personnel officials of the Ministry of the Interior, and it is quite impracticable for the Headquarters of the Subcommission to be located otherwise than in Rome.

Discussions are at present going on with the Government as to the organization of elections and the most up-to-date methods of ensuring an independent, free and secret vote.

LABOR SUBCOMMISSION. Labor Subcommission is concerned with labor needs of Armed Forces and to that extent is largely decentralized to the Regional Labor Officers in AMG territory. The HQ staff dealing exclusively with such questions is at the minimum.

The Subcommission also deals with labor relationships, organization, wage changes and industrial unrest. On these questions it has a general interest covering the whole of Italy and it is essential that there should be uniformity so far

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Declassified E.O. 12356 Section 3.3/NND No. 785015

as possible. Here again the AMG action is decentralized to Regional Labor Officers in AMG territory but the direction is centralized at AC HQ. The approach to these questions in Italian Government territory necessarily differs from the approach in AMG territory but the policy is the same.

MONUMENTS & FINE ARTS, and EDUCATION SUBCOMMISSIONS. Representation of the Monuments & Fine Arts, and the Education Subcommission at HQ AC will be reduced to the absolute minimum necessary to handle Italian Government consultation work on problems of restoration financing, textbook issuance, and the arranging for appointment of educational officials in AMG territory.

Nevertheless, as soon as operations permit, the Commission will establish an advance Headquarters in Military Government territory where all matters affecting military government will be dealt with, excepting those that require consultation with the Italian Government or with the Commission itself.

ELLERY W. STONE
Rear Admiral, USNR
Chief Commissioner

3343 Incls:
Documents "A", "B", "C"

Copies to: G-5, AFHQ (with incls)
CC " "
CAS " "
Economic Sec " "
EST. SEC. " "

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Declassified E.O. 12356 Section 3.3/NND No. 785215

EXTRACT

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DCK/ar

ALLIED FORCE HEADQUARTERS
APO 512

ADMINISTRATIVE MEMORANDUM)

NUMBER 19) 31 March 1945

Allied Commission I
Coal Importation and Allocation II

I -- ALLIED COMMISSION

1. Announcement of the establishment of the "Allied Control Commission" was made in AFHQ Administrative Memorandum Number 74, 1943, and its redesignation as "The Allied Commission" was announced in Section I, Administrative Memorandum Number 45, 1944.

2. The functions of the Allied Commission as set out in Administrative Memorandum Number 74, 1943, were defined as follows:

"1. To enforce and execute the instrument of surrender under the orders and general directives of the Allied-Commander-in-Chief.

"2. To insure that the conduct of the Italian Government conforms to the requirements of an Allied Base of Operations, especially transportation and communications.

"3. To be the organ through which the policy of the United Nations towards the Italian Government is conducted and the relations of the United Nations with the Italian Government are handled."

3. In accordance with the policy of the United Nations to afford Italy a greater degree of self-government, directives have been received from the Combined Chiefs of Staff that the control of the Italian Government under the Armistice and Surrender Instrument will be relaxed, and will only be exercised when military needs require it, thus developing in the Italian authorities a greater sense of responsibility. The rights under the Armistice and Surrender Instrument will thus be held in reserve in the matter of day to day administration subject always to overriding military needs and the requirements of the campaign in Italy.

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4. Administrative Memorandum Number 74, 1943, will be interpreted accordingly Detailed instructions, in accordance with those received from the Combined Chiefs of Staff in their telegram FAN 487 of 31 January 1945, have been communicated to the Acting President, Allied Commission.

BY COMMAND OF FIELD MARSHAL ALEXANDER:

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BY COMMAND OF FIELD MARSHAL ALEXANDER:

G. W. CHRISTENBERRY
Colonel, AGD
Adjutant General

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Declassified E.O. 12356 Section 3.3/NND No. 785015

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ALLIED FORCE HEADQUARTERS
Office of the Chief Administrative Officer

SUBJECT: FAN 487

29 March 1945

TO : Chief Commissioner
Headquarters, Allied Commission
APO 394

Reference is made to FAN 487, and to your letter under reference 4001/EC of 19 February.

1. The general intent of FAN 487, the interpretation of certain of its clauses and the program for communication of the substance of the directive to the Advisory Council for Italy, the Italian Government and to the press has been the subject of a number of conferences between representatives of this and your headquarters. No overall directive other than that contained in FAN 487 itself, except in respect of economic matters, is now contemplated. It is, however, thought appropriate that an interim report should be made to the Combined Chiefs of Staff covering the period up to 31 March, upon the steps which have been taken to implement the directive contained in FAN 487, and upon the steps which are in progress or in contemplation for the future.

2. Before doing so, it is desired to comment paragraph by paragraph upon FAN 487, and upon your letter of 19 February, in order that action already taken can be confirmed and the scope of current and future action determined.

a. Para 2A. Please confirm that the US and British Embassies have nominated their representatives to the Commission, informing this HQ at the same time of their names. It is observed that it is your intention that these representatives shall bear a relation to you similar to that which the British Resident Minister and the US Political Adviser bear to the Supreme Allied Commander. You will, of course, have noted the continued responsibility of the Combined Chiefs of Staff to transmit directives for the purposes indicated in the paragraph under comment. The channel for communication with the Combined Chiefs of Staff will continue to be this Headquarters.

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b. Para 2 B.

(i) Permission has now been given for the Italian Government to communicate with their representatives by means of uncensored sealed bag facilities. It is not yet possible to permit undeposited cipher facilities.

(ii) Please confirm that the Italian Government has assented to your request to keep you advised of any negotiation in which they may engage with other Governments, and that you are satisfied with the Italian Government's intentions in this matter.

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(iii) Direct relations with the French Government have already been established to the extent that a French representative has been accredited to the Quirinal. What is the position with regard to the appointment of an Italian representative to the Quai D'Orsay? Please notify this Headquarters of any progress towards the establishment of direct relations with the Jugoslav and Greek Governments, furnishing in due course the names of the respective representatives who may be appointed.

c. Para 2 C.

(i) Your interpretation of the words "in the territory" to mean "affecting the territory" is confirmed. It is desirable that informal consultations such as you mention be continued and that this Headquarters be informed in all cases where important questions of policy are concerned.

(ii) Your interpretation of this clause as vesting in SACMED the right where necessary to exercise control in any decree affecting military needs and the requirements of the campaign is also confirmed.

d. Para 2 D. Your suggested amendment to the transfer of territory documents is awaited. The retention by Service Subcommissions of the right of veto in regard to military appointments is approved. In this connection it is emphasized that incidents such as the recent substitution of Brunetti for Sogno without prior consultation must not be permitted to occur again.

e. Para 2 E.

(i) You will have received this Headquarters' letter of 10 March indicating approval in principle to the plan contained in Appendix A to your letter of 19 February, subject to the reservations contained in this Headquarters' letter. It must be understood that while this Headquarters desires to implement both the letter and the spirit of FAN 487 as rapidly as possible, the process must not be so abrupt as to cause unnecessary dislocation, or disturbance to the war effort.

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(ii) It is confirmed that AMG in Naples will continue until furhter notice (your para 2 E (iv).).

f. Para 2 F. You should submit as soon as possible your suggestions for the implementation of this paragraph of FAN 487 based on the views of the Italian Government as known to you. This Headquarters should also be informed of the progress of any arrangements to date for the movement of scholars, artists, and professional men between Italy and the United Nations, and of such plans as are envisaged for the future as a basis for consideration of security, movement and other questions involved.

g. Para 2 G. It is requested that information as to the measures adopted by the Italian Government for the holding of local elections and any further measures planned be furnished.

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Declassified E.O. 12356 Section 3.3/NND No. 785015

h. Para 2 H. This Headquarters has received your recommendations (based on the Italian Government proposals) upon the subject of the status of Italian POW. These recommendations are being examined, and you will be informed of the views of this Headquarters as soon as possible.

i. Para 3 A. Your interpretation of this paragraph to mean consultation between Heads of Sections and Directors of Subcommissions on the one hand, and Ministers and Under-Secretaries on the other, is acceptable.

j. Para 3C. It is desired that a report upon the progress of the process of civilianization to date be given this Headquarters. The report should state the numbers of civilians both US and British who have already taken up their assignments, and the nature of the position they are occupying, together with a statement of the military personnel thus released. The report should also contain the Commission's plan for the further infiltration of civilians, showing the degree of civilianization expected to be achieved, by phases (e.g. after the occupation of northern Italy) and the assignments to be filled by civilians in order of priority. This report should reach this Headquarters by 10 April.

k. Para 3 D. It is noted that you consider as "not feasible" compliance with the instruction that officers of AC HQ dealing with AMG functions should be located at places other than Allied Commission Headquarters. It is felt that the Combined Chiefs of Staff will not be satisfied with this summary rejection of an instruction to which they evidently attach considerable importance.

It is the clear intention of FAN 487 that the Staff of AC HQ should in future confine itself primarily to advice and consultation with the Italian Government at high levels. It is not consonant with this intention that there should be integrated within the Staff of AC HQ a large number of officers whose functions relate exclusively to the administration of Military Government territory. There are, moreover, at present forming part of AC HQ certain Sub-Commission," etc, such as those for Education, Arts and Monuments, Local Government and Labour which will, in future, have very little reason for existence, except so far as they are concerned with AMG territory.

It is quite appreciated that AMG administration cannot be entirely divorced from the Allied Commission. Questions of supply must be handled centrally for occupied ITALY as a whole. The administration of the personnel engaged with AMG should be co-ordinated with that of all other personnel serving with the AC. Matters of major importance require reference to the Chief Commissioner, whether they concern AMG territory or that portion of the country which has been transferred to the Italian Government. There will be no infraction of the wishes of the Combined Chiefs of Staff through retaining control of these and kindred matters at HQ AC. As regards other matters which fall rather under the heading of implementation of policy, it is felt that there should be no need to retain at HQ AC Staff Officers who handle these matters in respect of AMG territory only. It should be possible to avoid this, either by delegating a greater measure of responsibility to the officers in charge of AMG with Armies or by increasing the Staff of your DCCAC.

In connection with the foregoing you should of course, have in mind the necessity of maximum savings in personnel, particularly military personnel, officer and enlisted.

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It will be appreciated if you will re-examine the matter in the light of the above comments and give us your further observations to enable us to satisfy the Combined Chiefs of Staff that their wishes are being respected within the limits of what is practicable and advisable.

3. Economic Section. A separate directive from this Headquarters for the implementation of this part of FAN 487 has been prepared and will be furnished to you shortly.

4. Financial Section. TAM 445 has been received and discussed with you, and MAT 554 has been dispatched as a result of these conversations. A definitive directive from the Combined Chiefs of Staff is awaited. (17)

5. An AFHQ Administrative Memorandum in general terms in connection with the overall intention of FAN 487 is being issued by this Headquarters.

/s/ B. H. Robertson
/t/ B. H. ROBERTSON
Lieutenant General
Chief Administrative Officer

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Declassified E.O. 12356 Section 3.3/NND No. 785015

APR 2 RTD

SECRET

Ref. 4001/172/EC 1 April 1945.

SUBJECT: FAN 487

TO : VP C.A.Section

Enclosed copy of letter from General Robertson C.A.O. AFHQ, dated 29 March 1945.

1. I am directed by the Chief Commissioner to ask you to:

(a) Submit your suggested amendment to the transfer of territory documents (para 2 D.)

(b) Submit your comments on para 2 F.
(c) Submit your comments on para 2 G.
(d) Submit your comments on para 2 K.

Major E. Talbot

Chief Staff Officer,
To Executive Commissioner.

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MAR 2 7 RECD

HEADQUARTERS ALLIED COMMISSION
APO 394
Office of the Executive Commissioner

Ref: 7002/EC.

24 March 1945.

Subject: Functions of Liaison Officers in Italian Government Territory.

To:
VP Economic Section (15)
VP Civil Affairs Section (10)
VP Establishments Section (3)
Navy Sub Commission
Land Forces Sub Commission (MMIA)
Air Forces Sub Commission
War Materials Disposal & Italian PW Sub Commission
PRO
Lt.Col. E.P. MORTON, LO Palermo (5)
Maj. H. BENTLEY, LO Catania (5)
Col. J.C. PENNYCUICK, Local Commissioner, Naples Commune (5)
Lt.Col. L. DAWSON, LO Bari (5)

1. The first duty of Allied Commission liaison officers will be to keep themselves, at all times, informed of the situation in the areas with which they are concerned. This will involve the use of all available means of information, press, intelligence summaries, PWB reports, etc. They will inform HQ AC direct of any circumstances arising which may in their opinion adversely affect the Allied war effort or influence the general policy of the Commission. They will submit a monthly report to HQ which will include comment on the political situation.

2. Liaison officers will, by study of previous Regional monthly reports and other records, inform themselves of the present position of various Commission functions now being handed over to Italian agencies. They will specially watch those cases where previous difficulties have been encountered.

3. Liaison officers will keep close touch with the senior military formation, American and British in their areas. They will endeavour at all times to assist military formations in their relations with Italian Government departments and agencies. They must, however, remember that they are liaison officers and not executive officers and will not be able to carry out many of the functions of Provincial Commissioners.

Points which may require special attention are:

a. Law cases affecting Allied personnel or property.
b. Epidemics endangering Allied personnel.
c. Requisitioning and derequisitioning.
d. Relations between Allied and Italian

Declassified E.O. 12356 Section 3.3/NND No. 785015

MAR 2 7 RECD

HEADQUARTERS ALLIED COMMISSION
APO 394
Office of the Executive Commissioner
++++++++++++++++++++++++++++++++++++++

Ref: 7002/EC.

24 March 1945.

Subject: Functions of Liaison Officers in Italian Government Territory.

To:
VP Economic Section (15)
VP Civil Affairs Section (10)
VP Establishments Section (3)
Navy Sub Commission
Land Forces Sub Commission (MMIA)
Air Forces Sub Commission
War Materials Disposal & Italian PW Sub Commission
PRO
Lt.Col. E.P. MORTON, LO Palermo (5)
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b. Epidemics endangering Allied personnel.
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Declassified E.O. 12356 Section 3.3/NND No. 18515

VP Economic Section (15)
VP Civil Affairs Section (10)
VP Establishments Section (3)
Navy Sub Commission
Land Forces Sub Commission (MMIA)
Air Forces Sub Commission
War Materials Disposal & Italian PW Sub Commission
PRO
Lt.Col. E.P. MORTON, LO Palermo (5)
Maj. H. BENTLEY, LO Catania (5)
Col. J.C. PLUNKETT, Local Commissioner, Naples Commune (5)
Lt.Col. L. DAWSON, LO Bari (5)

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Points which may require special attention are:

a. Law cases affecting Allied personnel or property.
b. Epidemics endangering Allied personnel.
c. Requisitioning and derequisitioning.
d. Relations between Allied and Italian police force.

4. Liaison officers will, in the absence of specialist AC officers, assist the Allied Forces Local Resources Board, or Allied Procuring Agencies, as may be necessary, in their relations with the Italian authorities.

5. Liaison officers will be stationed at centres of importance to Allied interests. They will assist, as necessary, relations between the Allied Services and the local Italian officials.

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In addition they will have a general duty as defined in para.1 over wide areas as under:

SARDINIA:	L.O. (MMIA senior L.O.)	
SICILY:	L.O. Palermo	- Provinces of Palermo, Trapani, Agrigento, Caltanisetta.
	L.O. Catania	- Provinces of Catania, Messina, Enna, Ragusa, Siracusa.
SOUTHERN ITALY:	L.O. Naples (A.M.G.Commissioner, Naples)	- Provinces of Naples, Salerno, Benevento, Avellino, Campobasso, Cosenza, Catanzaro, Reggio.
	L.O. Bari	- Provinces of Foggia, Bari, Brindisi, Lecce, Taranto, Matera, Potenza.

Liaison officers will normally confine their activities to the neighbourhood of the HQ in which they are located, but, in cases of necessity, they will of course deal with all matters arising from civil affairs affecting Allied interests within the Provinces as listed above.

6. They will at all times avoid being involved in questions of Italian local government, and, even if asked, they will not give official advice, on behalf of AC, to Prefects or other State employees. They will, in all cases, refer the Italian local official to his Ministry in Rome.

7. The AC liaison officer will be responsible for discipline and administration of all AC officers in his area.

NORMAN E. FISKE,
Colonel,
Acting Executive Commissioner.

Copies to: Political Adviser (Br.)
Political Adviser (A)
G-5 AFHQ (3)
RC Sicilia Region
RC Sardegna Region
RC Lazio-Umbria Region
RC Umbria-Marche Region

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Declassified E.O. 12356 Section 3.3/NND No. 785015

ITALY:	L.O. Naples (A.L.G.Commissioner, Naples)	- Provinces of Naples, Salerno, Benevento, Avellino, Campobasso, Cosenza, Catanzaro, Reggio.
	L.O. Bari	- Provinces of Foggia, Bari, Brindisi, Lecce, Taranto, Matera, Potenza.

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NORMAN E. FISKE,
Colonel,
Acting Executive Commissioner.

Copies to: Political Adviser (Br.)
Political Adviser (A)
G-5 AFHQ (3)
RC Sicilia Region
RC Sardegna Region
RC Lazio-Umbria Region
RC Umbria-Marche Region
SO to CC
Liaison Division

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Declassified E.O. 12356 Section 3.3/NND No. 785015

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MAR 24 RECD
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MAR 231154A

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MAR 231832A
PRIORITY

AFHQ SIGNED ALEXANDER CITE FHSAC AND FHGEG

AGWAR FOR CCS FOR CCAC INFO AMSSO FOR BRITISH CHIEFS OF STAFF AND HQ COMZONE MAIN ETOUSA AND HQ AIOCC

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This is MAT 595.

Proposal to transfer currency responsibility to Italian Government is subject.

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

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

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

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Declassified E.O. 12356 Section 3.3/NND No. 785015

formally raised the issue in their Memorandum of January 9 (refer MAT 568 of 2 March). Your reply to this Memorandum may officially dispose of the question of dollar/sterling reimbursement and open the way to negotiations on currency responsibility and issue. In the meantime, therefore, I do not feel that any further comment of mine is necessary.

Dist

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

3304

ALLIED FORCE HEADQUARTERS

SAC (P) (45) 4th Meeting
22 March 1945

6. CURRENCY RESPONSIBILITIES OF THE ITALIAN GOVERNMENT

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

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

THE SUPREME ALLIED COMMANDER :

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

J.G. SWEETMAN,
LIEUTENANT COLONEL,
SECRETARY.

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Declassified E.O. 12356 Section 3.3/NND No. 785015

6. CURRENCY RESPONSIBILITIES OF THE ITALIAN GOVERNMENT

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

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THE SUPREME ALLIED COMMANDER :

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J.G. SWEETMAN,
LIEUTENANT COLONEL,
SECRETARY.

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TOP SECRET

EXTRACT

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Declassified E.O. 12356 Section 3.3/NND No. 785015

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Declassified E.O. 12356 Section 3.3/NND No. 785015

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The following draft is to be substituted for that attached to letter of 17th March, addressed by Brigadier General Spofford to the Chief Commissioner on the question of responsibility for A.M. currency. It has been agreed by General Spofford and Mr. Macmillan, and is to be considered at the Political Meeting which is to take place at AFHQ tomorrow morning at 1000 hours. Comments by telephone are required by this afternoon or first thing tomorrow morning, either to General Spofford or to Commander Southard, depending upon which level it is dealt with here.

- -

TO AGWAR FOR CCS

FROM: ALEXANDER

REFER: TAM 445

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

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

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Declassified E.O. 12356 Section 3.3/NND No. 785015

EXTRACT OF PARA 1 (E) of TAM 445 of 1 FEBRUARY 1945

Negotiations through diplomatic channels should be undertaken with the Italian Government with a view to bringing about the centralization of all currency issues in the Italian Government or such agencies as it may designate, and the recognition that the Italian Government, or such agency thereof as it may designate, is the issuing authority for the Allied Military lire now in circulation in ITALY. The arrangements made with the Italian Government should include provision for the supply of an adequate volume of lira currency and credits to meet the operational needs of the Allied Forces and to supplement the requisition procedures of the Italian authorities in purchasing supplies and services for the Allied Military Forces in ITALY; also provision for meeting the requests of the Italian Government for the printing and supplying of the necessary quantities of lira currency for all Italian needs. Should adequate quantities of lira currency NOT be available to the Military Forces at any time, the right would be reserved to AFHQ to use any other currency it deemed desirable.

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EXTRACT COPY

COPY

ALLIED FORCE HEADQUARTERS
Supreme Allied Commander's Secretariat

SAC (P) (45) 9 Addendum
20 March 1945

K 119

SUPREME ALLIED COMMANDER'S CONFERENCE
(POLITICAL)

CURRENCY RESPONSIBILITY OF THE ITALIAN GOVERNMENT

Note by Secretary

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

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

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

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

3295 -

/s/ J. G. SWEETMAN,
LIEUTENANT COLONEL,
SECRETARY.

Declassified E.O. 12356 Section 3.3/NND No. 785015

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

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

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/s/ J. G. SWEETMAN,
LIEUTENANT COLONEL,
SECRETARY.

102/cc

See (39)

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Declassified E.O. 12356 Section 3.3/NND No. 785015

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ALLIED FORCE HEADQUARTERS
G-5 SECTION
APO - 512

17 March 1945

Secret

File: G-5/200-1

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

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

1. We have received, in reply of 16 March, the reply of the Combined Chiefs of Staff to our request for clarification of the statement made in Secretary of War Stimson's memorandum before the House Appropriations Committee on the above subject, in connection with our consideration of paragraph 4c of the [illegible]. The Combined Chiefs of Staff in its reply were no further than to inform us that an official summary of his testimony had been forwarded to the U. S. Political Adviser, and that he would also receive a copy of the U. S. Treasury press release of 14 March on invasion currencies. We have seen the former, and have sent a copy to the Allied Sub-Commission.

2. It is considered desirable to present a draft reply to paragraph 4c of FAC 145 at the next meeting of the Political Committee. There is attached hereto a copy of a new draft which sets forth the current views and attitude as they appear to us. I should appreciate having the reactions of the Allied Commission to this draft as soon as possible, in order that we may proceed with clearing it in this Headquarters preparatory to presenting it to the Committee. If you find it possible to telephone your comments, we may save time.

CHARLES M. SPOFFORD,
Brigadier General, U.S.A.,
Assistant Chief of Staff, G-5.

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Declassified E.O. 12356 Section 3.3/NND No. 785015

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TO AGWAR for CCS

FROM: ALEXANDER

REFER: TAM 445

Proposal to transfer currency responsibility to Italian Government is subject.

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

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

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

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ALLIED FORCE HEADQUARTERS
Supreme Allied Commander's Secretariat

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SAC (P) (45) 3 rd Meeting
16th March 1945 COPY NO 34

SUPREME ALLIED COMMANDER'S CONFERENCE
(POLITICAL)

33

2. CURRENCY RESPONSIBILITIES OF THE ITALIAN GOVERNMENT

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

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

THE SUPREME ALLIED COMMANDER :

Took note of the above.

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MAR 8 RECD
639

Ref: 7002/27/30.

7th March 1945.

Acting President.

(34)

1. The attached telegram raises a point of principle.

2. As Acting President you presented the plan to the Chief Commissioner with directions to implement it. Since 19 February the plan of implementation has been in the hands of AMG. On the eve of a meeting called in many respects to dot the "i's" and cross the "t's" of implementation, comes a flat order from AMG that nothing is to be done until the Staff Sections at AMG have provided their comments on the plan.

3. The plan of the Allied Nations is to withdraw as soon as possible from the South. You and the Chief Commissioner have considered the best manner of implementation both from the political and administrative points of view, always bearing in mind the military needs of the situation. It looks as if the implementation is to be dictated not by yourself or the Chief Commissioner but by G-5.

4. I do not think any Brigade Commander could be expected to win a battle under such conditions: can the Chief Commissioner be expected to carry out the policy of the Combined Chiefs of Staff?

M. S. LUSH

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Sec by CC

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Declassified E.O. 12356 Section 3.3/NND No. 785015

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MAR 8 RECD

F-39108
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MAR 07/1555
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AFHQ HIGHLY SACMED CITE: FHGEG

ALCOA ROSE.

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The plan at Annex A to letter of 19 February relating to FAN 487 is being considered at this Headquarters and final comments will be provided as soon as possible. Meantime and until authorised by this Headquarters no withdrawal of ALLIED COMMISSION officers from Italian Government territory will take place.

DIST

Action: EX COMMISSIONER
Info: A/PRESIDENT
CHIEF COMMISSIONER
FILE

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ALLIED FORCE HEADQUARTERS K 95

SAC (P) (45) 2nd Meeting
2nd March 1945

SUPREME ALLIED COMMANDER'S CONFERENCE
(POLITICAL)

* * * (32)

6. CURRENCY RESPONSIBILITIES OF THE ITALIAN GOVERNMENT

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

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

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

3239 In the meantime a statement was reported to have been made by the US Secretary to the Treasury to the effect that the United States had not assumed and did not intend to assume any liability for the redemption of the so-called "invasion currency" used by American armies in liberated European countries. With particular reference to ITALY, the press statement indicated that the Secretary disclosed that the Italian government had accepted responsibility for the redemption of Italian invasion currency under the terms of the armistice agreement. This statement, if correctly reported, would have a material bearing on the draft cable circulated under SAC (P) (45) 9 and accordingly he suggested that no further action should be taken until a verified summary of the remarks made by the Secretary to the Treasury had been obtained, and also the reaction of the Italian public to these remarks had become clearer.

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Declassified E.O. 12356 Section 3.3/NND No. 785015

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

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

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

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Declassified E.O. 12356 Section 3.3/NND No. 785015

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

THE SUPREME ALLIED COMMANDER :

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

Declassified E.O. 12356 Section 3.3/NND No. 785015

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Declassified E.O. 12356 Section 3.3/NND No. 785015

C O P Y

C O P Y

In testimony before House Committee on Appropriations on January 15, record of which has just been released, Secretary Morgenthau made the following statement in response to a question as to the Italian obligation to redeem the Allied military lire: "If they call in this currency and replace it with Bank of Italy notes they could say 'Well your military people have spent too many billions of billions of lire' and they could present that claim I suppose at the peace table or to a claims commission, but there is no obligation on the military or our Government to meet it".

Following further colloquy took place: "Mr. D. W. Bell--(Undersecretary of the Treasury) there is no obligation on our part to redeem the currency. Mr. Mabel (Congressman)--there is no obligation on the part of our Government to redeem anything? Mr. Bell--no sir. Mr. Taber--or of the military authorities either? Mr. Bell--no sir."

After a discussion regarding the mechanics for issuing lire through AFA, the following exchange took place: "Mr. Taber--well the Italian Government agrees to be responsible for the currency? Mr. Bell--yes sir, that is right. Mr. Taber--that is what it is supposed to be anyway. Mr. Bell--that is provided for under the terms of the armistice. Mr. Taber--on what basis would we have to settle on the basis of the dollar value of the lire. On the day it was put out of the dollar value of the lire or the day settlement was made? Secretary Morgenthau--I suppose that the American representatives on the Claims Commission or at the peace table will try to get as good a bargain as possible and any accepted claims will be settled at as favorable a rate as possible".

During the same testimony, Congressman Ludlow asked, "If Italy falls down on its promise to pay, who holds the bag?" Secretary Morgenthau replied, "The people who have the money". Mr. Bell states, "Italy, the constituents of the Italian Government whose responsibility it is".

Later the following exchange took place. "Mr. Keefe--Well, there are still some negotiations to take place later on?" Secretary Morgenthau--"Those negotiations which are to take place later on will be on claims I suppose which the Italian Government may make for damages done, and possibly a claim for the amount of their currency used by our military force and we on our side will have a charge for the cost of the invasion and so forth, but I can assure you that there is nowhere implied that there is an obligation on the part of the United States Government to redeem this invasion money which our military forces are using". Mr. Keefe--"This money, I understand, is used to purchase supplies? Secretary Morgenthau--"Yes". Mr. Bell--"with reference to your thought about settling it across the table". Mr. Keefe--"That is exactly where it ought to be settled because if we had paid out United States currency in these countries instead of using invasion currency that we are now paying out, Governments like Italy and their peoples would have gotten United States currency and would have the dollars in their possession. As it is now they can only file a claim against us for all these matters and we will have claims against them, and they can be settled right across the table in Government to Government negotiations". There was further detailed discussion along the same lines as that quoted.

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Declassified E.O. 12356 Section 3.3/NND No. 785015

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Declassified E.O. 12356 Section 3.3/NND No. 758015

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Declassified E.O. 12356 Section 3.3/NND No. 785015

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ALLIED FORCE HEADQUARTERS

K88

SAC (P) (45) 9

27th February 1945

SUPREME ALLIED COMMANDER'S CONFERENCE
(POLITICAL)

PROPOSAL TO TRANSFER CURRENCY RESPONSIBILITY TO ITALIAN GOVERNMENT

Note by G-5

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

2. Paragraph 1E of TAM 445 proposed that negotiations should be undertaken with the Italian Government looking toward the centralisation in the government or its agencies of all lira currency issues, including the Allied Military lira. Thereafter the government would provide lira currency required by the Allied forces.

3. There is attached hereto as Annex 'A' a draft reply to paragraph 1E of TAM 445 and to paragraph 2, relating to the lira account. This draft agrees that from every technical point of view the Italian government should be made to assume responsibility for all lira currency and for the provision of currency to the Allied forces. However, the government has publicly stated that it intends to press for reimbursement in dollars and sterling of all lire spent by or for the Allied forces in ITALY, and may have created in the minds of the public the conviction that such reimbursement is essential to the stability of the lira. This being the case, the majority view in the Allied Commission and this Headquarters is that the political and popular reaction at this time to insistence on recognition by the government of its proper currency obligations may cause a government crisis and accelerate the depreciation of the lira, thus adversely affecting military operations.

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

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

(intd) T.R.H.

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Declassified E.O. 12356 Section 3.3/NND No. 785015

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ALLIED FORCE HEADQUARTERS
Office of the Chief of Staff

28 February 1945.

SUBJECT: Italian Army.

TO : Chief Commissioner, Allied Commission, APO 394.

Reference letter, Land Forces Sub-Commission A.C. (MMIA), File No. 7/6, dated February 6, 1945, Subject: Italian Army.

1. The primary consideration in the formation of policy in respect of the Italian Army in the past has been that of ensuring its employment to the fullest extent in the furtherance of the War effort. This object still remains of paramount importance and it is considered that any attempt to alter the present organisation of the Italian land forces or the system whereby they are controlled at this stage would, by reducing the effectiveness of the Italian effort, adversely affect the achievement of the object in view. Consequently no changes can be accepted while the war against Germany continues except by agreement with Commanding General, 15th Army Group.

2. It is therefore temporarily agreed in accordance with para 2(b)(iii) that no change be made in the following documents:

(i) AG 091.112/079 GCT-S of 25 October 1944, "Status and Functions of the Land Forces Sub-Commission of the Allied Commission (MMIA)."

(ii) AG 091.711/169 GCT-C of 16 November 1944, "Command and Administration of the Italian Army."

3. Although no specific mention of the Italian Army is made in FAN 437, it will obviously be desirable at some future date to apply the same principles of transfer of responsibility to the Italian Army as are stipulated for the Italian Government as a whole.

4. It is therefore necessary to consider what steps shall in the future be taken to place progressively increasing responsibility upon the Italian Military authorities. In order that the question may be fully reviewed, you are directed to have this matter carefully examined, and to report at an early date the progressive steps by which you recommend control should be handed back to the Italian Military authorities as and when the operational situation permits.

5. A copy of this letter is being forwarded to Commanding General, 15th Army Group who is responsible for the operational efficiency of the

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Declassified E.O. 12356 Section 3.3/NND No. 785015

Ltr COS AFHQ 28 Feb 45 Cont'd:

Italian troops under his command, and with whom you should consult in connection with the examination of this subject to ensure that any recommendations which you may submit are compatible with his operational requirements.

By Command of Field Marshal ALEXANDER:

/s/ John Harding

JOHN HARDING
Lieutenant General,
Chief of Staff.

Copy to: CG, 15th Army Group

AC Dist:

1 - Exec Comm (Action)
1 - Land Forces S/C
1 - CC Files

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Chief Commissioner

FEB 27 REC'D

HEADQUARTERS ALLIED COMMISSION
APO 394
Office of the Chief Commissioner

Ref: 4001/155/CC.

27 February 1945.

SUBJECT: New Deal for ITALY.

TO: Distribution below.

Pending issuance of a detailed directive to members of the Commission the attached copy of an Aide-Memoire communicated to the Italian Government by the Acting President and the Chief Commissioner on 24 February 1945 is sent to you for information and guidance.

HILLARY W. STONE
Rear Admiral, USN
Chief Commissioner

Encl.

5233

DISTRIBUTION:

S.C.A.O. Fifth Army
S.C.A.O. Eighth Army
All Regions
Sections
Sub-Commissions
Independent Sub-Commissions
(Less Service Sub-Commissions).

Release - 1500 GMT
25/4/45

This afternoon Signor Bonomi, President of the Council and Signor De Gasperi, ~~XXXXXX~~ Minister for Foreign Affairs received in the Viminale the British Minister Harold Macmillan, President of the Allied Commission and Admiral Stone, Chief Commissioner of the Commission.

The two high ranking ~~XXXXXXXXXXXX~~ Allied representatives set before the Ministers a Memorandum containing new measures prepared by the Allies in favor of the Italian government in fulfillment of the well-known Hyde Park statement ~~XXX~~ made jointly by President Roosevelt and Prime Minister Churchill.

Mr Macmillan ~~XXXXXXXXXX~~ expressly stated that such measures do not represent a conclusion or a point d'arrivee but rather a progression, a further step towards the objective, ~~XX~~ desired by both parties, of ~~complete~~ normalization of the Italian international situation. The Allies, satisfying the deep Italian aspirations, desire and intend ~~XX~~ ~~XXXXXX~~ gradually to replace control by an increasingly friendly and trusting collaboration. It is their intention to aid the Italian Government in its efforts of reconstruction as previously announced and they will do everything possible to assist the country even in the economic field, pointing out however that it is the victorious progress of the war itself that is creating exigencies which in some measure reduce their material possibilities.

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After the statement of Mr Macmillan who stressed various points in the Memorandum, calling attention to its significance as ~~XXXXXXXX~~ indicating confidence in the Government and friendship for the Italian people, and some observations of the Chief Commissioner of the Allied

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Declassified E.O. 12356 Section 3.3/NND No. 785015

Roosevelt and Prime Minister Churchill.

Mr Macmillan xxxxxxxxxx expressly stated that such measures do not represent a conclusion or a point d'arrivee but rather a progression, a further step towards the objective, xx desired by both parties, of ~~complete~~ normalization of the Italian international situation. The Allies, satisfying the deep Italian aspirations, desire and intend xx xxxxxxx gradually to replace control by an increasingly friendly and trusting collaboration. It is their intention to aid the Italian Government in its efforts of reconstruction as previously announced and they will do everything possible to assist the country even in the economic field, pointing out however that it is the victorious progress of the war itself that is creating exigencies which in some measure reduce their material possibilities.

3282

After the statement of Mr Macmillan who stressed various points in the Memorandum, calling attention to its significence as xxxxxxxxx indicating confidence in the Government and friendship for the Italian people, and some observations of the Chief Commissioner of the Allied Commission, Bonomi and De Gasperi xxxxxxxxxxxxx spoke expressing their thanks for the measures taken and for the friendly intentions expressed which the Government can appreciate in all their scope and importance, stating their hope that the conversations now in progress may lead to definitive progress with respect too to that new international status which best corresponds to the heavy sacrifices democratic Italy is making for the common cause.

The conversation which touchedon several points of the Memorandum and on other questions not contemplated therein was marked by the most frank cordiality and inspired by reciprocal faith in future collaboration.

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Rec'd 1320 GMT
25/2/45

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Contents of the Memorandum

In the memorandum it is stated that in confromity with the well-known statement made at Hyde Park by the President of the United States and the English Prime Minister, the Allies intend to ~~abolish~~ retain the Armistice control over the Italian government, reserving the right to exercise it only where military interests demand it.

Therefore as from the first of March, 1945, the Political Section of the Allied Commission will be abolished; thus the Italian Ministry for Foreign affairs will deal directly with the Chief Commissioner on matters touching political affairs of major importance and with the civil or economic Sections on matters of minor importance.

The Allied Commission must continue to be kept informed of negotiations which would bind the Italian Government ~~xix~~ to other governments, but from now on the Italian Government will be able to communicate through its diplomatic pouch with its own representatives abroad.

From now on the Allied Commission, in the territory under jurisdiction of the Italian Government, will limit itself to maintaining with the Italian Ministers, relations of consultation and conferance. In particular the Subcommissions of Education, Monuments and Fine Arts, and Labor, will offer their ~~xxxx~~ advisory services only on the request of the Italian Government.

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From now on the Italian Government will not be obliged to obtain Allied approval of its decrees and other legislative measures; however before applying them it will ~~inform~~ consult with the Chief Commisioner ~~of them in~~

Declassified E.O. 12356 Section 3.3/NND No. 785015

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From now on the Italian Government will not be obliged to obtain Allied approval of its decrees and other legislative measures; however before applying them it will ~~inform~~ consult with the Chief Commisioner ~~of them in~~ order to enable him to take counsel with himself regarding their possible application in territory still under Allied Military Government. Thus the Governement too will be no longer required to ask the approval of the Allies for the appointment of ministers or other high officiles, except for some ~~high~~ posts of military importance.

All ~~xxxxx~~ peripheric (subordinate) allied organs in the territory under direct Italian administration will be gradually withdrawn; commencing with the abolition as from the first of April of the Regional Offices of Sicily, Sardinia, Southern Region and Lazio-Umbria Region. In these

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territories however some specialist officials (for example in transport and mining) may remain for ~~a limited period~~. No time being.

The Allies propose further to encourage and organize cultural exchanges with Italy.

In another part of the ~~memorandum~~ memorandum the Allies express their satisfaction at the governments proposal to hold administrative elections as soon as possible. They announce furthermore that, subject to certain conditions as to the future there will come to an end the state of prisoners of war for all those Italian soldiers who up to now ~~are held~~ are held as such in Italy, with the exception of those captured after ' Sept. 1943.

Taking note of the necessity for the Italian Government to make every effort to increase domestic production, the Memorandum then considers the program of importation prepared by the Interministerial Reconstruction Committee in agreement with the Economic Section of the Allied Commission, stressing that the British and American Governments assume the responsibility for the procurement of a whole category (series) of goods ~~that directly affect~~ necessary to maintain public health and order (food, fuel, clothing, medical supplies) as well as those which, by assisting the reconstruction of Italian productive activity, result in direct aid to the Allied military effort (raw materials, machinery, fertilizers and materiel necessary to the reactivation of communications, transport and electrical installations.)

5230 As for the remaining goods requested by the Interministerial Committee for Reconstruction, their importation is necessarily conditioned by the present difficult transportation situation.

The Italian Government is authorized to initiate ~~xxxx~~

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3230 As for the remaining goods requested by the Interministerial Committee for Reconstruction, their importation is necessarily conditioned by the present difficult transportation situation. However the Italian Government is authorized to initiate ~~xxxx xxxxxxxx~~ immediately the relative acquisitions which will be utilized as soon as the tonnage is available.

The Allied Governments confirm their sincere desire to see Italian industries rebuilt in the widest possible measure, following an order of precedence which will be decided in common agreement and making some reservations only in regard to the armament industry.

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The memorandum ends pointing out that the decisions in the matter of commercial and financial policy, in particular with regard to the defense of the national currency, and ~~x~~ in regard to the best use of importations are the governments responsibility first of all; the Government may, in ~~xxix~~ these as in all other problems, count on the advice and collaboration ~~support~~ of the Allied Commission.

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Ref: 4001/154/80. 24 February 1945.

SUBJECT: Allied Policy in Italy.

TO : Allied Force Headquarters.
Attn: G-5 Section.

23

1. I refer to my 4001/80 of 19 February 1945, para 2. In place of the memorandum enclosed as Annexure "B" the Acting President communicated today to the Prime Minister and the Foreign Minister of the Italian Government the contents of the attached Aide Memoire. This communication was preceded this morning by my communicating orally to the Advisory Council the contents of the statment attached. 28

2. With regard to para 2(E) of the directive and Annexure "A" of my letter under reference, it is now proposed that the withdrawal of officers of the Allied Commission from Southern Region and the Islands should be completed by 1 April 1945. I am awaiting comments from you on Annexure "A" of my letter before issuing the final directive. I should be glad, therefore, of an early reply to my letter. 27

3. With regard to Para 2(D) of the directive, I am advised by my legal advisers that no amendment is necessary to the existing transfer of territory documents but that future transfer documents will be issued in en amended form.

/s/ Ellery W. Stone

ELLERY W. STONE
Rear Admiral, USNR
Chief Commissioner

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PRELIMINARY DRAFT

MINUTES OF THE FEBRUARY 24, 1945 SPECIAL MEETING

OF THE ADVISORY COUNCIL FOR ITALY.

The meeting was held at Via Vittorio Veneto 119 on February 24, 1945 under the chairmanship of Mr. Alexander Kirk, the United States Representative on the Council. Present at the meeting were:

Mr. Alexander Kirk Mr. John L. Goshie	United States
M. Paul Fouchet M. Jacques de Beaumarchais	France
M. George Kapsambelis M. Alexander Sgourdeos	Greece
General Adrian Vasiliev M. Michael Ouraevsky	Soviet Union
Mr. R.L. Nosworthy Mr. Aubrey S. Halford	United Kingdom
Dr. Sloven Smodlaka M. Arsen Milatovic	Jugoslavia

The agenda for the meeting included the following item:

(1) Statement Regarding "Italian Directive" by Rear Admiral Ellery W. Stone, Chief Commissioner of the Allied Commission.

The Chairman, Mr. Kirk, opened the meeting and expressed to the other Representatives his appreciation of their response to his call for a special meeting and on behalf of the Council extended a cordial welcome to General Vasiliev on the occasion of his first attendance at a meeting of the Council. The Chairman then explained that the special meeting was called so that Admiral Stone could communicate orally to the Council the substance of the new Italian directive and stated that shortly after the meeting the Secretariat will transmit to all Delegations a preliminary outline of Admiral Stone's statement. The Chairman then called on Admiral Stone for his statement.

3277

1.) "ITALIAN DIRECTIVE".

(a) Statement by Rear Admiral Stone.

(Note: The statement made by Admiral Stone has been distributed in the form of an excerpt from the preliminary draft of the minutes and will be included in the final draft.

Declassified E.O. 12356 Section 3.3/NND No. 1851

M. Jacques de Beaumarchais

M. George Kapsambelis M. Alexander Sgourdeos	Greece
General Adrian Vasiliev M. Michael Ouraevsky	Soviet Union
Mr. R.L. Nosworthy Mr. Aubrey S. Halford	United Kingdom
Dr. Sloven Smodlaka M. Arsen Milatovic	Jugoslavia

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1.) "ITALIAN DIRECTIVE". (27)

(a) Statement by Rear Admiral Stone.

(Note: The statement made by Admiral Stone has been distributed in the form of an excerpt from the preliminary draft of the minutes and will be included in the final draft.

(b) Discussion.

The Chairman stated that he felt certain the Council was very grateful to Admiral Stone for his description of the new Italian directive which will increase the responsibility and prestige of the Italian Government and serve to strengthen it at a time when the universe is in need of additional pillars of strength. With

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reference to the implementation of the directive, the Chairman said that in view of the well-known value of the Allied Commission the Council could rest assured on this point. He stated that the description of the directive given by the Admiral was so complete that when the Delegations receive from the Secretariat the advance excerpt from the preliminary draft of the minutes they would have the entire picture.

Admiral Stone undertook to keep the Council informed regarding the specific steps taken toward the implementation of the directive under discussion.

The Chairman, after ascertaining that it was the desire of the Council not to issue any press communique on this special meeting, adjourned the meeting.

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under discussion.

The Chairman, after ascertaining that it was the desire of the Council not to issue any press communique on this special meeting, adjourned the meeting.

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JLG/hp

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AFHQ SIGNED ALEXANDER CITE FHGEG

AGWAR FOR CCS FOR CCAC REPEATED FOR INFORMATION TO AMSSO FOR BRITISH CHIEFS OF STAFF AND HQ COMZONE MAIN FTOUSA AND HQ ALCOM

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Refer TAM 445 this is MAT 554.

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

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

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

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

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(FX 33055 continued)

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

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

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

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

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

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

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(FX 33055 continued)

activities in these areas.

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

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

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

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

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

DIST

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

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Declassified E.O. 12356 Section 3.3/NND No. 785015

24th February, 1945

AIDE MEMOIRE FOR COMMUNICATION TO THE ITALIAN GOVERNMENT BY THE ACTING PRESIDENT OF THE CONTENTS OF THE NEW DIRECTIVE ON THE FUNCTIONS OF THE ALLIED COMMISSION.

1. In accordance with the declaration of the President of the United States of AMERICA and the Prime Minister of the United Kingdom of GREAT BRITAIN, the Allied Governments propose to relax the control of the Italian Government under the Armistice in the matter of day to day administration and only to exercise such control when Allied military interests require.

2. The Political Section of the Allied Commission is being abolished as of 1 March 1945. The Italian Ministry of Foreign Affairs will deal with the Chief Commissioner on matters of major policy, and on matters of minor policy and routine business it will address itself to whatever Section (Economic or Civil Affairs) of the Commission may be appropriate to the subject involved. Matters involving the travel of diplomatic and other public officials will hereafter be dealt with on behalf of the Commission by the Office of the Executive Commissioner.

3. The Italian Government will continue, as at present, to have direct relations with foreign diplomatic representatives accredited to the Quirinal. The Allied Commission

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Commission should be kept generally informed by the Italian Government of any negotiations in which they engage with other Governments. Facilities for the use of secret tags will be granted to the Italian Government for use in correspondence with their diplomatic representatives abroad. Unaccepted cypher facilities cannot be allowed for the present.

Insofar as these negotiations have to do with economic and financial matters, the Economic Section and its Finance Sub-Commission should be kept informed of their progress.

It would be convenient if the Italian Government would furnish a periodic summary of all negotiations completed or pending with other Governments.

4. The Allied Commission will limit its dealings with respect to territory under the jurisdiction of the Italian Government to consultation with and advice to the Ministers of the Italian Government.

5. The advisory functions of the Sub-Commissions of Education, Monuments and Fine Arts, Local Government, Legal and Labour in territory under the jurisdiction of the Italian Government will be performed only when requested by the Italian Government.

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6. It will no longer be necessary for the Italian Government to obtain the approval of the Allied Commission for decrees and other legislation enacted by the Italian Government in the territory under the jurisdiction of the Italian Government.

Nevertheless the Allied Commission should be informed of proposed decrees some time before their enactment, in order to enable the Chief Commissioner to consult with the Italian Government as to their application to territory under the jurisdiction of Allied Military Government (AMG), and to lay plans for their effective implementation in such territory when appropriate.

7. It will no longer be necessary for the Italian Government to obtain approval of the Allied Commission for Italian appointments, whether to national or local offices, in territory under the jurisdiction of the Italian Government except with regard to the attached list (Appendix "A") of positions having military significance. The Italian Government will have the right to alter appointments made previously by AMG authorities.

8. The Allied Commission officers stationed in the field in the territory under the jurisdiction of the Italian Government will be withdrawn. As a first step it is intended to abolish by April 1, 1945, the Regional

offices

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Offices of the Allied Commission for Sicily, Sardegna, Southern and Lazio-Umbria Regions. Representatives of the Allied Commission will, however, be sent into territory under the jurisdiction of the Italian Government when necessary and certain specialist officers with economic functions will remain in such territory for a limited period.

9. It is the desire of the Allies to encourage free trade in knowledge and learning with the Italian people. Arrangements will be facilitated for the flow between Italy and the United Nations of books and other publications of a scientific, political, philosophical and artistic nature, and for the movement of scholars, artists and professional men between Italy and the United Nations.

10. The Allies welcome the decision to hold local elections in territory under the jurisdiction of the Italian Government as soon as may be.

11. The Allied Nations desire to make concessions with regard to Italian prisoners of war now or hereafter held in Italy, other than those captured since the Armistice was signed. Provided that arrangements can be made for the services of such persons to continue to be made available on terms satisfactory to the Supreme Allied Commander, their status as prisoners of war will be terminated.

Extract in copy

Extract in copy

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12. It is essential that the Italian Government formulate and implement appropriate economic controls and take all other steps possible both in order to ensure that maximum production and effective and equitable distribution and control of consumption of local resources possible under existing conditions be secured and as a prerequisite to increased economic assistance.

13. In the joint programme of essential Italian imports, now being prepared by the Inter-Ministerial Committee for Reconstruction and the Economic Section of this Commission, there will be some supplies for which the combined United States-United Kingdom military authorities will assume responsibility for procurement (Category "A") and other supplies for which they will not assume responsibility (Category "B"). A definition of the supplies which fall into Category "A" follows:

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

(b) Those supplies, the importation of which will reduce military requirements for the import of essential civilian supplies for the purposes referred to in this paragraph, such as, fertilizer,

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fertilisers, raw materials, machinery and equipment.

(c) Those materials essential for the rehabilitation of such of the Italian communication facilities, power systems and transportation facilities as will directly further the Allied military effort.

14. The programme for which the military authorities assume responsibility will be maintained for the duration of combined (United States-United Kingdom) operations in Italy. For this period, and within the limits defined in paragraph 13, Italy will be treated as a whole. The date of the termination of military responsibility will be fixed by the Allied Nations.

15. In addition to the programs of supplies for which the military assume responsibility for procurement (Category "A") the Allied Commission will assist the Italian Government in the preparation of programmes of supplies designed to rehabilitate Italian industry. Such programmes, referred to as Category "B" will be handled under procedures already notified. The purchasing of supplies in Category "B" programmes will be undertaken immediately without reference to the present difficult shipping position in order that the supplies so purchased may be called forward as and when shipping space becomes available.

Extract in AFHQ file

Extract in AFHQ file

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Extract in FRUS

16. The Allies desire that industrial rehabilitation in Italy be carried out by the Italian Government to the fullest extent permitted by Italian resources and such supplies as it may be possible to import under the terms of paragraphs 13, 14 and 15 above, and subject to the limitation in paragraph 19 below. The sole exception to this principle is to be made in the case of industries involving the production or repair of munitions or other implements of war, which will be rehabilitated only to the extent required by the Supreme Allied Commander in the discharge of his military mission, and to the extent necessary to further the Allied military effort in other theatres. The priority order in which Italian industry will be rehabilitated (after the rehabilitation of industries essential for Allied military purposes) will be determined by the Italian Government, with the assistance and advice of the Allied Commission.

Extract in FRUS

17. The prime responsibility for the control of inflation in Italy, including the imposition and administration of the appropriate financial controls and economic controls, and appropriate utilization of supplies, rests with the Italian Government. In this connection, as in others, the Allied Commission stands ready to advise and assist.

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Extract from 4268/sec

16. The extent to which exports are to be stimulated and the development of machinery to handle export trade are for determination by the Italian Government. For the time being, the Italian export programme will necessarily be limited by certain shipping, military, financial and supply factors. The applicability of these factors to individual programmes will be worked out between the Italian Government and the Economic Section of the Allied Commission along the lines already discussed by the Economic Section with the Inter-Ministerial Committee for Reconstruction.

Extract from 4268/sec

19. Nothing contained in the above should be taken as constituting a covenant by the Allied Nations with respect to shipping. Any supplies to be imported into Italy must be transported within such shipping as may be allocated from time to time by the Allied Nations.

HAROLD MACMILLAN

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APPENDIX "A".

List of Italian Government appointments requiring prior approval by the Allied Commission

Extract from 2a 3/4c and 22a-6/c

Minister of War.

Minister of Marine.

Minister of Air.

Any other Minister of Armed Forces who may be created

Under Secretary for Telecommunications

Director of Railroads

Director General of Pubblica Sicurezza

Commanding General, CC.RR.

Chief of Staff, CC.RR.

Commanding General, CC.FF.

Appointments in the Army, Navy, and Air Force in accordance with current practice.

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HEADQUARTERS ALLIED COMMISSION
APO 394
Office of the Chief Commissioner.

Statement to be made to Advisory Council for Italy by the Chief Commissioner describing the New Directive from Combined Chiefs of Staff on the functions of the Allied Commission.

1. The President and Prime Minister on September 26, 1944 issued on the topic of Allied policy in Italy a joint declaration. In particular they announced that, subject to effective maintenance of law and order as well as the regular administration of justice, an increasing measure of control would be handed over gradually to the Italian administration, and for the restoration of Italian economy, the initial steps would be taken.

2. In Washington, discussions have recently been held regarding practical measures to implement this declaration, and the Supreme Allied Commander, Field Marshal Sir Harold Alexander, has received now from the Combined Chiefs of Staff in Washington direction that, through the Allied Commission at Rome, these measures be carried out.

3. These measures have the general purpose to give to the Italian Government, in the area under its jurisdiction, a greater degree of responsibility and authority. In that territory accordingly, subject to the requirements of the Italian campaign and to over-riding military needs, the rights of the Allied Governments will be held in reserve in the matter of day-to-day administration. In general the relationship of the Allied Commission to the Italian Government will be one of consultation and advice rather than control.

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4. The Italian Government will conduct its relations with those Governments with which it has diplomatic relations in the future not through

Declassified E.O. 12356 Section 3.3/NND No. 18515

well as the regular administration of justice, an increasing measure of control would be handed over gradually to the Italian administration, and for the restoration of Italian economy, the initial steps would be taken.

2. In Washington, discussions have recently been held regarding practical measures to implement this declaration, and the Supreme Allied Commander, Field Marshal Sir Harold Alexander, has received now from the Combined Chiefs of Staff in Washington direction that, through the Allied Commission at Rome, these measures be carried out.

3. These measures have the general purpose to give to the Italian Government, in the area under its jurisdiction, a greater degree of responsibility and authority. In that territory accordingly, subject to the requirements of the Italian campaign and to over-riding military needs, the rights of the Allied Governments will be held in reserve in the matter of day-to-day administration. In general the relationship of the Allied Commission to the Italian Government will be one of consultation and advice rather than control.

3254

4. The Italian Government will conduct its relations with those Governments with which it has diplomatic relations in the future not through the Allied Commission but directly. Any negotiations in which the Italian Government may engage with foreign Governments will be communicated to the Commission. The present practice of approving the decrees and other legislation of the Italian Government, and that of granting approval to appointments of the Italian Government, except those of military significance, will be discontinued by the Commission. As soon as possible the Regional officers of the Allied Commission permanently stationed in areas under Italian

(27) STATEMENT TO ACI 2d 7.6.45

See (28a) FILE

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jurisdiction will be withdrawn, and encouragement will be given to the holding of local elections in these areas.

5. Except for those who fought on the German side after the Italian surrender, Italians held in Italy as prisoners of war will be released under arrangements to be made with the Italian Government. The Italian Government will be required to give an assurance that the men so released will be available without loss to the war effort.

6. Encouragement of cultural relationships with the Italian people is desired by the Allies. When military exigencies permit, to the greatest degree arrangements will be facilitated for the flow between Italy and the United Nations of books and publications of a scientific, political, philosophical and artistic nature, and for the movement between Italy and the United Nations of professional men, scholars, and artists.

7. The instructions to the Supreme Allied Commander are based, in the economic field, on the understanding that Italian authorities will develop the most equitable and effective control and distribution of consumption of local resources and imports which conditions now existing will allow, as well as the greatest measure of production.

8. Having regard to the compelling military requirements of the present time, the provision of imported supplies will necessarily depend upon the shipping which can be made available for this purpose.

9. Provision is being made, subject to these considerations, for furnishing, as part of the military supply program, certain additional categories of goods for basic civilian needs. Furthermore the Allied Commission will advise the Italian Government on the preparation of programs of supplies with the view that the rehabilitation of Italian agriculture and

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degree arrangements will be facilitated for the flow between Italy and the United Nations of books and publications of a scientific, political, philosophical and artistic nature, and for the movement between Italy and the United Nations of professional men, scholars, and artists.

7. The instructions to the Supreme Allied Commander are based, in the economic field, on the understanding that Italian authorities will develop the most equitable and effective control and distribution of consumption of local resources and imports which conditions now existing will allow, as well as the greatest measure of production.

8. Having regard to the compelling military requirements of the present time, the provision of imported supplies will necessarily depend upon the shipping which can be made available for this purpose.

9. Provision is being made, subject to these considerations, for furnishing, as part of the military supply program, certain additional categories of goods for basic civilian needs. Furthermore the Allied Commission will advise the Italian Government on the preparation of programs of supplies with the view that the rehabilitation of Italian agriculture and industry may be furthered. Under arrangements already made public the imports resulting are to be covered by the financial arrangements referred to in the President's statement of October 10, and these imports will be additional to the military program.

5263

10. Proposals for granting in financial matters a greater measure of responsibility to the Italian Government are being discussed between the Governments of the United States and of the United Kingdom.

(27) 24th February 1945.

Declassified E.O. 12356 Section 3.3/NND No. 785015

0097

Declassified E.O. 12356 Section 3.3/NND No. 785015

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cc 561
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1720 hrs.

FOR INFORMATION ONLY (16)

SECRET.

This is paraphrase of FAN 471 from CCS replying to our MAT 548 of 22 February regarding public announcement subject FAN 487.

Paraphrase begins: Decided it has been that no public statement regarding directive in FAN 487 will be issued on Governmental level. Suggested it is that as various provisions of directive are implemented, and after steps A and B have been taken, the Allied Commission might make informal oral announcements to press from time to time along such lines as you may deem to be necessary or advisable. Paraphrase ends.

Foregoing is transmitted for your guidance in arranging announcements to press in connection with proposed communications to Advisory Council and to Italian Government

DIST

EST (2)
A/PRESIDENT
CHIEF COMMISSIONER
DC to CHIEF COMMISSIONER
EX COMMISSIONER
FILE

HEADQUARTERS ALLIED COMMISSION
23 FEB 945
INFO
A. C.

J 2 1 2

(26)

SECRET

0098

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PROCEDURE FOR COMMUNICATING "NEW DEAL" TO ADVISORY COUNCIL, ITALIAN GOVERNMENT AND THE PUBLIC.

SATURDAY, February 24th,

10.30 11.0 a.m. Meeting of Advisory Council. Chief Commissioner to make a statement based upon the Public Statement which was to have been issued. Copy of this to be obtained for Mr Macmillan from Admiral Stone.

4.0 p.m. Mr Macmillan and Admiral Stone to call upon Bonomi and Gasperi to explain the new Directive. They will leave with them an aide-memoire* recording certain points to be settled between the Allied Commission and the appropriate Government Departments. Brigadier Lush will re-draft the aide-memoire.

5.30 p.m. Press Conference. Mr Macmillan and Admiral Stone.

* The aide-memoire should include the new arrangements about diplomatic bags agreed at SAC's conference yesterday.

25a

21st February 1945.

0099

Declassified E.O. 12356 Section 3.3/NND No. 785015

SECRET

ALLIED FORCE HEADQUARTERS
G-5 Section
APO 512

G-5/100-1 21 February 1945

SUBJECT: Draft replies to TAC 445: Proposals for Modification of US/UK Financial Relations with the Italian Government.

TO : Headquarters, Allied Commission, APO 394.

1. Following meetings between representatives of this Section and of the Allied Commission in Rome on 8-9 February, the reply to TAC 445 drafted and agreed was circulated within this Headquarters, with only one change: the addition of a short paragraph indicating the divergent views of the U.S. Political Adviser.

2. The draft cable was not acceptable to the Deputy S.A.C. nor to the C.A.C. on the grounds both that it was long and inconclusive and that it emphasized a disagreement of opinion within the Headquarters.

3. There are attached hereto two draft replies: one commenting on the more purely technical proposals in all of TAC 445 except paragraphs 1E and 2, and the other a shortened version of the material contained in paragraphs 4-6 of the old draft which commented on paragraphs 1E and 2. It is felt that this split into two messages will facilitate obtaining concurrence on the technical material.

4. The draft reply on paragraphs 1E and 2 necessarily retains the U.S. Political Adviser's dissenting view. But an effort has been made to state the issue rather more simply, and to put S.A.C. in the position only of weighing the consensus of opinion.

5. Will you please forward your comments on these new drafts as promptly as possible. Should you consider that a further conference with this Headquarters on the subject is desirable, we will make an effort to arrange one.

CHARLES M. STOFFORD,
Brigadier General, U.S.A.,
Assistant Chief of Staff, G-5.

Incls:
as above.

No Distribution in AC—
per JAG

Discussed with Gen Saffords
22/2/45

D R A F T

SECRET

TO : AGWAR FOR CCS FOR CCAC
FROM: ALEXANDER cite FHCAO, FHEG

This is MAT 514

Refer TAM 445

Proposals for modification of US/UK Financial Relations with Italian Government is subject.

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

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

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

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

Subpara B. AC has been working toward goal of terminating control over Italian external financial transactions, and is assisting Italian Government in developing a machinery of exchange control to be operated by Banca d'Italia as agents of Treasury substantially as in period 1917-1919. The experience and probity essential to exchange control are not readily available in Italy at this time. Some of the experts are in German-controlled Italy and many of those who remained behind are suspended and awaiting epuration hearings. AC is endeavoring to expedite the hearings in the hope of obtaining a competent nucleus but has to proceed with considerable care. In the meantime neither Government nor public have made any request known to us for acceleration of date when full responsibility for exchange control would pass to Italian hands. Premature transfer of such control may result in wasting of slender foreign exchange resources of Italian Government by improper or imprudent management, to disadvantage of Allied Governments which now or in future are obliged to meet minimum essential foreign exchange needs of Italy. In this connection you have urged (e.g., TAM 136 and 398 and TAM Airgram 24) necessity for exercising control not only in operation of post-liberation accounts in U.S. and U.K. but also of all transactions in currencies of neutral countries.

25 INCL 'A' (3 x 2 cys)

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

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

Para two. Your paragraph 1D is noted and concurred in.

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

Para four. TAM 445 deals with only part of wider problem of giving "a greater measure of responsibility in financial matters" to Italian Government. AC is concerned in varying degrees between control and advice with many other areas of financial operations such as following. Until otherwise instructed by you, A.C. will continue its present activities in these areas. (A) AC assists Government in control of expenditures and must bring pressure at times on Government to prevent breakdown of communications and other services essential to Allied War effort. (B) In field of revenue AC works with Government in developing new sources and improvement of collection techniques, reduction of collection costs, and increased efficiency of revenue service. (C) AC works with central Government accounting authority in effort to maintain clear [illegible]

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Declassified E.O. 12356 Section 3.3/NND No. 785015

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

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25 INCL'M' (3rd Copy) SECRET

Declassified E.O. 12356 Section 3.3/NND No. 785015

SECRET

DRAFT

SECRET

TO : ACMAR for CCS for COAC

FROM: ALEXANDER cite_____

REF : TAM 445

Sec 32

Proposal to transfer currency responsibility to Italian Government is subject.

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

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

Para three. In support of the view expressed in 2(b) my advisors point out that the Italian Government has publicly stated that it is seeking to be relieved of ~~their~~ the financial obligations under article 23 of the Armistice. On 9 January it handed to the A.C. and to both Embassies a strong memorandum on this subject which my Headquarters is studying preparatory to forwarding it to you. Unless, as my advisers do not think likely, the two Governments propose to accept the Italian demand for dollar/sterling reimbursement for all 23% lire expended by or on behalf of the Allied Force, the political repercussions of insistence on recognition of the Government's currency obligation may be

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Para four. I am reluctant at this time to have any negotiations undertaken with the Italian Government which may increase political unrest or financial difficulties in Italy, to the point of prejudicing military operations. It is not possible for my advisers to weigh with exactness the effect which the proposed negotiations would have, but on balance I concur in their majority view that it would not be desirable, at the present time, to force the issue, in any event to the point of causing the fall of the present government.

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

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Declassified E.O. 12356 Section 3.3/NND No. 785015

concur in their majority view that it would not be desirable, at the present time, to force the issue, in any event to the point of causing the fall of the present government.

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

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(JS) INVOL B (2nd Draft) SECRET

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Declassified E.O. 12356 Section 3.3/NND No. 785015

EXTRACT

TOP SECRET

ALLIED FORCE HEADQUARTERS

SAC (P) (45) 1st Meeting
20th February, 1945

K 77

SUPREME ALLIED COMMANDER'S CONFERENCE
(POLITICAL)

* * *

9. NEW DIRECTIVE ON FUNCTIONS OF THE ALLIED COMMISSION

(16) ((a) Telegram No. FAN 487 of 31st December from the Combined Chiefs of Staff.
(b) Paper No. SAC (P) (45) 4)

(726) THE CONFERENCE had before them a telegram from the Combined Chiefs of Staff containing a new directive in respect of the functions of the Allied Commission, together with an explanatory note.

MR. MACMILLAN observed that many adjustments would be necessary, particularly as bewteen AFHQ and the Allied Commission, in consequence of the new directive and its implications were now under examination. He proposed to inform the Italian Prime Minister in general terms of the contents of the directive, and it had been arranged that Rear Admiral Stone should inform the Advisory Council for Italy. It was not intended to issue a public statement on the matter, but he proposed to hold a press conference at which he would give a statement "on the record" and would answer "off the record" any questions that the press correspondents might have.

THE SUPREME ALLIED COMMANDER:

Took note of the new directive in respect of the functions of the Allied Commission, as set forth in telegram No. FAN 487 from the Combined Chiefs of Staff and explained in paper No. SAC (P) (45) 4, and approved the action proposed by the Acting President, Allied Commission, as recorded above.

* * *

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(24)

Declassified E.O. 12356 Section 3.3/NND No. 785015

SECRET.

HEADQUARTERS ALLIED COMMISSION
APO 394
Office of the Chief Commissioner
++++++++++++++++++++++++++++++++

Ref: 4001/EC

19 February 1945.

SUBJECT: New CCS Directive on the Allied Commission.

TO : Allied Force Headquarters.
Attn: G-5 Section.

(16)

1. It may be of interest to you to know the action which I propose to take as a result of the receipt of FAN 487, communicated to me by the Acting President:

(a) Para 2(A). I am asking the US and British Embassies formally to nominate their representatives who, for many reasons, will require to have an office at this Headquarters. They will bear the same relation to me as POLAD and REBMIN bear to SACMED.

(b) Para 2(B).

(i) I have asked on more than one occasion whether the Italians might be allowed to use the usual cipher and code facilities to their representatives in the countries with which diplomatic relations have been resumed. I have had no answer to this request and I should be glad if this point could be cleared at once. A separate cable has been despatched on this point.

(ii) I shall request the Italian Government to advise me of negotiations with other Governments in which the Italian Government may engage themselves.

(iii) It will be to our advantage and to the advantage of the Italian Government that direct relations should be resumed as soon as possible with the French, Yugoslav and Greek Governments and I shall urge the Italian Government to this end. It is expected that the Allied Embassies will take a similar position.

(c) Para 2(C), states "The Allied Commission shall abandon the practice of approving the decrees and other legislation enacted by the Italian Government in the territory under the jurisdiction of the

to take as a result of the receipt of FAN 487, communicated to me by the Acting President:

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(iii) It will be to our advantage and to the advantage of the Italian Government that direct relations should be resumed as soon as possible with the French, Yugoslav and Greek Governments and I shall urge the Italian Government to this end. It is expected that the Allied Embassies will take a similar position.

(c) Para 2(C), states "The Allied Commission shall abandon the practice of approving the decrees and other legislation enacted by the Italian Government in the territory under the jurisdiction of the Italian Government. Any new Italian Government will be requested to confirm that they will adhere to the obligations under the terms of surrender undertaken by their predecessors".

(i) I interpret the words "in the territory" to mean "affecting the territory". Certain Italian decrees may affect Allied Military Government territory and since it is considered desirable to coordinate policy in territory which will be ultimately transferred, I shall cause informal consultations to be continued between the Allied Commission and the Italian Government, particularly in relation to economic decrees.

(ii) I also interpret this clause, read with 1(A), to vest in SACMED the right, when necessary, to exercise control in any decree affecting military needs and the requirements of the campaign.

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(23)

See (29)

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(d) Para 2(D). The transfer of territory documents (Document "J") will now have to be amended in order to enable the Italian Government to remove officials previously nominated by AMG officials without reference to the Allied Commission. This will be taken up under separate cover. All Service Sub-Commissions desire to retain the right of vetoing military appointments. The technical posts of Directors of Telecommunications and Railroads will be considered as military appointments hitherto.

(e) Para 2(E).

(i) I attach draft directive which will be issued shortly in order to withdraw Allied officers of the Commission from the Islands and Southern Regions. (See Annexure "L").

(ii) It is essential that we should implement this clause to the maximum. There will be great temptation on the part of military formations and services, Italian local authorities and Allied Commission officers to regret the departure of Allied Commission officers and to retain a "small" number which will gradually grow and will lead us to fall between the two stools of (a) control, which necessitates many officers, and (b) decontrol, which should need none. It is essential that military formations and services should be instructed not to ask for the retention of Allied Commission officers but to take their share in some of the difficulties which will have to be faced by Allies and Italians alike as a result of the CCS directive. The Allied Commission will be compelled to give up responsibilities and duties which have been of value to the Allied military formations: Allied officers who have been the proper media between Allied military authorities and the Italian local governments will disappear. I would ask that a direction be issued to military formations and services on this and other matters arising out of the directive.

(iii) It may be thought necessary for the military authorities to assume responsibility for any necessary supervision of public utilities of military importance, e.g., railways, power, highways, through their own officers. This would impose an even more rigid military control than that which the present directive instructs us to remove.

(iv) Allied Military Government will continue in NAPLES Commune unless it is your desire that it should be removed. It would, of course, be an advantage to withdraw all officers but I assume that the local military authorities will insist on retention of AMG. AMG Courts in NAPLI will cease.

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Declassified E.O. 12356 Section 3.3/NND No. 785015

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(iii) It may be thought necessary for the military authorities to assume responsibility for any necessary supervision of public utilities of military importance, e.g., railways, power, highways, through their own officers. This would impose an even more rigid military control than that which the present directive instructs us to remove.

(iv) Allied Military Government will continue in NAPLES Commune unless it is your desire that it should be removed. It would, of course, be an advantage to withdraw all officers but I assume that the local military authorities will insist on retention of AMG. AMG Courts in BARI will cease.

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(v) I submit for consideration the withdrawal, insofar as is possible, of HQ 204 Sub-Area from SICILY and any other Sub-Area Headquarters which are not absolutely essential.

(f) Para 2(F). The implementation of this clause depends upon the repeal or amendment of the "Trading with the Enemy Act" so far as it effects Italy.

(g) Para 2(G). This has already been done and the Italian Government have the matter in hand. It is most probable that local government elections will take place throughout the major portion of liberated Italy in the spring.

(h) Para 2(H). The status of Italian POW in Italy is the subject of a separate memorandum which will be submitted to you.

(23) Sub Gen/le

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(i) Para 3(A). I interpret this to mean consultation between Heads of Sections and Directors of Sub-Commissions on the one hand and Ministers and Under-Secretaries on the other.

(j) Para 3(B). This can be carried out but latitude will be necessary in respect of labour and wage matters which affect AMG territory.

(k) Para 3(C). The process of civilianisation is already in hand.

(l) Para 3(D). My Deputy Chief Civil Affairs Officer is already located at a place other than Allied Commission Headquarters. Further separation is not feasible at the moment.

(m) Para 4. It will be necessary to represent to the Italian Government the contents of this and other clauses in the directive. This will be done. I do not propose communicating the last sentence of this paragraph to the Italian Government, since it is not reconcilable with the spirit of the rest of the directive.

(n) Para 5.

(i) The Italian Inter-Ministerial Committee for Reconstruction and the Economic Section of the Allied Commission are now preparing a joint programme of essential Italian imports. The Italian Government will be informed of the three categories for which the US/UK military authorities assume responsibility.

(ii) This clause gives a wider interpretation to Category A programme (disease and unrest) than this Commission has yet received. In order to implement it, I propose to resubmit requisitions that have already been rejected and also to submit part of the new joint programme now being worked out with the Italian Government.

(o) Para 6. Similarly this clause has a wider interpretation of the Category B programme and will be considered at the joint discussions.

(p) Para 7(i). This will to some extent modify the work of price control now done by the Allied Commission. It is assumed to be a partial reply to recommendations made by the Anti-Inflation Committee in June 1944.

(q) Para 9. Has been made the subject of a separate telegram.

2. I attach memorandum (Annexure "D") which I propose to transmit to the Italian Government informing them of the terms of the "New Deal" as soon as I am instructed to make public the terms of the new directive.

3233

ELLERY W. STONE
Rear Admiral, USNR
Chief Commissioner

Declassified E.O. 12356 Section 3.3/NND No. 785015

(n) Para 5.

(i) The Italian Inter-Ministerial Committee for Reconstruction and the Economic Section of the Allied Commission are now preparing a joint programme of essential Italian imports. The Italian Government will be informed of the three categories for which the US/UK military authorities assume responsibility.

(ii) This clause gives a wider interpretation to Category A programme (disease and unrest) than this Commission has yet received. In order to implement it, I propose to resubmit requisitions that have already been rejected and also to submit part of the new joint programme now being worked out with the Italian Government.

(c) Para 6. Similarly this clause has a wider interpretation of the Category B programme and will be considered at the joint discussions.

(p) Para 7(J). This will to some extent modify the work of price control now done by the Allied Commission. It is assumed to be a partial reply to recommendations made by the Anti-Inflation Committee in June 1944.

(q) Para 9. Has been made the subject of a separate telegram.

2. I attach memorandum (Annexure "B") which I propose to transmit to the Italian Government informing them of the terms of the "New Deal" as soon as I am instructed to make public the terms of the new directive. (29)

3253 -

ELLERY W. STONE
Rear Admiral, USNR
Chief Commissioner

Copy to: Acting President.
The Hon. Mr. Alexander Kirk, US Ambassador.
Sir Noel Charles, Bt, MCMG, British Ambassador.
VP, Economic Section
VP, Civil Affairs Section.
VP, Establishment Section.
VP, Political Section.
Land Forces Sub-Commission
Air Forces Sub-Commission
Navy Sub-Commission
WMD & IPW Sub-Commission
Communications Sub-Commission

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Declassified E.O. 12356 Section 3.3/NND No. 78501

ANNEXURE "A" to 4001/EC
of 19 February 1945.

2nd DRAFT DIRECTIVE.

SECRET.

WITHDRAWAL OF ALLIED COMMISSION OFFICERS
FROM ITALIAN GOVERNMENT TERRITORY.

1. Para 2(e) of CCS telegram FAN 487 transmitting the directive on the "New Deal for Italy" directs that:

> "The Allied Commission shall as soon as possible withdraw all its officers stationed in the field in the territory under the jurisdiction of the Italian Government. However, the Allied Commission should retain the right to send its representatives into territory under the jurisdiction of the Italian Government for any special tasks when Allied interests require it".

2. As a result of this the following action will be taken with regard to Allied Commission functions in SARDINIA, SICILY and SOUTHERN ITALY:

(a) SARDINIA. All Allied officers will be withdrawn with the exception of the officers and staff of the Mining Division who will restrict their functions entirely to advice regarding the out put of the Sardinian coalmines. This will involve the withdrawal of the Regional Commissioner and 10 officers, and the retention of 2 Mining Division Officers.

(b) SICILY. All Allied officers will be withdrawn with the following exoeptions:

(i) 2 Finance Officers
(ii) 1 Supply Accountant
(iii) 1 Property Control Officer
} Until 1st April 1945.

(iv) (i), (ii) and (iii) will work under Allied Commission Liaison Officers who will be appointed:

(a) In PALERMO to correlate the functions of the US Navy Base with the Italian authorities.

(b) In CATANIA to correlate the functions of 204 Sub-Area with the Italian authorities

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Declassified E.O. 12356 Section 3.3/NND No. 785015

2. As a result of this the following [illegible] to Allied Commission functions in SARDINIA, SICILY and SOUTHERN ITALY:

(a) SARDINIA. All Allied officers will be withdrawn with the exception of the officers and staff of the Mining Division who will restrict their functions entirely to advice regarding the out put of the Sardinian coalmines. This will involve the withdrawal of the Regional Commissioner and 10 officers, and the retention of 2 Mining Division Officers.

(b) SICILY. All Allied officers will be withdrawn with the following exceptions:

(i) 2 Finance Officers
(ii) 1 Supply Accountant
(iii) 1 Property Control Officer

} Until 1st April 1945.

(iv) (i), (ii) and (iii) will work under Allied Commission Liaison Officers who will be appointed:

(a) In PALERMO to correlate the functions of the US Navy Base with the Italian authorities.

(b) In CATANIA to correlate the functions of 204 Sub-Area with the Italian authorities

(v) A Transportation Officer will be attached to the Liaison Officer in CATANIA to regulate rail transport into REGGIO on the mainland.

(vi) The Regional Mining Officer will be assigned to Headquarters, Industry Sub-Commission, and will be despatched to SICILY as occasion demands.

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(vii) The 4 Export Officers loaned by the Ministry of Food (British) will be attached to the Commerce Sub-Commission and sent to SICILY as the occasion demands. There numbers will be reduced if possible.

(viii) LAMPEDUSA and PANTELLERIA will remain under Allied Military Government. CAO's will report to the AC Liaison Officer at PALERMO.

(c) SOUTHERN REGION. All officers will be withdrawn with the following exceptions:

(i) ~~Provincial~~ Local Commissioner and staff for Allied Military Government, NAPLES Commune (See Appendix "A"). This officer will also act as AC Liaison Officer in order to correlate the functions of No.3 District, PBS and other military authorities with the Italian authorities in the compartimenti of CAMPANIA and CALABRIA.

(ii) There will also be established an AC Liaison Officer at BARI with the same functions in connection with the compartimenti of APULIA and LUCANIA, together with the Province of CAMPOBASSO. This Liaison Officer and his staff will work with the Sub-Areas operating in this area and the 15th USAAF at FOGGIA. The AC Liaison Officer will have a small staff consisting of:

(a) 5 Representatives of the Economic Section (Transportation Sub-Commission) 3 of whom will work in connection with truck pools and will be withdrawn when truck pools are handed over to the Italian Government.

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following exceptions:

(i) ~~Provincial~~ Local Commissioner and staff for Allied Military Government, NAPLES Commune (See Appendix "A"). This officer will also act as AC Liaison Officer in order to correlate the functions of No.3 District, PBS and other military authorities with the Italian authorities in the compartimenti of CAMPANIA and CALABRIA.

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(a) 5 Representatives of the Economic Section (Transportation Sub-Commission) 3 of whom will work in connection with truck pools and will be withdrawn when truck pools are handed over to the Italian Government.

(d) LAZIO-UMBRIA REGION. All officers will be withdrawn with the exception of the Provincial Staffs of PERUGIA and TERNI who will continue to administer Allied Military Government in these two Provinces under the command of the Provincial Commissioner, PERUGIA, reporting direct to the Allied Commission.

In addition an Allied Commission Liaison Section will be attached to Rome Area Allied Command consisting of the following:

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(i) 1 Public Safety Officer

(ii) 1 AFA Officer, ROME.

(iii) 1 Supply Accountant.

(iv) 1 Property Control Officer.

3 officers of the Transportation Sub-Commission and 1 officer of the Public Works & Utilities Sub-Commission now operating at the port of CIVITAVECCIA will be retained there under the direct control of the Economic Section. They will be withdrawn before 1st June 1945.

(e) ABRUZZI-MARCHE REGION. All Allied Commission officers will be withdrawn from the Provinces of AQUILA, PESCARA and CHIETI. Regional HQ will be moved to (?) and will administer Allied Military Government in such Provinces of the compartimento which have not been handed back to the Italian Government. The Regional Commissioner will also act as Liaison Officer with the Sub-Area concerned in the Provinces administered by the Italian Government.

3. The duties of the Allied Commission Liaison Officers retained in Italian Government territory will be to watch over the inter-relation of Allied and Italian interests insofar as the Allied war effort is directly concerned and to assist the Allied military authorities in their relations with the Italian local authorities. They will give advice to the Allied military authorities on any matter pertaining to Italian civil affairs but they will no longer be concerned with the assumption of control or advice or guidance to the Italian authorities. They will be careful not to assume functions which are properly those of the military authorities and must retain their purely advisory capacity. (It may well be that functions hitherto carried

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Allied interests.

4. They will correspond direct with HQ. Allied Commission under whose authority they will work and to whom they will render regular and frequent reports on their day to day work and on the political, administrative and economic situation in the areas which they cover.

5. All withdrawals indicated above and the establishment of AC Liaison Officers will be completed by 1st March 1945.

Appendix "A".

COMPOSITION OF STAFF FOR ALLIED MILITARY GOVERNMENT, NAPLES COMMUNE.

Provincial Commissioner	1	B
Executive Officer	1	A
Adjutant	1	A
Provincial Officer	1	B
Commander, Coy "C"	1	A
Civil Affairs Section.		
Legal	3	
Public Health	3	
Public Safety	4	
Economic Section.		
Commerce	2	
Food	1	
Industry	2	(Hemp Control)
Finance	5	
PW & Utilities	2	
Transportation	5	
Communications		

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Appendix "A".

COMPOSITION OF STAFF FOR ALLIED MILITARY GOVERNMENT, NAPLES COMMUNE.

Provincial Commissioner	1	B
Executive Officer	1	A
Adjutant	1	A
Provincial Officer	1	B
Commander, Coy "C"	1	A

Civil Affairs Section.

Legal	3	
Public Health	3	
Public Safety	4	

Economic Section.

Commerce	2	
Food	1	
Industry	2	(Hemp Control)
Finance	5	
PW & Utilities	2	
Transportation	5	
Communications		

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DRAFT ONLY.

S E C R E T.

ANNEXURE "B" to 4001/EC
dated 19 February 1945.

HEADQUARTERS ALLIED COMMISSION
APO 394
Office of the Chief Commissioner
++++++++++++++++++++++++++++++++

Submitted to PM as Ex 28

Gibbs Memorandum

My Dear Mr. Prime Minister:

In order to implement the joint declaration of the President and the Prime Minister of 26 September 1944, the United States and United Kingdom Governments have agreed to relax the control of the Italian Government under the armistice and surrender instrument and only to exercise such control when Allied military interests require. The rights under the armistice and surrender instrument will be held in reserve in the matter of day to day administration, subject to overriding military needs and the requirements of the campaign in Italy.

2. In the light of this agreed US UK policy, the Allied Commission is taking certain steps and is following certain policies concerning which it is desirable that your Government be informed. These steps are described in the paras below, together with an indication of the new procedures which it is proposed to adopt in working with your Government under the new arrangements.

3. The Political Section of the Allied Commission is being abolished as of February 1945. Your Ministry of Foreign Affairs will thus have no direct counterpart in the Commission. It will deal with the Chief Commissioner on matters of major policy, and on matters of minor policy and routine business it will address itself to the Economic Section or the Civil Affairs Section of the Commission, whichever may be appropriate to the subject involved. Matters involving the travel of diplomatic and other

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Government under the armistice and surrender instrument and only to exercise such control when Allied military interests require. The rights under the armistice and surrender instrument will be held in reserve in the matter of day to day administration, subject to overriding military needs and the requirements of the campaign in Italy.

2. In the light of this agreed US UK policy, the Allied Commission is taking certain steps and is following certain policies concerning which it is desirable that your Government be informed. These steps are described in the paras below, together with an indication of the new procedures which it is proposed to adopt in working with your Government under the new arrangements.

3. The Political Section of the Allied Commission is being abolished as of February 1945. Your Ministry of Foreign Affairs will thus have no direct counterpart in the Commission. It will deal with the Chief Commissioner on matters of major policy, and on matters of minor policy and routine business it will address itself to the Economic Section or the Civil Affairs section of the Commission, whichever may be appropriate to the subject involved. Matters involving the travel of diplomatic and other public officials will hereafter be dealt with on behalf of the Commission by the Office of my Executive Commissioner.

4. The Italian Government will continue, as at present, to have direct relations with foreign diplomatic representatives accredited to the Quirinal. It is necessary, however, that the Allied Commission be kept generally informed by the Italian Government of any negotiations in which they engage with other Governments.

(23) ANNEX 'B'

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Inuofar as these negotiations have to do with economic and financial matters, this requirement will be met by keeping the Economic Section and its Finance Sub-Commission informed of the progress of such negotiations. On policy matters, this might appropriately be done through the weekly meetings held between the Economic Section and the Inter-Ministerial Committee for Reconstruction, at which the Ministry of Foreign Affairs is generally represented.

We may also wish to work out jointly an arrangement for the preparation by the Italian Government of a periodic summary of negotiations completed or pending with other Governments.

5. It will no longer be necessary for the Italian Government to obtain the approval of the Allied Commission for decrees and other legislation enacted by the Italian Government in the territory under the jurisdiction of the Italian Government.

I should, however, desire to work out with your Government a procedure for ensuring that this Commission is informed of proposed decrees some time before their enactment, in order to enable me to consult with you as to their applicability to territory under the jurisdiction of Allied Military Government (AMG), and to lay plans for their effective implementation in such territory when appropriate.

6. It will no longer be necessary for the Italian Government to obtain approval of the Allied Commission for Italian appointments, whether to national or local offices, in territory under the jurisdiction of the Italian Government, except with regard to the attached list (Appendix "A") of positions having military significance.

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7. The Allied Commission officers stationed in the field in the

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We may also wish to work out jointly an arrangement for the preparation by the Italian Government of a periodic summary of negotiations completed or pending with other Governments.

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6. It will no longer be necessary for the Italian Government to obtain approval of the Allied Commission for Italian appointments, whether to national or local offices, in territory under the jurisdiction of the Italian Government, except with regard to the attached list (Appendix "A") of positions having military significance.

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7. The Allied Commission officers stationed in the field in the territory under the jurisdiction of the Italian Government will be withdrawn as soon as possible. Representatives of the Allied Commission will, however, be sent into territory under the jurisdiction of the Italian Government when it considers such action necessary.

In line with this policy, it is intended to abolish by 1945 the Regional Offices of the Allied Commission for Sicilia, Sardegna, Southern and Lazio-Umbria Regions.

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For a limited period certain specialist officers on economic functions will remain in territory under the jurisdiction of the Italian Government. A list of such specialist officers, and their functions, will be notified to you shortly.

8. It is the desire of the Allies to encourage free trade in knowledge and learning with the Italian people. As far as the exigencies of the military situation permit, arrangements will be facilitated for the flow between Italy and the United Nations of books and other publications of a scientific, political, philosophical and artistic nature, and for the movement of scholars, artists and professional men between Italy and the United Nations.

9. It is the desire of the Allies to encourage the holding of elections for local public offices in territory under the jurisdiction of the Italian Government.

10. The Allied Nations desire to make concessions with regard to Italian prisoners of war now or hereafter held in Italy, other than those captured since the Armistice was signed. Provided that the Italian Government can give an adequate assurance that the services of such persons will continue to be made available on terms satisfactory to the Supreme Allied Commander, their status as prisoners of war will be terminated.

11. The Allied Commission will limit its dealings with respect to territory under the jurisdiction of the Italian Government to consultation with and advice to the Ministers of the Italian Government.

12. It is our intention that, in respect of Italian Government territory, the advisory functions of the Education, Monuments & Fine Arts, Local Government, Legal and Labour Sub-Commissions should only be performed when requested by your Government.

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between Italy and the United Nations of books and other [illegible] scientific, political, philosophical and artistic nature, and for the movement of scholars, artists and professional men between Italy and the United Nations.

9. It is the desire of the Allies to encourage the holding of elections for local public offices in territory under the jurisdiction of the Italian Government.

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11. The Allied Commission will limit its dealings with respect to territory under the jurisdiction of the Italian Government to consultation with and advice to the Ministers of the Italian Government.

12. It is our intention that, in respect of Italian Government territory, the advisory functions of the Education, Monuments & Fine Arts, Local Government, Legal and Labour Sub-Commissions should only be performed when requested by your Government.

13. It is essential that the Italian Government formulate and implement appropriate economic controls and take all other steps possible both in order to ensure that maximum production and effective and equitable distribution and control of consumption of local resources possible under existing conditions be secured and as a prerequisite to increased economic assistance.

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14. In the joint programme of essential Italian imports, now being prepared by the Inter-Ministerial Committee for Reconstruction and the Economic Section of this Commission, there will be some supplies for which the combined US-UK military authorities will assume responsibility for procurement (Category "A") and other supplies for which they will not assume responsibility (Category "B"). For your information a definition of the supplies which fall into Category "A" follows:

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

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

(c) Those materials essential for the rehabilitation of such of the Italian communication facilities, power systems and transportation facilities as will further the military effort against Germany and Japan.

15. The programme for which the military authorities assume responsibility will be maintained for the duration of combined (US-UK) operations in Italy. For this period, and within the limits defined in para 14, Italy will be treated as a whole. The date of the termination of military responsibility

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Declassified E.O. 12356 Section 3.3/NND No. 118515

disease and unrest prejudicial to military operations, such as, food, fuel, clothing, medical and sanitary supplies.

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

(c) Those materials essential for the rehabilitation of such of the Italian communication facilities, power systems and transportation facilities as will further the military effort against Germany and Japan.

15. The programme for which the military authorities assume responsibility will be maintained for the duration of combined (US-UK) operations in Italy. For this period, and within the limits defined in para 14, Italy will be treated as a whole. The date of the termination of military responsibility will be fixed by the Allied Nations.

16. In addition to the programs of supplies for which the military assume responsibility for procurement (Category "A") it will be our intention to assist your Government in the preparation of programmes of supplies designed to rehabilitate Italian industry. Such programmes, which we refer to as Category "B", are to be handled under procedures already ratified to you in my letter of . It has been agreed that the purchasing of supplies in Category "B" programmes should immediately be undertaken, without reference to the present difficult shipping position in order that the supplies

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Declassified E.O. 12356 Section 3.3/NND No. 785015

so purchased may be called forward as and when shipping space becomes available.

17. It is the desire of the Allies that industrial rehabilitation in Italy be carried out by the Italian Government to the fullest extent permitted by Italian resources and such supplies as it may be possible to import under the terms of Paras 14, 15 and 16 above, and subject to the limitation in para 20 below. The sole exception to this principle is to be made in the case of industries involving the production or repair of munitions or other implements of war, which should be rehabilitated only to the extent required by the Supreme Allied Commander in the discharge of his military mission, and to the extent necessary to further the military effort in other theatres. It is contemplated that the priority order in which Italian industry will be rehabilitated (after the rehabilitation of industries essential for Allied military purposes) will be determined by the Italian Government, with the assistance and advice of the Allied Commission.

18. It is desired to make clear that the prime responsibility for the control of inflation in Italy, including the imposition and administration of the appropriate financial controls and economic controls, and appropriate utilization of supplies, rests with the Italian Government. In this connection, as in others, the Allied Commission stands ready to advise and assist you.

19. The extent to which exports are to be stimulated and the development of machinery to handle export trade are for determination by the Italian Government. For the time being, the Italian export programme will necessarily be limited by certain shipping, military, financial and supply factors which are controlled by the Allied Governments for purposes connected with the prosecution of the war. The applicability of these factors to

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Declassified E.O. 12356 Section 3.3/NND No. 785015

or other implements of war, which should be rehabilitated only to the extent required by the Supreme Allied Commander in the discharge of his military mission, and to the extent necessary to further the military effort in other theatres. It is contemplated that the priority order in which Italian industry will be rehabilitated (after the rehabilitation of industries essential for Allied military purposes) will be determined by the Italian Government, with the assistance and advice of the Allied Commission.

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19. The extent to which exports are to be stimulated and the development of machinery to handle export trade are for determination by the Italian Government. For the time being, the Italian export programme will necessarily be limited by certain shipping, military, financial and supply factors which are controlled by the Allied Governments for purposes connected with the prosecution of the war. The applicability of these factors to individual programmes is to be worked out between your Government and our Economic Section, along the lines already discussed by the Economic Section with the Inter-Ministerial Committee for Reconstruction.

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20. Nothing in this letter should be taken as constituting a commitment by the Allied Nations with respect to shipping. Any supplies to be imported into Italy must be transported within such shipping as may be allocated from time to time by the Allied Nations.

(23)

ELLERY W. STONE
Rear Admiral, USNR
Chief Commissioner

Declassified E.O. 12356 Section 3.3/NND No. 785015

ANNEXURE "C" to 4001/EC
dated 19 February 1945.

MEMORANDUM SHOWING SCOPE OF THE FUNCTIONS OF THE ALLIED COMMISSION WHICH WILL CEASE UPON THE WITHDRAWAL OF ALLIED COMMISSION OFFICERS FROM ITALIAN GOVERNMENT TERRITORY.

1. Civil Affairs Section.

(a) Advice on maintenance of law and order: organisation of police: stimulation Italian Courts of Law, particularly in dealing with offences against Allied troops.

(b) Distribution of medical supplies: assistance in organisation of civilian hospitals.

(c) Treatment of civilian epidemics and diseases such as typhus, smallpox, diphtheria, etc., except that a team of officers stationed in NAPLES may be available to deal with typhus or malaria in an advisory capacity.

(d) Appointment, transfer, promotion or dismissal of Italian officials.

(e) Italian refugees and partisans.

(f) Derequisitioning of schools, distribution of educational books.

(g) Preservation of monuments and fine arts.

(h) Epuration and defascistization.

(i) Mine Clearance.

(j) Welfare in devastated areas.

2. Economic Section.

(a) Commerce Sub-Commission. Export trade: reprocessing of salvaged clothing and footwear: uncovering of availabilities of local resources.

(b) Industry Sub-Commission. Advice on sugar production: paper production: caustic soda and chlorine: sulphur mining: automobile spare parts: cement and bricks: requisitioning and derequisitioning of factories and industries.

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(c) Public Works & Utilities Sub-Commission. All work on military and secondary highways: reconstruction and maintenance of

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Declassified E.O. 12356 Section 3.3/NND No. 785015

(a) Advice on maintenance of law and order: organisation of police: stimulation Italian Courts of Law, particularly in dealing with offences against Allied troops.

(b) Distribution of medical supplies: assistance in organisation of civilian hospitals.

(c) Treatment of civilian epidemics and diseases such as typhus, smallpox, diphtheria, etc., except that a team of officers stationed in NAPLES may be available to deal with typhus or malaria in an advisory capacity.

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(b) Industry Sub-Commission. Advice on sugar production: paper production: caustic soda and chlorine: sulphur mining: automobile spare parts: cement and bricks: requisitioning and derequisitioning of factories and industries.

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(c) Public Works & Utilities Sub-Commission. All work on military and secondary highways: reconstruction and maintenance of electric power plants and transmission lines.

(d) Food Sub-Commission. Port clearance: checking and reporting of ship unloadings: movement of supplies to the interior: prevention of pilferage: procurement and movement of local resources to devastated areas.

(e) Labour Sub-Commission. Prevention of strikes and labour unrest: wages.

(f) Finance Sub-Commission. Intervention where the Italian Government fail to make financial provision for essential services, many of which affect military interests.

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(g) Transportation Sub-Commission. Coordination of civilian traffic with military traffic: clearance of rail wagons: movements work.

ANNEX "C"

Declassified E.O. 12356 Section 3.3/NND No. 785015

COPY

SECRET

ALLIED FORCE HEADQUARTERS K 68

SAC (P) (45) 4
17th February, 1945

SUPREME ALLIED COMMANDER'S CONFERENCE
(POLITICAL)

NEW DIRECTIVE ON FUNCTIONS OF THE ALLIED COMMISSION

IMPLICATIONS OF FAN 487

Note by Assistant Chief of Staff, G-5

1. The directive from the Combined Chiefs of Staff setting forth the revised policy for Italy is based on the continuation in effect of the Armistice and Surrender Instrument. These instruments, therefore, are to continue to be the basis of the relationships between Italy and the United Nations. The new policy is stated, however, to be that the rights under the Armistice and Surrender Instrument will be held in reserve, subject to overriding military needs, and that the controls provided for will be relaxed in the interests of developing in the Italian authorities greater responsibility and a greater measure of self-sufficiency.

2. In the light of the foregoing, policy directives on political, administrative and economic matters are included. A directive on financial matters is still under consideration.

Political Matters.

3. The relative responsibilities of the Combined Chiefs of Staff and the civilian agencies of the respective governments are generally delineated (paragraph 2 A), it being stated that the directive is not intended to make any change in the responsibility of the Combined Chiefs of Staff, who will continue to transmit directives in regard to the combined views of the two Governments in matters of major policy and on such other matters as are within the scope of the activities of the Allied Commission. The Ambassadors, in addition to dealing with the Italian Government on matters not falling within the foregoing categories, will serve as Political advisors to the Allied Commission, the Political Section accordingly being eliminated.

4. As a step in removing the controls on the Italian Government's external relations, direct relations with foreign diplomatic representatives is permitted (paragraph 2 B). Also, it is stated to be the Allied desire that cultural interchange between Italy and the United Nations be facilitated as far as exigencies of the military situation permit (paragraph 2 F).

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5. In the direction of removing internal controls upon the Italian Government, the present practice of the Allied Commission of approving

Declassified E.O. 12356 Section 3.3/NND No. 785015

1. The directive from the Combined Chiefs of Staff setting forth the revised policy for Italy is based on the continuation in effect of the Armistice and Surrender Instrument. These instruments, therefore, are to continue to be the basis of the relationships between Italy and the United Nations. The new policy is stated, however, to be that the rights under the Armistice and Surrender Instrument will be held in reserve, subject to overriding military needs, and that the controls provided for will be relaxed in the interests of developing in the Italian authorities greater responsibility and a greater measure of self-sufficiency.

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3. The relative responsibilities of the Combined Chiefs of Staff and the civilian agencies of the respective governments are generally delineated (paragraph 2 A), it being stated that the directive is not intended to make any change in the responsibility of the Combined Chiefs of Staff, who will continue to transmit directives in regard to the combined views of the two Governments in matters of major policy and on such other matters as are within the scope of the activities of the Allied Commission. The Ambassadors, in addition to dealing with the Italian Government on matters not falling within the foregoing categories, will serve as Political advisors to the Allied Commission, the Political Section accordingly being eliminated.

4. As a step in removing the controls on the Italian Government's external relations, direct relations with foreign diplomatic representatives is permitted (paragraph 2 B). Also, it is stated to be the Allied desire that cultural interchange between Italy and the United Nations be facilitated as far as exigencies of the military situation permit (paragraph 2 F).

5. In the direction of removing internal controls upon the Italian Government, the present practice of the Allied Commission of approving decrees and legislation and approving appointments in territory under Italian Government jurisdiction is to be abandoned, with certain saving clauses in each case. With the same object, it is laid dwon that all Allied Commission officers stationed in the field in Italian Government territory are to be withdrawn as soon as possible, reserving, however, the right of sending personnel into such territory when Allied interests so require.

6. The previous suggestion of the Combined Chiefs of Staff that arrangements be entered into with the Italian Government looking to the modification of the status of Italian prisoners repatriated to Italy is

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reaffirmed, such status to be terminated only upon terms satisfactory to SAC (paragraph 2 H).

Administrative Matters.

7. While the directive recognizes that the internal organization of the Allied Commission is primarily the responsibility of SAC, guidance is given as to the reorganization of the Commission in certain respects. The policy appears to be to confine the activities of the Allied Commission with respect to the Italian Government territory to advice and consultation (paragraphs 2 A and B). This is to be exercised at high levels and in certain specified instances only when requested by the Italian Governments. The Commission is to be "civilianized" to the extent practicable, except in the case of the service sub-commission and as to functions related to AMG. With respect to the latter, it is suggested that officers dealing with such functions should be physically separated from the AC Headquarters (paragraph 2 D).

Economic Matters.

8. The Economic Section of the directive stresses the necessity of maximum internal production. It reserves the right of the Allied to take the necessary steps if appropriate economic controls are not adopted and implemented by the Italian Government.

9. The economic directive also reaffirms that basic supplies (food, fuel, clothing, medicine, etc.) will continue as a military responsibility for the duration of combined operations. Also specifically made part of the military program are supplies (fertilizer, raw materials etc.) which will reduce imports of basic supplies under the disease and unrest formula. It is made clear, however, that the effect of these supplies need not be felt during the period of combined military responsibility. There are also included as within the military responsibility supplies necessary for the restoration of such of the Italian power systems and transportation and communication facilities as will further the military effort against Germany and Japan.

10. The preparation of the non-military rehabilitation program, to be procured and financed by the two governments through other than military channels, is to be the responsibility of the Italian Government and is to be transmitted to the Combined Liberated Areas Committee through CCAC with comments by the AC, but will not be subject to screening by this Headquarters.

3241

11. The economic section of the directive also contains answers to two of the three questions raised in NAF 778. The reponsibility for the control of inflation is, in line with the general purposes of the directive, made the primary responsibilit of the Italian Government (paragraph 7 A). [illegible] provided (paragraph 7 B) that industrial rehabilitation should be

Declassified E.O. 12356 Section 3.3/NND No. 18515

With respect to the latter, it is suggested that officers dealing with such functions should be physically separated from the AC Headquarters (paragraph 2 D).

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3241

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12. A general saving clause appears (paragraph 8) with regard to shipping. The directive is not to be taken as a commitment in respect of shipping or as affecting the existing procedure for shipping allocations.

13. Detailed directives to the Allied Commission implementing FAN 487 are under consideration in this Headquarters.

(Intd) C.M.S.

S E C R E T

Declassified E.O. 12356 Section 3.3/NND No. 785015

0139

Declassified E.O. 12356 Section 3.3/NND No. 785015

INCOMING MESSAGE

HEADQUARTERS ALLIED COMMISSION

FAR EASTERN
CC. 419

Originator's Reference: F 26406
Date Time of Origin: FEB 132023A

Message Centre No: D/1780
Date Time Rec'd: FEB 140830A
Precedence: ROUTINE

FROM: AFHQ SIGNED SACMED CITE FIGEG FROM SPOFFORD

TO : ACTION HQ ALCOM FOR STONE

SECRET

SECRET.

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

(19)

"With reference to paragraphs 4, 5 and 6, quite aside from technical aspects, U.S. Political Adviser feels that in view of the public statements of the Italian Government (17) the negotiations proposed in TAM 445 will come as something of a disappointment but that nevertheless, weighing all factors and taking into consideration the long run situation, he considers that it is desirable to undertake the proposed negotiations and is communicating his views more fully to WASHINGTON."

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

DIST

ACTION: Chief Commissioner
INFO: A/Iresident
Chief Commissioner
C.o.S.
Finance S/C
Pol Sec
Econ Sec
File & float 3
Hon. Alexander Cadogan
Sir Noel Charles

ACTION

3240

(22)

SECRET

HEADQUARTERS
14 FEB 1945
A

0140

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HEADQUARTERS ALLIED COMMISSION
Office of the Chief Commissioner
APO 394

JAQ/dfe

CC 102

12 February 1945

19

ERRATUM

The following corrections should be made to the Draft Telegram to Combined Chiefs of Staff which dealt with the proposals made in TAM 445.

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

Page 5. Para 7 should read: "As to the establishment of a lira account, all of the same considerations apply but in a reduced form. It is technically desirable but is politically difficult." The remaining two lines of this paragraph are to be deleted.

OK JAQ

J. A. QUAYLE
Major, R. A.
Staff Officer to CC

1201

3239 cc: Mr. Macmillan
General Spofford, G-5 AFHQ
Hon. Alexander Kirk
Sir Noel Charles
CC files

Other copies corrected here:
Finance S/C
COS

21

0141

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FEB 8 1945

Chief Commissioner

HEADQUARTERS ALLIED COMMISSION
APO 394
FINANCE SUB-COMMISSION

1321h/F. 8 February 1945.

SUBJECT: Proposals for Modification of Financial Relations with Italian Government.

TO: Acting President,
Allied Commission.

1. While speaking on the telephone to Comm. Southard yesterday evening, I asked him whether he would be in a position to represent the views of DFIC and the U.S. Fiscal Director at the meeting to be held this afternoon. I said that we would particularly like to learn their reactions to the proposal that the Banca d'Italia should be responsible for supplying lire currency to meet the needs of the Allied forces. Comm. Southard replied that neither he nor they had ever envisaged the direct relationship between the Banca d'Italia and the Military Pay Services, and cited TAM 69 of 6 November 1943, in which the main directive was that AMFA should be converted into AFA. He considered that, under the new proposals, AFA personnel would be responsible for drawing currency from the Banca d'Italia and would issue it as heretofore to the Allied forces.

2. The provisions in TAM 69 to which he refers were based on the premise that the Italian Government was able to make available "such Italian currency as the United Nations may require". As you are aware, some time must elapse before the Italian Government is provided with its own currency; and with the continued use of AM lire, a position would be reached whereby AFA officers would make available to the Banca d'Italia boxes of AM lire which they would then withdraw for use of the Allied forces. In fact it is doubtful whether the boxes of currency in the AFA note stores would ever be transferred to the vaults of the Banca d'Italia. It is clear that no purpose would be served by this complicated arrangement.

(Signed) A.P. Brantley-Smith

Colonel,
Joint Director,
Finance Sub-Commission.

JAPBS/adm.

0142

Declassified E.O. 12356 Section 3.3/NND No. 785015

POLITICAL SECTION.

ALLIED COMMISSION.

TO: The Chief Commissioner. 8th February 1945.

With reference to the Paragraph on the Political Section in the Minutes of the Meeting on February 2nd to discuss the CCS's Directive (FAN 487), I feel very strongly that the abolition of the Political Section should be construed to mean that the Allied Commission should cease to act as, so to speak, the Ministry for Foreign Affairs of the Italian Government. In other words, the Commission would abandon its political functions altogether in so far as foreign countries are concerned and would merely retain them, as the Directive points out, for the purpose of safe-guarding Allied, i.e., Anglo-American, interests on matters of major policy.

This would mean in practice that Government not in relations with the Italian Government would be forced either to resume such relations or to adopt some compromise procedure such as the appointing of Consuls-General, as the Dutch and Belgians have done, or merely maintain relations with the Italian Ministry for Foreign Affairs on an unofficial basis. This would cut both ways, as both the Italians and the foreign countries concerned would be deprived of the good offices and assistance of the Allied Commission which they have heretofore enjoyed, but it would be a step in the direction of normality and it would tend to force both the Italians and foreign countries concerned to compromise in order to secure the satisfaction of their needs.

(HENRY HOPKINSON)

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CC 343

FEB 8 REC'D

HEADQUARTERS ALLIED COMMISSION
Office of the President
APO 394

To: The Chief Commissioner

From: Mr. Macmillan

DIRECTIVE

2. A. Since the old Political Section is to be abolished and the same or other gentlemen will be asked to sit in your office as representatives of the two Embassies (in the same relationship to you as Mr. Kirk and I hold to SACMED), I think it would now be correct for you to ask the Embassies formally to nominate their representatives for this purpose.

2. B. I think the French, Greeks and Yugoslavs should be discouraged from seeing the representatives of the American and British Embassies who will be sitting in your office. If they wish to take up a point with the Italian Government other than through the informal methods which I have no doubt they are now using, they should write officially to you. This is the only way to give reality to the abolition of the Political Section. Instructions should be given to the Political Advisers accordingly.

2. B. Proviso. I would regard it as the formal duty of the American and British Embassies, through their Political Advisers to you, to see to this. No doubt informally Bonomi or the Foreign Secretary will be in touch with you.

2. C. I would agree that SACMED can veto decrees affecting military operations - I read the words "in the territory" as meaning "affecting the territory". Certain Italian decrees may affect A.M.G. territory, and since it is very desirable to co-ordinate policy in territory which will ultimately be transferred, it would be wise to continue informal consultations between the Allied Commission and the Italian Government. This is particularly true of the economic field. Nevertheless, I agree that officers of the Commission should be warned that this does not involve more than cooperation and informal consultation.

/2D.

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2. D. I agree to the suggestions made last night regarding (a) Directors of Communications and Railways being regarded as military; (b) arrangements for the amendment of the formal transfer documents.

2. E. I have been through the proposals attached to the Chief of Staff's minute No. 7002/C03 of the 6th February with the Chief of Staff this morning, and I agree to them in general, subject to the amendments that you have made. Of the four export officers loaned by the British Ministry of Food those that are found necessary to supervise the export of citrus fruits mainly from Sicily (allotted by the Combined Boards to Great Britain) can be assigned to Rome. I will arrange to inform the British Ministry of Food accordingly. The same can apply to the Mining Engineer now in Sicily.

It seems to me that we shall have to inform A.F.H.Q. that they must be responsible for any necessary supervision of public utilities of military importance, e.g. railways, power, highways, etc. through their own officers. They will not like this, but it is inherent in the new directive and has the advantage that when military needs fade out the Italian Government are left in full possession.

2. H. This matter is already under consideration and depends on a scheme being worked out of a satisfactory kind. Progress should be stimulated in view of the new directive and the political implications of this question.

3. A. I take this to mean consultation between Heads of Sections and Directors of Sub-Commissions on the one hand and Ministers and Under-Secretaries on the other.

3. B. I think this is feasible with a little latitude in respect of labour and wage matters which affect A.M.G. territory.

3. D. I think we need not worry about this for the time being.

4. We should leave this matter over for discussion with General Robertson to consider in connection with any general plans for the organisation of the Economic Section when we get our new Head appointed.

/5.

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5 and 6. I welcome the decision to re-submit certain requisitions in the military category and also to get on with the first part of the additional civil category. I think that Clauses 5 and 6 represent a considerable advance.

7. D. appears to me to be rather visionary since, so long as the shipping situation remains as tight as it now is, any additional shipping available should be used for imports under 5 and 6.

9. I suggest we discuss this clause as a separate issue.

Copied to Chief of Staff.

7th February, 1945

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HEADQUARTERS ALLIED COMMISSION

Office of the President

APO 394

23rd January 1945.

Attached is a note of the views which Mr Macmillan has telegraphed to Mr Eden and Lord Halifax about the American proposals to extend the scope of the Macmillan new deal to cover our financial relations with the Italian Government.

J.E.R.W.

Personal Assistant.

5187

File
"New AC Directive"

Although the purpose underlying the proposed changes seems to be more political than technical, it is unlikely that the Italians will get a great kick out of the relaxation of exchange control. It is not a subject which excites much popular interest. A relaxation certainly would not counterbalance the overt and final assumption of a note liability, the future of which is now clothed in some obscurity in the general Italian mind.

Doubt is expressed whether the Italians would welcome it unless the dollar and sterling concessions were made which Signor Gasperi asked for in his memorandum of 9th January; and these are out of the question so far as the British Government is concerned.

It is observed on the exchange control question that C.C.S. by the instance of C.C.A.C. recently instructed the Allied authorities in Italy in the sternest terms to be sure to control not merely lira/dollar and lira/sterling exchange transactions but also transactions into the currencies of neutral countries. It is difficult to reconcile these two points of view.

The two main points in question are

(a) exchange control:
(b) the method of issuing lire for the needs of the Allied forces.

There is general agreement in the Commission that these financial problems could be settled by discussion between the U.S. and British Governments and the issue of a special additional directive to the President without holding up the main document. Further, any directive to the President will not be communicated to the Italian Government, but any agreement by the U.S.Treasury as to (b) above must necessarily be communicated to the Italian Government.

On (a) above there seems to be some confusion. The present machinery of exchange control is being developed with the full agreement of the Italians to be operated <u>not</u> directly by the Italian Government but through the Banca d'Italia as their agent on account of the Treasury. Progress is being made and it would be a mistake to interfere with it. And it is of great importance to maintain in the background the legal power of the Commission to control foreign exchange transactions however much it may be relaxed in practice. Moreover, in the early period of Banca d'Italia's operations a considerable degree of day-to-day supervision will in fact have to be exercised.

On (b) above, the position has somewhat changed from the original lira account proposal. The Quintieri Mission is in Washington on behalf of the Italian Government trying to negotiate a new system under

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On (b) above, the position has somewhat changed from the original lira account proposal. The Quintieri Mission is in Washington on behalf of the Italian Government trying to negotiate a new system under which while in accordance with the requirements of the Armistice terms lira would still be made available to the Allied forces, the obligation would be undertaken by the Banca d'Italia rather than by the Italian Government as a direct budgetary charge. In other words, the Bank would produce the necessary lira and it would be an extra budgetary debt owed by the Italian Government to the Bank. No doubt the purpose of this proposal is to secure that, notwithstanding our rights under the Armistice equivalent dollar and sterling credits should in future be made available. But that is another question and it is not known if the proposal would be withdrawn if such credits were not forthcoming.

It would be wiser to have the financial proposals dealt with separately to the main directive so that they can be fully thrashed out between the British and American Treasuries and if representatives of these are coming to Italy it would be better still to postpone a final settlement until after their visit. By this time the Italian Mission would have returned with much ground explored but no final settlement reached which could be binding upon the British as well as the American Government.

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HEADQUARTERS ALLIED COMMISSION

Office of the President

APO 394.

23rd January, 1945.

Attached is the text of a re-draft of the financial part of the directive which the Americans have produced.

J.E.R.W.

Personal Assistant.

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The United Kingdom and United States Governments are now prepared to discuss with the Italian Government through the appropriate channel, arrangements whereby the issuing authority for all lire currency would be centralised in the Italian Government and whereby the Italian Government would assume full control and responsibility for the Italian Government of the foregoing.

2. In the meantime, you will take the following steps immediately

a. You will arrange with the Italian Government for the establishment of a lire account by the Italian Government to be utilised by Allied forces in payment for supplies, services and facilities in cases where recourse to Italian procurement agencies has been or is impracticable or where the Italian paying agencies are unable or fail to pay within a reasonable length of time for Allied procured supplies.

b. You will suspend control exercised by A.F.A. or by the Finance Sub-Commission of the Allied Commission over Italian external financial transactions. The Italian Government will be required to keep the Allied Commission fully informed of its external financial transactions.

c. You will make available to the Italian Government full information concerning financial activities of A.F.A. subject to the requirements of military security. At this stage possession of books and other records of A.F.A. must be retained by A.F.A. unless release to the Italian Government is specifically authorised by C.C.S.

d. In conformity with the foregoing you will prepare and submit to C.C.S. a plan whereby A.F.A. with such of its present functions as have not been suspended, namely those retained in accordance with the needs of Allied military forces, will be transferred as promptly as possible to the direct supervision and control of A.F.H.Q. with appropriate liaison to be maintained with the Allied Commission.

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HEADQUARTERS ALLIED COMMISSION

Office of the President

APO 394

22nd January, 1945.

Attached is a note of

(a) certain proposals made by the U.S.Treasury and State Department to extend the scope of the Macmillan "new deal" to cover also our financial relations with the Italian Government: and

(b) the preliminary views of His Majesty's Treasury on the American proposals. These views have not yet been put to Washington.

JERW.

Personal Assistant.

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(7)

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ERRATUM.

In the middle of the second sentence of paragraph 5 of the American proposals after "the operational needs of Allied forces" insert "and to supplement requisite procedures of Italian authorities in purchasing supplies and services for Allied military forces in Italy." The sentence continues with "provision for meeting the request of the Italian Government" etc.

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On the 5th January Lord Halifax reported that the U.S.Treasury and State Department felt that the Macmillan "new deal" should not be confined to political and supply fields alone but should also cover our financial relations with the Italian Government. They had, therefore, put forward the following proposals which they considered should be included in the directive to go to the Allied Commission:-

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

2. The control exercised by A.F.A. over Italian external financial transactions, such as payments out of post-liberation accounts in the United States and United Kingdom, should be terminated. The Italian Government should be required, in place of these controls, to keep the Allied Commission informed of its external financial transactions. This will enable the Commission to recommend to C.C.S. the re-imposition of control under the armistice, should it regard such action as necessary.

3. The remaining functions of A.F.A. would then be concerned solely with financial operations of Allied military forces under the direct supervision and control of A.F.H.Q. to which A.F.A. should be transferred as promptly as possible.

4. Full information should be made available to the Italian Government concerning those activities of A.F.A. which will hereafter be the responsibility of the Italian Government. However, books and other records of A.F.A. must not be released by A.F.A. except as specifically authorised by C.C.S.

5. Negotiations through diplomatic channels should be undertaken with the Italian Government with a view to bringing about centralization of all currency issues in the Italian Government or such agencies as it may designate and recognise that the Italian Government or such agency as it may designate, is the issuing authority for A.M. liri now in circulation in Italy. The arrangements made with the Italian Government should include provision for supply of an adequate volume of liri currency and credits to meet operational needs of Allied forces and provision for meeting the requests of the Italian Government for printing and supplying of the necessary quantities of liri currency for all Italian needs. Should adequate quantities of liri currency not be available to military forces at any time, the right would of course be reserved to A.F.H.Q. to use any other currency it deemed desirable.

His Majesty's Government has suggested that to avoid further delay in settling the directive financial questions should be treated independently. In the meantime the British Treasury have formed the following preliminary views on the American proposals:-

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States and United Kingdom, should be terminated. The Italian Government should be required, in place of these controls, to keep the Allied Commission informed of its external financial transactions. This will enable the Commission to recommend to C.C.S. the re-imposition of control under the armistice, should it regard such action as necessary.

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4. Full information should be made available to the Italian Government concerning these activities of A.F.A. which will hereafter be the responsibility of the Italian Government. However, books and other records of A.F.A. must not be released by A.F.A. except as specifically authorised by C.C.S.

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His Majesty's Government has suggested that to avoid further delay in settling the directive financial questions should be treated independently. In the meantime the British Treasury have formed the following preliminary views on the American proposals:-

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(A) Detailed suggestions in paragraph 1 are non-controversial. It is already agreed that the Italians should provide lire for remittances and for procurement of exports. Lire proceeds of sales of imports are indirectly for account of the Italian Government already and there is no reason why the Italian Government should not in future collect them as far as we are concerned.

(B) His Majesty's Treasury are no less anxious than the Americans that the Italian Government should take over the full responsibility for all branches of its affairs as soon as the time is ripe. But it does not follow that because certain political and supply concessions can now be made, we can abandon our powers of control in the field of finance. Mr Macmillan's proposals can be put into effect by unilateral Allied action and all the Italians have to do is decide how to spend their new credits. But a termination of our financial control of exchange transactions as proposed in paragraph 2 of American proposals above would mean that Italians would become solely responsible for policy in a field in which they are weak and it could be satisfactory only if we had reasons for confidence in the integrity

/and

Declassified E.O. 12356 Section 3.3/NND No. 785015

and efficiency of Italian exchange control machinery.

(C) His Majesty's Treasury are now under the impression that such machinery is at present non-existent. The Allied Commission on the other hand are now in the process of building up a system of control through the Banca d'ITALIA which is just beginning to look promising. This system appears to involve maximum devolution of responsibility to the Italians and as far as His Majesty's Treasuryknow supervision of payments could be exercised subsequent to scrutiny as suggested in paragraph 2 of the American proposals if it were not for the rigid procedure of control laid down in paragraph 1 of TAM 396. In the view of His Majesty's Treasury this relationship between the Allied Commission and the Italians, therefore, holds out good prospects of developing an exchange control procedure on which they can rely. To withdraw Allied Commission's formal authority at this stage would surely help neither the Italians nor ourselves and might jeopardise the progress already made. Future progress will be assisted by a gradual and carefully timed delegation of authority as circumstances permit, rather than a sudden and total abandonment for political reasons. It must be remembered that the great financial assistance we are giving to Italy gives us a special claim to see that she does not squander her foreign exchange. Experience in dipolmatic etc. payments in recent months inspires no confidence that she would not do so if left to her own at the present stage. (It is presumed the American proposals would involve abandoning recently agreed machinery for control of diplomatic expenses also). Further as long as the Allies retain an interest in Italian foreign exchange transactions this must be asserted in a general way in Rome rather than in London or Washington.

(D) It has been said that paragraph 2 of the American proposals would still leave Italian funds in the U.S. and the U.K. under the control of the respective Treasuries, that the Italians would be left freedom only as regards their funds in third countries and that whilst this might give them opportunities to conceal some assets or dissipate their funds, on the balance we would stand to gain by the encouragement it would give the Italians to start up their financial and commercial relations with other countries. But His Majesty's Treasury cannot judge individual payments from the Italian angle in London. And as regards machinery His Majesty's Treasury does not intend to control Italian payments out of post-liberation sterling accounts (provided they have been approved in Rome) except transfers outside sterling area. As regards trade with other countries the Allied Commission will in any case encourage this under TAM airgram 24 and there are plenty of obstacles (e.g. shipping, black list) to be overcome as well as finance.

(E) Paragraph 5 of the American proposals. Subject to the Allied Commission advising that confidence in currency is not likely to be shaken, His Majesty's Treasury see no objection to the Italian Government making itself responsible for A.M. lire and controlling their issue. But they think it most unlikely that the Italians would agree to take the whole occupation expenses on to their already unsound budget unless promised something sub-

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prospects of developing an exchange control procedure on which they can rely. To withdraw Allied Commission's formal authority at this stage would surely help neither the Italians nor ourselves and might jeopardise the progress already made. Future progress will be assisted by a gradual and carefully timed delegation of authority as circumstances permit, rather than a sudden and total abandonment for political reasons. It must be remembered that the great financial assistance we are giving to Italy gives us a special claim to see that she does not squander her foreign exchange. Experience in dipolmatic etc. payments in recent months inspires no confidence that she would not do so if left to her own at the present stage. (It is presumed the American proposals would involve abandoning recently agreed machinery for control of diplomatic expenses also). Further as long as the Allies retain an interest in Italian foreign exchange transactions this must be asserted in a general way in Rome rather than in London or Washington.

(D) It has been said that paragraph 2 of the American proposals would still leave Italian funds in the U.S. and the U.K. under the control of the respective Treasuries, that the Italians would be left freedom only as regards their funds in third countries and that whilst this might give them opportunities to conceal some assets or dissipate their funds, on the balance we would stand to gain by the encouragement it would give the Italians to start up their financial and commercial relations with other countries. But His Majesty's Treasury cannot judge individual payments from the Italian angle in London. And as regards machinery His Majesty's Treasury does not intend to control Italian payments out of post-liberation sterling accounts (provided they have been approved in Rome) except transfers outside sterling area. As regards trade with other countries the Allied Commission will in any case encourage this under TAM airgram 24 and there are plenty of obstacles (e.g. shipping, black list) to be overcome as well as finance.

(E) Paragraph 5 of the American proposals. Subject to the Allied Commission advising that confidence in currency is not likely to be shaken, His Majesty's Treasury see no objection to the Italian Government making itself responsible for A.M. lire and controlling their issue. But they think it most unlikely that the Italians would agree to take the whole occupation expenses on to their already unsound budget unless promised something substantial in the way of sterling and dollar backing. There is no question of His Majesty's Treasury being willing to provide this for such a purpose and if it will only give rise to such requests the attempt were better not made. But in any case the Allied Commission should first be asked to report on proposal since His Majesty's Treasury know nothing of the Italian Government's attitude on which everything depends. Judging by their attitude to lira account it will not be encouraging. His Majesty's Treasury are surprised that no mention is made of the new metropolitan lire currency now being produced in Italy and the U.S. which they understand should be ready by the end of this year. Could not the Italians most suitably withdraw A.M. lire in exchange for their new currency and assume responsibility from then on?

(F) His Majesty's Treasury feel that the American proposals reflect the idea that the Allied Commission should be reduced to advisory status under a rigid separation of powers.

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Copy No. 20

HEADQUARTERS ALLIED COMMISSION
APO 394

Ref: A001/COS.

5 January 1945.

Attached is a copy of a paper, "Allied Policy towards Italy", which I wrote and circulated to various Government Departments in London as a basis for my discussions with them during my visit to England a few weeks ago.

The paper was designed only as a preliminary essay and for consumption in London. It must be read in that light. Nevertheless I think that some of my American and British colleagues at Allied Force Headquarters and the Allied Commission will be interested to see it.

H. MACMILLAN,
The Resident Minister,
Central Mediterranean.
Acting President
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Taken from C.C's Out-tray 16-1-45

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S E C R E T. S E C R E T.

ALLIED POLICY TOWARDS ITALY.

Note by the Resident Minister, Central Mediterranean.

PART ONE.

Introductory.

I

Italy, like Gaul, is at present divided into three parts:

(1) Kesselring's Italy, population approximately 21 million, covering about three-eighths of the country.

(2) Liberated Italy, under Allied Military Government. This covers about one-eighth of the country; population about 5 million.

(3) Liberated Italy with Sicily and Sardinia under the Italian Government. This covers about one-half of the country; population about 19 million.

The functions of the Allied Commission extend over these three territories. It must plan forward for Kesselring's Italy. It must plan currently for, and administer, Allied Military Government Italy, both in respect of present needs and in anticipation of restoring the territory to the Italians. It must plan and advise in respect of Italian Government Italy.

Any attempt to place these functions under separate authorities would be unworkable. Indeed, in the latter part of 1943 experience proved this to be the case, and the remedial measures then taken met with general approval.

It is not always recognised that for the greater part of the work of the Commission, with the exception of the Political Section (for which I am making separate proposals) concerns the first two of these territories. Moreover, the advisory duties will tend to decrease for Italian Government territory; although participation in planning of imports, both consumption and capital goods, must necessarily continue. Some degree of inspection must also be maintained in order to secure the maximum use of their own facilities by the Italian Government. This is the normal practice of screening authorities (such as the Middle East Supply Centre, North African Joint Economic Board and other similar bodies) which have operated under the general guidance of the Combined Authorities in Washington.

This situation presents an exceedingly difficult administrative problem. Any reorganisation of the functions and composition of the Allied Commission in order to carry out the new policy towards Italy must have regard to these overriding facts or disaster will ensue.

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II

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covers about one-eighth of the country; population about 5 million.

(3) Liberated Italy with Sicily and Sardinia under the Italian Government. This covers about one-half of the country; population about 19 million.

The functions of the Allied Commission extend over these three territories. It must plan forward for Reconquered Italy. It must plan currently for, and administer, Allied Military Government Italy, both in respect of present needs and in anticipation of restoring the territory to the Italians. It must plan and advise in respect of Italian Government Italy.

Any attempt to place these functions under separate authorities would be unworkable. Indeed, in the latter part of 1943 experience proved this to be the case, and the remedial measures then taken met with general approval.

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II

Apart from the psychological difficulty inherent in maintaining Allied Military Government in a part of the liberated area while allowing the Italian Government to administer the rest, there has been a duality in Allied policy to Italy ever since the signing of the Armistice was followed by the doctrine of co-belligerency. Sometimes we have stood upon one leg - the strict enforcement of Armistice terms upon a defeated enemy; sometimes upon the other - friendship and assistance to a co-belligerent whose relations with us are becoming more and more those of an Ally.

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We must now, I think, take the line that the recent formal change of name from Allied Control Commission to Allied Commission has a real meaning. It should be our purpose only to exercise control where our military needs require it. Whenever possible the function of the Commission should be that of a mission of experts offering advice. If our advice is not accepted, we must shrug our shoulders and allow affairs to take their course. Only in this way can we bring a sense of reality and responsibility to the Italian authorities.

We should now inform the Italian Government that while we propose to hold absolutely to all our rights under the Armistice, and do not intend to discuss any settlement of purely post-war problems (for instance, territorial and colonial arrangements), yet, subject to the overriding military needs for the conduct of the campaign, we shall hold these rights largely in reserve. We shall make the transfer of authority to the Italian Government as great a reality as possible. In consultation with them we shall provide, if they require it, expert advice on such questions as justice, education, fine arts, and the like. If they prefer to do without these experts in their territory, we shall raise no objection. In the more important sphere of finance, labour regulation and wage negotiation, we should strongly urge them to listen to our views, although the principle would be that the final decision would rest with them. Indeed in every matter which is within the competence of the Italians to do for themselves, that is, regulation of their own internal political and economic life, we shall play the role of advisers, except to the extent that the military authorities require to control specific functions or to take over particular properties.

There are, however, two stern warnings which we should not hesitate to give. First, insofar as the scale of Allied imports depends upon the efficiency or otherwise of home production, we must make it clear that we shall have regard to the degree of Italian self-help - within the physical possibilities of their present situation - in fixing the standard of our help to them. Secondly, we must insist on the maintenance of law and order. If security is threatened, in a way to impede or imperil our military operations, we should not hesitate to reimpose military government either in whole or in part. Subject to these provisos, our handing over of control to the Italian Government in their territory should be far reaching and sincere.

PART TWO.

Muting the middle "C".

(The Allied Control Commission has been renamed the Allied Commission).

There are certain specific changes which I recommend in pursuance of this policy. I have discussed them informally with the Chief Commissioner and some of the more important officials of the Commission and we have reached a broad measure of agreement.

I

I propose that the Political section of the Commission be abolished.

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I propose that the Political Section of the Commission be abolished.

This Section, which is managed by an American and British Vice-President of equal rank, belongs to the early post-Armistice period. Then Italian sovereignty was little more than a fiction, resting upon an aged and exiled King, with his little retinue of insignificant courtiers and an impotent if gallant Marshal - muddled in a mediaeval castle in Brindisi, itself the most distant point in Italy which fugitives can reach.

Since that time policy has developed. The Italians have received in Rome an American and a British Ambassador. They are sending their Ambassadors in return to Washington and London. Although there is some fine distinction (in the British, not the American case) between the pre-war and the post-Armistice relations, the ordinary public, not appreciative of the niceties

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of the Protocol, do not easily differentiate between a diplomatic representative with the personal rank of Ambassador and a "right-down regular royal" Ambassador, old style.

Moreover, the Italians are now themselves in direct relations with United Nations and neutral Powers. Interchange of Ambassadors and Ministers is going on at an ever increasing pace, the Latin republics of South America being particularly prominent in this diplomatic pilgrimage to Rome.

In theory all formal communications between the representatives of other Powers and the Italian Government should pass through the Commission, there being no objection to informal and unofficial contacts. This has not applied to Russia; and the United States and British representatives have now notified the Commission of the resumption of direct relations between their Governments and the Italian Government. It would seem, therefore, that to maintain in theory a rule which was never in practice enforced or even capable of being enforced, would be useless and even ludicrous. I propose that we should confirm to the Italian Government that they may have direct relations with foreign representatives accredited to the Quirinal, and at the same time tell them that they will be expected to keep us generally informed on any negotiations in which they may be engaged.

Similarly, in theory all Italian communications to their representatives abroad are made through the Allied Commission. They are either sent in a cypher of which we hold the key or in Allied cyphers. Copies "en clair" are sent to the Political section. In the case however of Russia, messages are sent through Soviet cyphers, no copy being sent to the Commission.

The Soviet representative on the Advisory Council has proposed that the Italian representative in Moscow be given his own cypher. It seems difficult to refuse this request. The question of the provision of independent cyphers for the Italian representatives in London and Washington has been raised by the Italians. It has been referred by the Commission to Allied headquarters and by them to the Combined Chiefs of Staff.

I propose that this request should be granted.

I propose that this privilege should be extended to their representatives in other countries.

The original insistence upon the communication of copies of telegrams to the Political Section was based partly on considerations of military security. But members of the Advisory Council (including Greece, France, and Yugoslavia) have cypher facilities; so has the Brazilian Charge d'Affaires. It is true that other United Nations and neutral representatives accredited to the Quirinal have no facilities; but the representatives of the same Powers at the Vatican have them.

Thus, so far as military news coming out of Italy is concerned, we are already trying to block the channel with a sieve. Another leak or two are of little consequence.

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Thus, so far as military news coming out of Italy is concerned, we are already trying to block the channel with a sieve. Another leak or two are of little consequence.

If these concessions are made, there is no need for the Political Section as such to continue. The function of giving political advice to the Commission can be undertaken by the British and American Embassies. In order to effect this, I have worked out a plan (details of which are given in Appendix A 1) with the British and American Ambassadors in Rome and it has their approval. I propose that it should be put into effect forthwith.

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II

I propose that we surrender the control over Italian legislation in Italian territory.

In point of fact, nothing in the Armistice terms gives the Commission any right to be consulted on all decrees of the Italian Government. In practice, a large proportion of decrees proposed are sent for study and advice by the appropriate Sub-Commission. Sometimes, as in the case of a recent decree raising wage rates, the Council of Ministers approved the decree without prior and detailed approval from the Commission. (I am bound to observe that in this instance my sympathies were with the Italian Government, who as sometimes happens with Governments, could not withstand powerful political pressure fortified only by the theoretical arguments of civil servants and statisticians.) The formal claim to approve decrees is difficult to enforce - as has been proved - since the only remedy would involve the removal of the Minister or the fall of the Ministry. It is wiser, in the new conditions, to rely on moral persuasion and even, when required, pressure; and to develop a normal habit of consultation on matters, particularly economic, when our joint interests are involved or when action taken in Italian Italy must, in fact, be followed in Allied Italy. The formal renunciation of this right to approve decrees, would certainly be welcomed by the Italians.

III

Similarly, I propose that the control of Italian appointments in Italian Italy be modified or surrendered.

Again, it is doubtful whether we have a right to this control under the Armistice terms. But shortly after the first transfer of territory (11th February, 1944) there was an exchange of letters between General Mason MacFarlane and Marshal Badoglio. In effect, by these letters it was agreed that all appointments to the Government and all senior appointments by the Government would be subject to the prior approval of the Commission. I attach in Appendix B.i. a list of offices finally agreed to be subject to this control, so far as the Civil Affairs Section is concerned. It will be seen that it goes down to the Mayors and Town Clerks of towns of 15,000 inhabitants. Appendix B.ii. gives a similar list affecting the Economic Section.

The Italian Government has recently requested that the position be revised. They have submitted a very short list of offices to which this right should apply. It includes Ministers and Under Secretaries of the Government, the heads of the fighting services and so forth (Appendix B.iii).

So far as the approval of officials in Appendices B.i. and B.ii. is concerned, I take it that the chief object was to secure "defascistization" rather than to guarantee efficiency. Indeed, after a country has been for a generation under a Fascist regime, these two purposes may well be contradictory rather than complimentary. While the right of approval has certainly helped to achieve the first purpose, I think it is no longer necessary. Public opinion does not need stimulating on this issue. On the contrary, epuration in Italy (as in other countries) may be pushed dangerously far.

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In practice, Italian nominations are approved almost as a matter of course.

I propose that our control over all the appointments in Appendices B.i and B.ii be surrendered forthwith.

About the list submitted by the Italians themselves I am not so sure, but my inclination would be to surrender this formal right also, and rely on Allied influence and authority only. I feel this all the more as the legal right only rests on this exchange of letters between the General and the Marshal. Although the undertaking given in these letters (Appendix B.iv) is no doubt one of those inherited by the Bonomi Government from its predecessor, yet (unlike the

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short and long Armistice terms which were read and accepted by every member of the new Government) these letters - either by mischance or contrivance - were overlooked.

I therefore urge that we waive the right of approval altogether - with one exception.

A short list should be agreed of Service chiefs - to include Chiefs of Staff and Commanders of formations re-equipped for active service in the field. In their case it would perhaps be wiser to ask that the approval should be obtained of the Supreme Allied Commander or the Combined Chiefs of Staff.

If this recommendation is approved, certain consequential changes will have to be made in the legal documents of transfer of successive provinces from Military Government to Italian Government, since it has been the practice to include in these a clause preventing the removal of any Italians appointed by Military Government authority to posts within the territories concerned.

This is a mere formality.

IV

I propose that local officers of the Allied Commission should be withdrawn from Italian Government Italy.

One of the features of the control which is most apparent to and therefore to some extent resented by the Italians is the presence of local Allied officers in all the regions handed back to Italian control. Since, in many cases, these are the same officers who were functioning during the period of military government, the change from "direct" to "indirect rule" is correspondingly obscured.

The Commission itself, under the two main Sections of General Administration and Economic Affairs, is organised into some twenty Sub-Commissions, corresponding to the various Italian Ministries. In the regions are Regional officers, with specialists from one or other of these Sub-Commissions to assist them. Although a very drastic reduction has taken place recently in the total so employed, this only strengthens the argument for their total elimination. They are now insufficient to govern, but sufficient to interfere. And their presence tends to weaken the sense of responsibility of the Italians themselves.

For instance, during the recent riots at Palermo, it was the Italian prefect who was responsible for calling out the troops, which he did somewhat precipitately. We had a Regional Commissioner who was powerless either to act or restrain action. And the very presence of a Regional Commissioner in Italian administered territory allowed the Italians to pursue the congenial plan of throwing upon us - in the public opinion of the world - a responsibility which belongs to themselves.

It is true that there must be local contacts between the Allied Military and Naval authorities in Italian governed Italy, especially in places where there are still Allied installations. But this function could well be performed by Liaison Officers attached to the various Military Area and District Commanders. Where matters were incapable of local adjustment or when technical

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It is true that there must be local contacts between the Allied Military and Naval authorities in Italian governed Italy, especially in places where there are still Allied installations. But this function could well be performed by Liaison Officers attached to the various Military Area and District Commanders. Where matters were incapable of local adjustment or when technical advice was required (for instance, on transportation and public utilities) special "trouble shooters" could be summoned from the Commission at Rome or, at the request of the Italians, specialist officers made available to them for special duties.

The general view of the senior members of the Allied Commission favours complete withdrawal. The Political Advisers (in the shape of representatives of the Embassies) feel that it is of considerable psychological value. Allied Force Headquarters would have to agree in detail the system of Liaison Officers from the point of view of District and Area Commanders - but I do not anticipate any difficulty in devising a workable plan.

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Undoubtedly, the more the contacts and, where necessary, pressure - between the Allies and the Italian Government can be confined to the centre and at a high level, the better relations will be. Italian Ministers resent the appearance rather than the reality of control. And the withdrawal of officers from the field would enormously enhance the prestige of the Government.

The officers made available - probably some 150 if we begin with Southern Italy and the islands - could be used in the general pool. Some could strengthen A.C. and replace some of whom we would wish to be rid; others would be most valuable for the Northern Regions; those surplus or least competent could be spared altogether.

V

Certain central, as well as local, functions of the Allied Commission in Italian Government Italy should be abandoned altogether.

There are a number of functions of sub-commissions organised to carry them out which can well be surrendered. This does not, I regret, mean that any of these sub-commissions can be liquidated. They must remain for the work in Allied Italy and to prepare the work in Kesselring's Italy. Such are, in the administrative field, Monuments and Fine Arts, Education, Local Government. In the economic field, arrangements are already being made to hand over to the Italians (subject only to inspection) the distribution of food and other supplies in Italian territory.

Here again, this proposal is approved by the leading officers of the Commission.

VI

Changes in the Commission itself have been suggested as likely to emphasise the sincerity of the new policy embodied in recent statements of the President and the Prime Minister. "Demilitarisation has been put forward on this as well as other grounds, and will be discussed in a later section of this paper. In view of the arguments advanced in the introduction, and the importance of the military government aspect of the Commission's work, there is a very definite limit to what can be achieved by this method. But, in general, both by the issue of a new and clear directive and by a re-statement publicly and with great precision of Allied policy towards Italy, the whole conception of the Commission's new purpose and functions in Italian territory can be made effective. We are to be advisers, not controllers; elder brothers to our weak and errant juniors.

All Italians are children. They are naughty - very naughty, sometimes vicious children. But all are children. They must be treated kindly but firmly. In any case, we can take from their ancient literature as our guide a sentiment which we have often thought the peculiar tradition of the Anglo-Saxon race - "Parcere subjectis et debellare superbos".

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To the Italians both parts of this sentence might apply. They were intolerably puffed up; they have been wholly defeated. Justice should now be tempered with mercy.

PART THREE

Allied Commission: Composition and Structure.

I

The introductory paragraphs of this paper explained the three-fold character of the Italian problem. This reflects itself in the somewhat complicated composition of the Commission itself. It has to serve needs arising out of past, present and future military operations. This should influence the approach to the question of demilitarisation, which is being recommended in certain quarters in London and in similar circles in Washington.

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I cannot believe that those who propose rapid or wholesale demilitarisation have understood that three-quarters of the effort of the Commission is necessarily concentrated on those parts of Italy occupied or about to be occupied by Allied armies - that is, what I have called, Allied Italy and Kesselring's Italy.

In Allied military government territory it is really quite impracticable for the organisation to function except with officers in uniform. This will apply until the final stages of the operation. When the enemy have been driven from all Italian territory and when the first check has been taken by the A.M.G. organisation in the rear of our advancing armies, all Italy (except perhaps certain disputed provinces, such as Venezia Giulia), will in due course be returned to Italian control. The Commission can then be almost wholly demilitarised because its sole function will then be to give expert advice to the Italians and to protect our long-term interests under the Armistice.

If the plan for withdrawing local representatives of the Commission as a whole or by stages from Italian Government Italy is adopted, it will automatically reduce the number of military officers employed, or make them available elsewhere. It will also, however, eliminate altogether the one sphere, that is in the regions of Italian-controlled territory, where total "civilianisation" might have been practicable.

If it is agreed that the three Italies must be treated as a whole - and this has not been challenged by anyone who has seriously studied the problem on the spot - then the great majority of the officers of the Commission must be in uniform. The simplest example of the indissoluble character of the Italian problem emphasises the impracticability of any but the most gradual demilitarisation. Oil from Apulia must be moved into the consumers of Naples or the Province of Grosseto; so must wheat from Macerata Province (which is a surplus area) be moved into Italian Government Italy further south. How can any plan be made of rehabilitation of power or productive resources, which does not take into account existing conditions in the two liberated Italies and make some calculation of probable needs in enemy occupied Italy?

"Demilitarisation" is only possible in the Headquarters of the Commission, not in the field. In Headquarters this is already being done to a considerable extent. There are 49 American although only 2 British civilians of officer status in the two key sections, Economic and Civil Affairs. More are being asked for. Brigadier Lush - Chief of Staff - has been occupied recently in London with obtaining additional British civilians for important posts. And there is no objection, in principle, to a further extension. But there are limiting factors to this process. Certain positions, for technical reasons, must be held by military officers. For instance, Allied Military Courts which are set up in different parts of the country, including Italian Government territory, must be manned by military officers since their only sanction is military. It has been found necessary to use these courts as the only effective way of preventing thieving and pilferage of Allied property.

It is very important to allow some degree of flexibility. It is desirable to send officers from Headquarters in Rome into the field and vice versa. Since officials in the field in A.M.G. territory must be in uniform, this consideration clearly limits the extent to which civilians should be introduced to

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It is very important to allow some degree of flexibility. It is desirable to send officers from Headquarters in Rome into the field and vice versa. Since officials in the field in A.M.G. territory must be in uniform, this consideration clearly limits the extent to which civilians should be introduced to Headquarters. In effect, they should be confined to certain posts - mainly senior posts at Headquarters - particularly on the economic side. It may be urged that certain officials - for instance in the Monuments and Fine Arts Sub-Commission in the field might be civilians. Just the opposite is the case. The only hope of doing that early work of salvage on which so much depends is the prestige enabling a soldier to get some materials and labour out of the military at a time when they are naturally preoccupied with the battle. Many a Simone Martini or Giotto has been saved by timely attention - a little roofing or shoring up a frescoed wall. The Professor in battledress masquerading as a Colonel may succeed; in cap and gown (or even flannels) he would scarcely reach the scene of action.

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II

Apart from the question of "demilitarisation" which has so exercised the War Department and the War Office (somewhat strangely, since in our citizen armies so many of the soldiers are but disguised civilians) the chief trouble of the Commission has been absenteeism. For a long period, there has been no Chief Commissioner, and for many months, the Vice President of the Economic Section absented himself. His successor functioned for a few weeks and then returned home. (It may perhaps be worth observing that civilians absent themselves without leave more freely than soldiers). If we are to have any chance of orderly progress, this must cease. There must be introduced a more serious attitude in London and Washington towards appointments to high places. The principle by which the right of appointment to particular posts has been regarded as vested (like an advowson) in one or other Government, is vicious. After due consideration I will suggest some necessary changes in the higher ranks. After that, I trust the promotion and discipline within the body will be left to the Chief Commissioner.

The morale of the Commission has been seriously shaken by these vacillations and uncertainties. And there has been a feeling that their work has been misunderstood and unfairly criticised.

I think that all is now set for a new phase, and I shall make every endeavour (with the help of the Chief Commissioner) to restore and revivify the organisation as a team, loyal both to itself and its duties.

PART FOUR.

The Economic Problem.

I. INTRODUCTORY

It is unnecessary to emphasise the serious situation in which present day Italy finds herself from the economic point of view. Even before the war, in spite of all the effort towards self-sufficiency made by the Fascist regime, the financial and economic position was radically unsound. Budgetary figures were faked or at least distorted to conceal the real facts.

The problem of whether the Italian Peninsula can be made a "going concern" is age-long. Without coal or iron, Italy is not a naturally strong unit. The development of hydro-electric power has to some extent in the last twenty years replaced the necessity for coal imports. But the hydro-electric power of Southern Italy has been greatly reduced; that of Central Italy has almost wholly gone; that of Northern Italy is threatened with total destruction.

Before the war the balance of payments, since imports of all kinds, including wheat and oil, were necessary, could only be kept stable by four means. First, a certain range of exports, chiefly of high-class manufactured goods and some agricultural products; second, tourist traffic; third, emigration; fourth, shipping earnings. The first and last have disappeared. The second has been replaced by a particularly unremunerative form of tourist - the Allied armies - who up to now at least have spent in Italy not dollars or sterling, but A.M.G. lire popularly known under the expressive soubriquet of "phoney dough". Emigration alone has continued in the shape of many hundreds of thousands of

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In addition to all these disasters, the transport and communication system of liberated Italy has been largely destroyed. In Kesselring's Italy it is being daily demolished by the efforts of the Mediterranean Air Force. Railways, bridges, culverts, rolling stock, motor transport, have suffered from Allied and enemy destruction alike. To the extent that these facilities have been replaced they are primarily reserved for military requirements.

All this, of course, is the well deserved punishment for the guilt of their rulers which the Italian people must bear. But more the less these are facts in the situation which cannot be overlooked by their liberators.

In these circumstances, nothing could have kept liberated Italy in existence except a high level of imports of civilian needs hitherto financed, requisitioned and shipped by the Allied military authorities. According to the President's statement of 4th October, 1944, these had to that date amounted to 2,300,000 long tons of civilian supplies of which 1,107,000 were food products.

II

THE IMPORT PROBLEM.

These civilian imports into both sections of liberated Italy have up to now been regarded as a legitimate war expenditure and carried on the military budgets. Their scale has been regulated by the so-called "disease and unrest" formula; that is to say, the Supreme Allied Commander has been required to certify that his requisitions in this field are necessary in order to prevent the outbreak of either one or the other in a manner likely to incommode military operations.

It is believed that the War Department has recently reached the conclusion that even on this scale there was no justification for carrying such expenditure in respect of "Southern Italy" on their budget. This is quite illogical. As already stated, Italy must be treated as a whole. Products must be moved from surplus to deficiency areas without regard to the exact geographical line dividing Allied Controlled Italy from Italian controlled Italy. Moreover, the lines of communication still to some extent traverse the latter territory. It is for this reason that the Commune of Naples is still kept under military government although geographically in a transferred area. In any case, whether these supplies are carried upon a military budget or not, they must be introduced into the country at the expense of the American and British tax-payer. Since they must be requisitioned as a military priority, called for and by military authorities and shipped by the military, it would seem more satisfactory that they should continue to be dealt with on the military account. It is absolutely essential from a practical point of view if we are to obtain delivery.

It is desirable, therefore, that imports of consumption goods and certain capital goods should continue to be imported by the War Department and the War Office for civilian needs in Italy. Moreover, since some continuity of planning is necessary for efficiency, they should be so provided as long as Italy is a theatre of or base for military operations and for a period of say six months thereafter. In addition, the scale of these should be regulated by a more liberal interpretation of the "disease and unrest" formula, and this for two reasons. First, because another year of shortage has greatly increased the need

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III

GENERAL.

It will be seen from the foregoing that the task of those who have to plan for the needs of the Italian people is no easy one. It reminds one of those ingenious puzzles that torture young or old who fall beneath their spell, where it is necessary to entice four mercury balls in a small cardboard box to fall into their respective or appropriate holes. Two may easily be done at once, three often, but the whole four present a formidable test of patience and determination. In this case the four balls are availability of supply, finance, shipping and port acceptability. It has seldom been possible to obtain clearance on all these at once. Yet without some near miracle of concurrent agreement, reasonable planning for the future becomes impossible. Of course it may be urged that there is no reason to worry ourselves unduly about the unhappy position in which the Italians find themselves. Their disasters are their own fault. But this policy, harsh though it might be, would at least have been practicable had it not been for the recent declarations formally made on behalf of the two Allied Governments. To turn now from the path of generosity there marked out is unthinkable. In addition, this more lenient mood seems to me gently in the interests of the world in general. Whatever may be the post-war policy towards Germany, we have accepted Italy into a position different from that of a beaten enemy; we have invented and, to some extent, benefited by the doctrine of co-belligerency; and, from the larger aspect, prosperity like peace is indivisible. The problems that face Italy are serious enough. When we reach the North we shall find large working class populations in Turin and Milan. It will test all our efforts to keep them alive. They will be the first large urban populations in our care situated inland and not upon the seaboard. To bring them food without railways or trucks will present a formidable problem to Allied Military Government. At present, slaves although they may be of German occupation, the factories are running and the people are largely employed. When they are "liberated" the power will probably be destroyed, the factories largely dismantled, the machine tools wrecked or taken to Germany, and the raw materials not available. It will need all the patience, courage and devotion that British and American administrators can give if we are to preserve Italy and her 45 millions of people from collapse into despair, anarchy and revolution. To fail to make the effort because of our grievances against Italy, however justified, may be to have won the war and lost the peace.

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APPENDIX A i

Political Section of the Allied Commission

Proposed Memorandum of Arrangements to be agreed between the United States Government and His Majesty's Government arising out of the establishment of American and British Embassies in Rome, and Italian Representatives in Washington and London.

I

The Political Section of the Allied Commission (formerly Allied Control Commission), which has hitherto consisted of two Joint Vice-Presidents, one American and one British, will be abolished.

In its place, the United States and British Embassies have agreed to make available such facilities as the Commission may require.

The functions of the Advisory Council for Italy will of course remain as laid down in the Moscow Agreement.

II

In order to make this plan effective the following arrangements will be made :

(a) Frequent personal meetings between the Chief Commissioner, the United States Ambassador, and the British Ambassador will continue as heretofore.

(b) In addition, the United States and British Ambassadors will each nominate a senior member of their staff to give political advice to the Chief Commissioner and to the various sections of the Commission on day to day business as it arises. Suitable accommodation will be made available for them at the Offices of the Commission. They will each have an assistant and a small joint secretariat will be established in order to ensure the necessary co-ordination. All papers affecting political problems will be passed to them and their concurrence sought where necessary by the various sections. They will have the title of Political Adviser and be regarded as in every sense members of the Commission.

H.M.

18th November, 1944.

APPENDIX A ii

The technical officers of the Embassies in Rome, that is, the Commercial Counsellor, the Labour Attache and the Press Attache, find themselves in a somewhat difficult position since many of the functions that they would normally perform are in fact carried out by the Allied Commission; and information which they would normally hope to obtain from the Italian Government is only really obtainable from the Commission or some of the Sections of Allied Force Headquarters. On the analogy of the arrangements I have proposed for the Political side described in Appendix A i in my paper, I would propose the following arrangements and would do my best to secure their general support if acceptable to His Majesty's Government.

(1) Economic Section

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(1) Economic Section

I propose that the Economic Section (for which I have to find a suitable American and British head) should have attached to it as advisers the American and British Commercial Counsellors. They would not act in an executive capacity, but would be in a position not dissimilar from that of Directors on the Board of a Company. This would give Mr. Nosworthy a regularised position in the Commission, give him a room there, and allow him to see papers, etc. From my conversations with him, this is what he would like.

(2) Labour Attache.

I would propose that Mr. Brayne become (as has already been suggested by the Commission) head of the Labour Sub-Commission while retaining his position at the

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British Embassy. This proposal was generally agreed, but has now been turned down by London - I understand by the Ministry of Labour. While I quite appreciate the Minister's feeling that the Labour Attache has really important work to do and should be free to accomplish it, I think it should be put to the Minister of Labour that he would be able to do this much more effectively by taking on the additional functions of head of the Labour Sub-Commission than placed as he is now. As head of the Sub-Commission he will be able to have contacts both with the Government and with the Trades Union leaders and play the role which I think Mr. Bevin wishes him to play of assisting to rebuild Italian labour on a properly organized trade union basis. When the Commission withers away, he will continue in his post as Labour Attache with great experience behind him and with great influence. If he merely remains in a detached position he cannot achieve very much; and I am sure it would be to the interests of those purposes which the Minister of Labour has at heart if he were allowed to accept the post of head of the Labour Sub-Commission while of course retaining his position as Labour Attache to the Embassy.

(3) Press Attache.

I am proposing a reorganisation of the Press work in Italian Government Italy and Allied Government Italy. At present P.W.B. is the integrated organ for propaganda under the direct control of A.F.H.Q. The Allied Commission also has a Public Relations Officer and the whole mechanism of propaganda. The relations between those two have never been very happy or a very clear line of demarcation drawn as to their functions. I should like them to be amalgamated so far as Liberated Italy is concerned(both Italian and A.M.G. territory) and operate directly under the Commission. P.W.B. should, I think, retain its functions in respect of Kesselring's Italy where propaganda is a direct instrument of military operations and directed not so much to the Italians as to the Germans. If this reorganisation takes place, I suggest that the Press Officers of the Embassies should be brought in either into the structure of executive control or in an advisory capacity so as to make a proper coordination of effort. On the American side this would present no difficulties. O.W.I. officers would be made available to the Commission. In the case of the British side, a certain number of P.W.B. officers will have to be seconded to the Commission. I am not sure what financial arrangements will have to be made. If they are Army officers on the Mediterranean War Establishment no trouble arises; if they are not, some special arrangements will have to be made. It is clear also that the joint publicity operations of the Commission will be divided into (a) telling the Italians about the American and British war effort, and in particular the work of the Allied Commission; (b) telling foreign correspondents about the work of the Allied Commission. There will be some purely British and purely American propaganda which the British Press Attache and the American Press Attache will have to handle separately. Nevertheless, under the present physical conditions they would be wise to get as much as they can done through the integrated machine, and if they are diplomatic and ingenious they should have no difficulty in this. At any rate this plan must assist and cannot injure the possibility of putting over British propaganda either jointly with the Americans or separately as our own effort.

These proposals have in view -

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These proposals have in view -

(a) To prevent the growth of any divergence between the Allied Commission and A.F.H.Q. and the Embassies.

(b) To utilize to the best advantage the very efficient technical officers which the Embassies can provide.

(c) To give these officers an opportunity of acquiring experience and influence and thereby strengthen their position when the time comes for the Commission to end.

30th November, 1944.

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APPENDIX B i

Civil Affairs Section's Appointments

LEGAL

First Presidents of Courts of Appeal
Consellors of Cassation and Appeal
Procuratori Generali
Sostituti di Procuratori Generali
Presidenti di Tribunali
Procuratori del Re

Primo Pretori (of towns of pop.50,000)

INTERIOR

Prefects
Vice Prefects
Vice Prefect Inspectors
Consiglieri Primo Grado
Consiglieri Secondo Grado
First Secretary to Prefect
Special Secretary
Director of Religious Affairs
Sindaci) of communes of
Town Clerk) pop.15,000

PUBLIC SAFETY

Legion Commanders CC.RR
Legion Commanders Guardia di Finanza
Questori Public Security Service
Regional Directors Prison Service
Commandants (and upwards) Fire Service

EDUCATION

Rectors
Professors (titular)
Presidi of Faculties
Academy Inspectors of schools (local and centralised)
Heads of Divisions in Ministry of Education
Provveditori
Presidi of Schools
Inspectors of Schools
University Lecturers

PUBLIC HEALTH

Chief Medical Officer at Ministry of Interior

APPENDIX B ii

Economic Section's Appointments

SUBJECT:- Level at which Appointment of Italian Officials should be approved by Allied Commission.

FINANCE: All appointments down to the level of Grade 4., Commissari, Direttori Generali, Segretaria Generale of banks; insurance companies and other finance institutions clothed with public interest. Other appointments which the Italian Government may believe to be of interest to the Commission.

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Prefetti Prefetti (of towns of pop.50,000)

Special Secretary
Director of Religious Affairs
Sindaci) of communes of
Town Clerk) pop.15,000

PUBLIC SAFETY

Legion Commanders CC.RR
Legion Commanders Guardia di Finanza
Questori Public Security Service
Regional Directors Prison Service
Commandants (and upwards) Fire Service

EDUCATION

Rectors
Professors (titular)
Presidi of Faculties
Academy Inspectors of schools (local and centralised)
Heads of Divisions in Ministry of Education
Provveditori
Presidi of Schools
Inspectors of Schools
University Lecturers

PUBLIC HEALTH

Chief Medical Officer at Ministry of Interior

APPENDIX B ii

Economic Section's Appointments

SUBJECT:- Level at which Appointment of Italian officials should be approved by Allied Commission.

FINANCE: All appointments down to the level of Grade 4., Commissari, Direttori Generali, Segretaria Generale of banks; insurance companies and other finance institutions clothed with public interest. Other appointments which the Italian Government may believe to be of interest to the Commission.

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PUBLIC WORKS AND UTILITIES: Appointments down to Grade 5 (Ispettore Generale del Genio Civile, Capo Compartimento etc.)

COMMERCE & INDUSTRY: Heads and Deputies of Direzione Generale, titular and managing directors of industrial or parastatal institutions. Vice Commissarios of important companies.

LABOUR: Commissioners of National Insurance Agencies and other national agencies formerly linked into the Fascist cooperative structures concerned with such labour matters as welfare, assistance, protection and safety of workers. Appointments to the position of Regional and Provincial labour Director.

AGRICULTURE: Chiefs of Ministerial Bureaus such as Bonifica and Upsea, Compartimento officials of the rank of Agricultural Inspectors and Consorzio Agrario officials.

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TRANSPORTATION: Director of Mercantile Marine, Principal Inspector of the General Inspectorate of civil motorisation and transportation concessions. Director General of the Italian State Railways.

SHIPPING: Commissarios of the four subsidized Italian steamship companies, "Italia", "Adriatica", "Tirrenia" and "Oriens", formerly "Lloyd Triestino".

FOOD: Direttore Generale dell'Alimentazione and the Head of the Ufficio Nazionale dell-Approvigionamento e Distribuzione Alimentare.

APPENDIX B iii

Italian Government's Proposed List

Ministri e Sottosegretari di Stato
Capo di Stato Maggiore Generale dell-Esercito
Capo di Stato Maggiore Esercito
Capo di Stato Maggiore Marina
Capo di Stato Maggiore Aviazione
Principali Rappresentanti diplomatici
Alto Commissario per l'Epurazione
Vice Alti Commissari per l'Epurazione
Direttore Generale della Pubblica Sicurezza
Commandante Generale dei Carabinieri

Added Suggestions:-

High Commissioners for Sicily and Sardinia.

APPENDIX B iv

Ref: CC/P/134/000.1 10th March, 1944.

Recent events over certain appointments have shown that it is clearly desirable for us to have a mutually satisfactory arrangement to prevent misunderstandings and subsequent difficulties which it is in all our interests to avoid. I would suggest, therefore, that it should be agreed that you will let me know before any appointment to the Government is actually announced. Equally, I should be glad if you will impress upon all the members of your Government that they should, in turn, consult the appropriate authorities in the Allied Control Commission before making any senior appointments in their own departments either at the seat of the Italian Government or in those provinces under Italian jurisdiction. As they already enjoy close and friendly relations with the Sub-Commission with whom they work, this should be an easy matter to arrange. It is clear that each minister must be strictly accountable for all appointments in his department and the arrangement which I propose should be to their interests in carrying out the work which we are doing together.

I should be glad if you will let me know whether you are in full agreement with

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Ministri e Sottosegretari di Stato
Capo di Stato Maggiore Generale dell-Esercito
Capo di Stato Maggiore Esercito
Capo di Stato Maggiore Marina
Capo di Stato Maggiore Aviazione
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I should be glad if you will let me know whether you are in full agreement with the proposals made in this letter. If so, I will give the necessary instructions to the various heads of Sections and Sub-Commissions of the Allied Control Commission as soon as you confirm that members of your government have been notified of our agreement.

NOEL MASON MACFARLANE,
Lieutenant General
Chief Commissioner.

H.E. Marshal Pietro Badoglio
Capo del Governo.

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Salerno, 13th March, 1944.

Dear General,

After having worked with me for quite some time, you know that it is my absolute decision to proceed in any matter in full accord with the Allied Control Commission over which you preside.

With regard to this, at next Thursday's Council of Ministers, I shall give definite orders to the effect that no government appointment be made without previous agreement with the Commission.

I hope that the same feelings prevail with the Control Commission toward us, so that it might be possible to come, in common agreement, to a revision of certain positions given to certain persons in the provinces recently turned over to the Italian Government, and which render nearly impossible a normal functioning of government.

With cordial greetings,

/s/ BADOGLIO.

To General Noel Mason MacFarlane,
Chief of the Allied Control Commission,
Naples.

APPENDIX C

LAC 763 of 19th October, 1944.

Reference AAA 852, LAC 736.

Subject: Bread Ration for Italy.

1. Recent public announcements, which have been given wide circulation in Italy by the press, are interpreted by me to mean that the policy is to provide a 300 gram bread ration immediately; this ration to be nation wide on liberation of the North.

2. Confirmation is requested that my understanding in paragraph 1 is correct and that you wish us to implement this policy.

3. This policy cannot be implemented without increased imports since the import program authorized for the months of November and December is below the monthly scale of imports indicated in paragraph 4 of my letter of 24th September. From a military standpoint the tranquility of the Mediterranean Theatre might be jeopardized if the 300 gram bread ration were not sanctioned.

4. If I am to establish a 300 gram bread ration, there are 2 alternatives:

a. Step up monthly shipments to the level required to produce total imports of 1,500,000 tons during the harvest year. This would mean a monthly program based on all Italy estimated at 165,000 tons from January through June 1945, or beginning [illegible] possible.

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With cordial greetings,

/s/ B.BOGLIO.

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Naples.

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b. Use existing stocks, together with imports under the existing program. The effect of this plan would be to exhaust the amassed grain by 1st March assuming inland transport not a limiting factor. I can only undertake this procedure under an absolute guarantee that stocks so used will be replaced in full to permit continuance of the 300 gram ration until the next harvest season. Without such guarantee I can see nothing but trouble ahead.

5. I recommend the first alternative. However even if approved, I would be unable to announce such a plan prior to the approval of a shipping program to meet it.

6. Your instructions are requested. In the meantime and in any event AMG will step up its efforts to realize maximum local production, particularly in products which may be substituted for wheat, and will continue to tighten up the administration of cereals wherever possible.

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APPENDIX D

NAF 810 of 1st November, 1944.

Civilian supplies for Italy is subject.

In view of the public statements of the President and the Prime Minister, I am proposing to take the following steps.

1. I am arranging for all current requisitions for basic civilian supplies to be reviewed on two assumptions:

First, that they will be provided and financed as heretofore;

Secondly, that they would be framed upon a more liberal interpretation of the "disease and unrest" formula.

2. In addition and in conformity with the joint statement of 26th September and the President's statement of 10th October, I have instructed the Allied Commission to draw up a programme of industrial first-aid. This will be forwarded to you as soon as possible.

3. I am assuming that the necessary finance for (1) will be provided so long as Italy is a Theatre of or Base for Military Operations and for a period of 6 months thereafter.

4. For planning purposes for (2) I am assuming an expenditure commensurate with the sources of new finance outside military responsibilities mentioned in the President's statement, to be spent over a period of 12 months.

I hope this will meet with your approval as I am convinced that this is the right course to pursue.

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SUMMARY OF RECOMMENDATIONS, MADE IN THE NOTE BY THE RESIDENT MINISTER, CENTRAL MEDITERRANEAN, ENTITLED "ALLIED POLICY TOWARDS ITALY".

1. That the Political Section of the Allied Commission be abolished. (Page 2).

2. That the Allied Commission confirm to the Italian Government that they may have direct relations with foreign representatives accredited to the Quirinal. (Page 3).

3. That Italian representatives abroad be given their own cyphers. (Page 3).

4. That the Allied Commission surrender its control over Italian legislation in Italian territory. (Page 4).

5. That the right of approval by the Allied Commission of all Italian appointments in Italian Italy be surrendered except in regard to the appointments of Service Chiefs to include Chiefs of Staff and Commanders of formations re-equipped for active service in the field. (Page 4).

6. That local officers of the Allied Commission be withdrawn from Italian Government Italy. (Page 5).

7. That the functions of certain sub-commissions in respect of Italian Government Italy be abandoned by the Allied Commission. (Page 6).

8. That "demilitarization" is only possible at Headquarters, Allied Commission, and not in the field. (At Headquarters there are a number of limiting factors.) (Page 6).

9. That consumption goods and certain capital goods should continue to be imported by the War Department and the War Office for civilian needs in Italy and that these imports should be maintained as long as Italy is a theatre of operations and base for military operations and for a period of six months thereafter, and that the "disease and unrest" formula should be more liberally interpreted for this purpose. (Page 9).

10. That an additional programme for industrial first-aid be approved, to be financed, so far as the American side goes, from the sources of new finance mentioned in the President's statement of 10th October; His Majesty's Government to contribute a percentage of whatever sum may prove to be in the usual proportion. (Page 10).

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27th NOVEMBER, 1944.

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SECRET.

HEADQUARTERS ALLIED COMMISSION
APO 394.
Office of the Chief of Staff

Ref: 216/COS

21st November, 1944.

MINUTES OF ACTING PRESIDENT'S CONFERENCE - 20 NOVEMBER 1944.

The following Memoranda were submitted in support of the points outlined in the Agenda:-

Memorandum "A" - Functions of the Sub-Commissions of the Civil Affairs Section in Italian Government Territory (By CA Sec).

Memorandum "B" - Future of the Commission (By Chief of Staff).

Memorandum "C" - Approval of Appointments of Italian Officials by the Allied Commission (By CA Section).

Memorandum "D" - Approval of Decrees passed by the Italian Government (By CA Section).

1. Future of the Allied Commission.

A/President asked the meeting to give special consideration as to what the implications were in connection with the removal of "Control" from the title of the Commission. He invited Brigadier Upjohn to read his Memorandum on the functions of the Sub-Commissions of the Civil Affairs Section in Italian Government Territory (Memorandum "A").

There were no comments on the introduction.

PART I.

Para 4(a) - Legal Sub-Com. No comments.

Para 4(b) - Local Government Sub-Com. This Sub-Com is represented in the field by Civil Affairs Officers.

Para 4(c) - Public Safety Sub-Com. A/President asked whether in the event of Allied Public Safety Officers being withdrawn the Public Safety Sub-Com could be incorporated in the Land Forces Sub-Com for purposes of control. The answer was in the negative.

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Para 4(d) - Public Health Sub-Com. Chief of Staff mentioned that the arrival of UNRRA would be of some assistance in the event of the withdrawal of Public Health officers.

Paras 4(e) and (f) were the subject of detailed discussion later in the meeting under Point 2(b) of the Agenda.

The general feeling of the meeting on this point was that many important functions performed by Allied officers in Italian Government territory could not be dispensed with.

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2. Concessions which might be made by Allied Commission in implementation of the Change of Title.

Chief of Staff read out Memorandum "D". Chief Commissioner queried the second sentence in para 2 regarding the exercise of control. He thought that up till recently a good degree of control had in fact existed, as for example, when the price of wheat was decided in May. Later, however, when the Italian Government announced the change in wage rates our control was very nominal. A/President compared the situation to the control exercised by the House of Lords. The discussion then turned to:-

(a) Removal of Officers in the Field from the Islands and Southern Region.

Chief of Staff said that even if we withdrew Provincial Commissioners retention of specialist officers of Economic Section would be necessary. Economic Section were prepared to give up field control and would exercise control from HQ. Finance Sub-Com were in agreement but thought that CCS would need to authorise certain arrangements. Political Section thought that it would be helpful for the overall political position if such officers could be converted to Liaison Officers. A/President said that the functions of our officers were:

(i) to protect our direct military and Allied Commission interests;
(ii) to protect our good name, if, for example, a school or hospital was requisitioned.

Major-General Lewis said that if AC officers were withdrawn it might throw extra functions on to Areas and Districts who would have to be consulted. A/President said that we should have to go sometime, the point was, when, and how little damage need be done. A good instance was the withdrawal of transportation and public utility officers of whom there were 26 in Southern Region. Major-General Lewis said that their withdrawal might be damaging to military interests.

The concensus of the meeting was that officers could be withdrawn from their appointments under the Allied Commission but in several instances would have to be replaced or returned under another name, e.g., as Liaison Officers attached to military formations (District, Area HQ).

(b) Abandonment of certain functions at HQ and in the Field.

Economic Section were prepared to withdraw certain officers in the field, for example, Supply Officers, but not from HQ. In CA Section, Brigadier Upjohn said that Monuments & Fine Arts Sub-Com could be withdrawn from Italian Government territory and the Chief Commissioner approved. Education officers were definitely required in AMG territory. The decision as to whether they could be withdrawn from Italian Government territory depended on whether our policy was to abandon our control of education in Italy. The withdrawal of other Sub-Commissions officers would depend on the decision taken on Point 2(c) in the Agenda.

Chief of Staff thought that control of labour was necessary because of its relation with the armed forces. A/President thought that CCAC would insist on some control as long as they were sending us supplies for distribution in Italy. Chief Commissioner said he thought the two most

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Chief of Staff thought that control of labour was necessary because of its relation with the armed forces. A/President thought that CCG would insist on some control as long as they were sending us supplies for distribution in Italy. Chief Commissioner said he thought the two most vexatious points of control were the control of appointment of officials and submission of Italian decrees for approval by Allied Commission (See Para 2(e)).

The concensus of the meeting was that all Sub-Commissions must remain in order to carry on the functions of Allied Commission in AMG territory and to plan for Kesselring's Italy: but that in respect of some Sub-Commissions (Education, Monuments & Fine Arts) all functions, and in respect of others, some functions, could be dispensed with in dealing with Italian Government Italy unless the Italian Government asked for assistance.

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(c) Demilitarisation.

Colonel Fiske was doubtful whether this proposal had been fully considered in WASHINGTON. A/President referred to three divisions of Italy in two of which uniform was essential, i.e., Kesselring's Italy and AMG territory. Economic Section raised the point of the competency of civilians selected as replacements. A/President asked whether there should be a balance between British and Americans as regards civilian and military personnel. Chief Commissioner said he wished a proper balance. Chief of Staff mentioned the question of exchange of officers. The general opinion of the meeting was that it was impossible for officers in AMG territory to perform their duties unless they were in uniform, and difficult in AC territory. A/President said he thought that there should be a balance maintained between British and American and, as regards interchangeability, that it might be possible to make certain appointments of civilians to posts at HQ, when each case should be decided on its merits.

The concensus of the meeting was that at this stage the appointment of civilians to posts in the field, either in AMG or Italian Government territory, was impracticable and that demilitarisation of the Allied Commission should be confined to certain posts at HQ, the holders of which would clearly remain at HQ, maintaining as far as possible a balance between American and British.

(d) Appointment of Civilian Advisers.

Chief of Staff proposed the appointment of certain civilian advisers to be appointed to Ministries of the Italian Government as servants of the Italian Government, with residual responsibility to the Allied Commission. The general opinion of the meeting was that the adoption of such a measure now would be premature although it might be suitable after hostilities had ceased. Political Section said the Italian Government wanted the reverse procedure - Italian advisers appointed to the Allied Commission. A/President said that if his conception of Allied control was correct, the performance of the Sub-Commissions was to act as advisers. He would prefer the roles to be reversed and for the Italian Government, after the withdrawal of the Allied Commission (at end of hostilities) to come forward with a request for advisers.

(e) Surrender of Control by Allied Commission of Legislation and Appointment of Italian Officials.

(i) Appointment of Italian Officials.

Brigadier Upjohn produced Memorandum "C" on the question of appointment of Italian officials. A/President read this out. Chief Commissioner said that this surrender was the most important contribution AC could make in the elimination of "control" in the eyes of the Italian Government. In Appendix "C" to Memorandum "C" were the appointments which the Italian Government suggested should still be submitted to AC for approval. A/President asked whether we had any right to veto Ministers. Chief Commissioner said that we had by virtue of the secret agreement between General Macfarlane and Marshal Badoglio, which had been recognised by the present Government. A/President asked about diplomatic representatives. Political Section said that the Italian Government now submitted names for heads of missions but not for junior officials. The latter, however, could be controlled if necessary by the withholding of military travel

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A/President expressed doubt as to the propriety of Allied Commission exercising control over appointment of Ministers, but said that this was a matter for the Allied Governments to decide. It was decided to accept List "C" as it stood with a very few additions to be made by Civil Affairs and Economic Section.

(ii) Approval of Decrees.

Brigadier Upjohn produced Memorandum "D" which the A/President read out. After discussion as to our legal rights over the approval of decrees, it was generally agreed that though AC had no specific right to be consulted on all decrees, the Italian Government usually

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submitted the more important decrees for approval, if not before discussion by Council of Ministers, at least before publication. Exceptions to this were the labour wage decree and the decree on the distribution of uncultivated land to the peasants. A/President said that we could not demand to see decrees as a right but it would be useful if we were consulted.

It was agreed that the AC had no legal right and should not attempt to obtain the right to scrutinise decrees, but that the necessary atmosphere of mutual confidence should be built up (sometimes perhaps by exercise of pressure), so that the Italian Government spontaneously submitted draft decrees on important subjects for discussion before they become law.

3. Organisation of the Economic Section.

DCOS, Economic Section, Mr. Antolini, read his paper on the subject of the set-up of his Section, and explained the functions of each Division and Sub-Commission. (Copy of this paper is with the A/President).

(a) Committee of Industrial Reconstruction.

He referred to this Committee as the central authority to which the various Ministries should refer.

(b) Labour Sub-Commission.

The Chief of Staff gave news of a cable just received from TROOPERS cancelling Mr. Brayne's appointment, on the authority of the Ministry of Labour. Amalgamation of this Sub-Commission with the Finance Sub-Commission was discussed but rejected.

(c) Transportation Sub-Commission.

DCOS, Economic Section described this Sub-Commission as having the function of implementing the planning made by the Priorities & Movement Division of his Section Staff.

4. Implementation of General Wilson's MF 810.

(a) Food Position of Italy.

DCOS, Economic Section submitted a paper showing the wheat assets and liabilities and the balance for the North which included all Northern Italy as well as the North-East portion. The A/President asked Mr. Antolini to give him the references of the various letters and signals on which Mr. Antolini based his probable import figure of 788,000 tons from 1 November 1944 through June 1945, as mentioned in Para 11 of the paper. In regard to the amounts of wheat that we might find available in the North when we went in, Mr. Antolini mentioned a figure of 860,000 tons. The A/President asked him for a note on this. Mr. Antolini stressed the importance of obtaining a decision to raise the ration to 300 grams. He mentioned that if it were decided to raise the ration North of the GARIGLIANO it would not be possible to give effect to this before 15 December. The Chief Commissioner endorsed the importance of raising the ration if disorders were to be avoided.

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4. Implementation of General Wilson's NAF 810.

(a) Food Position of Italy.

DCOS, Economic Section submitted a paper showing the wheat assets and liabilities and the balance for the North which included all Northern Italy as well as the North-East portion. The A/President asked Mr. Antolini to give him the references of the various letters and signals on which Mr.Antolini based his probable import figure of 788,000 tons from 1 November 1944 through June 1945, as mentioned in Para 11 of the paper. In regard to the amounts of wheat that we might find available in the North when we went in, Mr.Antolini mentioned a figure of 860,000 tons. The A/President asked him for a note on this. Mr.Antolini stressed the importance of obtaining a decision to raise the ration to 300 grams. He mentioned that if it were decided to raise the ration North of the GARIGLIANO it would not be possible to give effect to this before 15 December. The Chief Commissioner endorsed the importance of raising the ration if disorders were to be avoided.

(b) Miscellaneous Foods.

DCOS, Economic Section produced a paper on this, copy of which is with the A/President:-

(i) Milk.

The A/President asked what was the fresh milk supply in Italy, to which he received the answer - negligible. Mr.Antolini was instructed to give the A/President a note on this.

(ii) Olive Oil.

DCOS Economic Section thought that with successful amassing the oil situation would not be bad.

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(c) Price of Bread.

Mr. Antelini submitted a paper on this, copy of which is with the A/President. After discussion it was agreed that the press release announcing the increase of the price of bread from 5 lire to 6 lire a kilo should be withheld until 1 December. General Spofford hoped that within this period of grace he would receive the approval of the CCS to raise the basic ration to 300 grams. In summing up the A/President stated that the price of bread should not be raised in AMG territory unless a 300 gram ration had been approved therein and that the Italian Government should be strongly urged to follow the same procedure in the territory for which they were responsible.

(d) Proposed plan for Italy under Secretariat of Food.

DCOS Economic Section presented a paper on this, copy of which is with the A/President, who read it through and agreed in principle. Mr. Antelini pointed out that the plan required good administrative personnel. We must, he said, be careful not to hand back territory too soon.

(e) Essential Civilian Requirements.

DCOS Economic Section submitted a paper on this, copy of which is with the A/President. The A/President said that the vital points at issue were, were these requirements to be supplied as a military commitment for all Italy, including the Italian Government portion, or was there to be a distinction between the requirements for Italian Government territory and Allied Military Government territory. The A/President also stressed that there were four important points in regard to this matter:

(i) Finance.
(ii) Availability.
(iii) Shipping.
(iv) Port Clearance.

The first three were the responsibility of the CCS and port clearance was the problem of AFHQ and Allied Commission.

5. UNRRA.

After a short discussion it was agreed that Allied Commission could only accept UNRRA's proposals provided they were self-supporting in respect of:-

(a) Supplies;
(b) Ships;
(c) Transport;

and that adequate facilities existed at the ports for their supplies. Until these were provided, the proposals of UNRRA were not practicable, except in respect of taking over Refugee Camps in the South.

6. Channels of Communication.

General Spofford read a paper, a copy of which he gave to the A/President setting out the personnel and functions of G-5, AFHQ. The A/President said that

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(c) Essential Civilian Requirements.

[illegible] COS Economic Section submitted a paper on this, copy of which is with the A/President. The A/President said that the vital points at issue were, were these requirements to be supplied as a military commitment for all Italy, including the Italian Government portion, or was there to be a distinction between the requirements for Italian Government territory and Allied Military Government territory. The A/President also stressed that there were four important points in regard to this matter:

(i) Finance.
(ii) Availability.
(iii) Shipping.
(iv) Port Clearance.

The first three were the responsibility of the COS and port clearance was the problem of AFHQ and Allied Commission.

5. UNRRA.

After a short discussion it was agreed that Allied Commission could only accept UNRRA's proposals provided they were self-supporting in respect of:-

(a) Supplies;
(b) Ships;
(c) Transport;

and that adequate facilities existed at the ports for their supplies. Until these were provided, the proposals of UNRRA were not practicable, except in respect of taking over Refugee Camps in the South.

6. Channels of Communication.

General Spofford read a paper, a copy of which he gave to the A/President setting out the personnel and functions of G-5, AFHQ. The A/President said that there were some matters which could be handled direct with COS or the CCAO without even a copy to AFHQ, other matters which could be handled direct but with a copy to AFHQ, and that there were, of course, matters of a more technical nature (for instance, G-4 matters) which should continue to be handled by G-5 Section. He directed that General Spofford's paper should be considered by the Allied Commission and specific proposals submitted in due course.

7. Relations between Allied Commission with the Political Section and the Allied Embassies.

The A/President read a paper he had himself prepared on this subject. Reference was made to a letter written by the Chief Commissioner on 5th November, Ref: A/CC 201, on the subject of relations between the Italian Government and the United Nations. The A/President said that as he saw it there were two problems:

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(8)

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(a) Can the Italian Government communicate with other Governments without their communications being scrutinised?

(b) If so, can they use ciphers?

It was agreed that to allow communications but to forbid ciphers really implied prohibition of communications of a secret nature. Mr.Hopkinson said that all outgoing communications of the Italian Government were, at present, read, except in the case of the Russians. Mr.Hopkinson also said there was a technical matter in regard to ciphers to which he would like the A/President to give consideration and on which he promised to submit a note.

CWIS/JG.

Brigadier,
Chief of Staff.

DISTRIBUTION:
Acting President, HQ. AC.
Chief Commissioner, HQ. AC.
Major-General R.G. Lowis, G-4, AFHQ.
Brig-General C.M. Stafford, G-5, AFHQ.
Chief of Staff, HQ AC.
DCOS, CA Section.
DCOS, Economic Section.
DCOS, Establishment Section.
V.P., Political Section (2)
DCOAC, HQ AAI.
Col.Grafftey Smith, Finance Sub-Com.
Files.
Spare (3).

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0207
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NOTES ON AGENDA.

1. Future of Commission.

The Commission has consistently urged that there should be no fundamental change in its organisation until the end of hostilities. This was contained in a Memorandum of July 29th and telegram of September 12th, both sent to AFHQ but, as it is believed, not forwarded by AFHQ to COS. The War Office have received both documents and the War Department certainly the latter through the Embassies in Rome.

There is both in London and in Washington a growing desire on the part of the War Departments to divest themselves of responsibilities regarding rehabilitation in Italy. But however logical may be this desire, the procedure which it is proposed to adopt on either side of the Atlantic bears little relation to reality. The proposal that the Headquarters of the Commission should be demilitarised (with the exception of the Establishment Section) has already been answered by the Chief Commissioner's telegram 8-358 of 4 Nov 44 reached the War Office through diplomatic channels. The other proposal mooted in London that the authority for Allied Military Government in Italy (Answerable through SHAEF to the War Office) should be made distinct from the Allied Commission which it is proposed should be made answerable to the Foreign Office, is equally inacceptable. This point was dealt with in the Memorandum of July 29th, written when the possibility of the total liberation was probable by the end of the year, and the arguments are even more cogent now than before. It would be politically, economically and administratively unsound to attempt to run Italy by two Allied authorities. ~~Lack of co-ordination is the besetting sin of the present Commission and the setting up of two authorities would create chaos.~~

2. It is however, essential that we should put forward some proposals which can be regarded as an earnest to implement the Quebec statements and all that followed since, including the removal of "Control" from the Commission.

It must be remembered, however, (1) that probably nearly 80% of the Commission's work (except in the field of politics) is taken up with AMG problems and forward planning and (2) that the exercise of "control" when it came to the point was really only nominal, at any rate vis a vis the central Government, because the Commission either had no sanctions to impose in order to enforce control or was unwilling to use them.

(a) The physical removal of officers from the Islands and in Southern Region is an obvious and ostensible form of implementation but one which except in part is popular neither with the Italian Government nor with the Allied Military Authorities. The Italians indeed have proposed our abandonment of Calabria and part of Apulia (the territory South of Salerno), by January 1st. But it is doubtful whether the authorities at Caserta would be disposed to complete withdrawal nor, in face of the Calabrian oil situation, whether it would be economically sound. It has been suggested that much of the work could be done by Allied civilians. In this connection it should be remembered that whereas

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in London that the authority for Allied Military Government in Italy (Answer-
able through SACMED to the War Office) should be made distinct from the Allied
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(c) The physical removal of officers from the Islands and in Southern Region is an obvious and ostensible form of implementation but one which except in part is popular neither with the Italian Government nor with the Allied Military Authorities. The Italians indeed have proposed our abandonment of Calabria and part of Apulia (the territory South of Salerno). by January 1st. But it is doubtful whether the authorities at Caserta would be disposed to complete withdrawal nor, in face of the Calabrian oil situation, whether it would be commodiously sound. It has been suggested that much of the work could be done by Allied civilians. In this connection it should be remembered that whereas when a riot occurs in Italian Government territory AC officers are, or should be, powerless to intervene, their very presence does prevent the occurrence of a number of disturbances which would otherwise break out.

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(b) The abandonment of Education and Monuments & Fine Arts has been suggested. This has been discussed at length in CC's 205/COS dated 11 Nov 44 to G-5 AFHQ.

ac 103/cc (c) Demilitarisation has already been dealt with in Chief Commissioners telegram S-356 of 4 Nov. Here again we fall back on to the proposals made on July 29th - very gradual infiltration of civilians. The War Office interpret this as the filling of vacancies as they occur by civilians provided civilians with the necessary qualifications can be found.

(d) The appointment of civilian advisors to the Italian Government is one of the steps advocated by the Commission in their Tel of Sept 12th

(1) AC Berg

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as a post hostility measure. Its immediate adoption could be considered now, would certainly be practicable and probably politic, provided it was made clear that the advisers were the servants of the Italian Government (seconded to the various Ministries) and were not merely members of the Sub-Commissions sitting on the other side of the road. Per contra it might be argued that the imposition of Advisers at this stage smacked of a more rigid control than before but that is a matter for the Italian Government to decide - the concession after all is from us. The presence of such advisers would certainly act as a buffer against any mistaken form of control which members of the Commission might wish to impose on the Italian Government.

(c) Hitherto control has been effected on legislation and appointments of Italian officials. It is probable that much if not all of this should be dropped.

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ECONOMIC SECTION

1. Economic Section Staff

a. Executive.

	1.	Acting Section Head	A. G. Antolini (Civ.) (A)
+	2.	Executive Director	Harlan Cleveland (Civ.) (A)
	3.	Chief Staff Officer	Col. L. D. Densmore (A)

b. Priorities & Movements Division

	5.	Chief of Division	Merritt H. Taylor (Civ.) (A)
	6.	Assistants	Anthony L. Villa (Civ.) (A)
	7.	Assistants	Kenneth E. Stauffer (Civ.) (A)
	8.	Assistants	Major W. A. Sewell (B)
	9.	Assistants	Major F. P. Richardson (B)

c. Supply & Resources Division

+		Chief of Division	Harlan Cleveland (Civ.) (A)
	10.	Deputy Chief of Division	Maj. F. W. Toody (B)
	11.	Chief Requisition Unit	Lt Col.R.A.Martino (A)
	12.	Asst. " "	James E. Hurley (Civ.) (A)
	13.	Price Expert	Henry H. Bakken (Civ.) (A)
	14.	Asst. Price Expert	Capt. F. C. Murphy (A)

d. Administration & Personnel Division.

	15.	Chief of Division	Maj. B. D. Nash (A)
	16.	Staff Officer	Maj. G. E. Sullivan (A)
	17.	Staff Officer	Capt. C. J. Macnamara (B)
	18.	Staff Officer	Lt. C. W. Atkins (B)
	19.	Civ. Per. Officer	David S. Lehman (Civ.) (A)

2. Agriculture S/C.

Director	Leland Allbaugh (Civ.) (A)
Deputy Director	British Civilian to be selected (B)

3. Commerce S/C.

Director	Col. W. E. Evans (B)
Deputy Director	Maj. W. E. Scotten (A)

4. Finance S/C

Joint Director	Col.A.P.Grafftey Smith (B)
Joint Director	Lt Com. J. T. Lawler (A)

5. Food S/C.

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8.	Assistants	Major W. A. Sewell	(B)
9.	Assistants	Major F. P. Richardson	(B)

c. Supply & Resources Division

	Chief of Division	Harlan Cleveland (Civ.)	(A)
10.	Deputy Chief of Division	Maj. F. W. Toody	(B)
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Deputy Director	British Civilian to be selected	(B)

3. Commerce S/C.

Director	Col. W. W. Evans	(B)
Deputy Director	Maj. W. E. Scotten	(A)

4. Finance S/C

Joint Director	Col.A.P.Grafftey Smith	(B)
Joint Director	Lt Com. J. T. Lawler	(A)

5. Food S/C.

Director	Col. W. J. Legg	(B)
Deputy Director	Major J. Lurie	(B)

6. Industry S/C

Director	W. S. Vaughan (Civ.)	(A)
Deputy Director	British civilian to be selected.	(B)

7. Labor S/C.

Director Designate	Brayne	(B)
Acting Director	Col. J. R. Smith	(A)
Acting Deputy Director	Maj. J. O. Babcock	(A)

(6) AC Reorg

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8. P. W. & U. S/C

Director	Lt Col. L. A. Jenny	(A)
Deputy Director	Lt Col. G. M. Rhodes	(B)

9. Transportation S/C

Director	Col. D. S. Adams	(A)
Deputy Director	British officer to be selected.	(B)

10. Merchant Shipping S/C

Director	*	J. J. Greham	(B)
Deputy Director	*	C. W. Kellock	(A)

* Mediterrancan Shipping Board (Italy)

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(9)

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* Mediterranean Shipping Board (Italy)

Deputy Director * O. W. Rollock

(A)

A meeting will be held in the Chief Commissioner's Office from 1100 hours to 1300 hours and 1500 hours to 1700 hours on Monday, 20 November 1944, under the Chairmanship of the Acting President, The Rt Hon H. Macmillan, who has invited the following to attend:-

Chief Commissioner, Allied Commission, Commodore Ellery W. Stone,
Major-General R. Lewis,
Brigadier-General Charles Spofford (1500 to 1700 hours)
Chief of Staff, Allied Commission, Brigadier M. S. Lush,
Deputy-Chief of Staff, Civil Affairs Section, Brigadier G. R. Upjohn,
Deputy-Chief of Staff, Establishment Section, Colonel N. Fiske,
Deputy-Chief of Staff, Economic Section, Mr. A. G. Antolini,
Vice-President, Political Section, Mr. H. Hopkinson,
Financial Adviser, Col. AP. Graftey Smith, Mr. W. Schott,
Secretary - Lt Col G.W.I. Shipp.

AGENDA.

1. Future of the Allied Commission.

To consider the removal of "Control" from the title of the Commission as it applies to the Commission's relations with the Italian Government and the Italian Government's powers. Brigadier Upjohn will submit a memorandum describing the functions of the Sub-Commissions of the Civil Affairs Section in Italian Government territory.

2. To consider any concessions which can be made in implementation of the change of title

(i) In reality

(ii) As "face saving" to the Italian Government, for example:-

(a) the removal of officers in the field from the Islands and Southern Region.

(b) Abandonment of certain functions at Headquarters and in the field.

(c) Demilitarisation of the Commission. Assuming the demilitarisation should not take place until the end of hostilities, as recommended by the Commission, what steps can be taken to prepare for this event.

(d) Appointment of civilian advisers to the Italian Government.

(e) Surrender of control by Allied Commission of Legalation and Appointments of Italian officials.

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Secretary - Lt Col G.W.I. Shipp.

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(d) Appointment of civilian advisers to the Italian Government.

(e) Surrender of control by Allied Commission of Legalation and Appointments of Italian officials.

The Chief of Staff will produce a memorandum on the above points. B

3. To consider the organization of the Economic Section and the nomination of a Vice-President and senior officials or officers at the Headquarters of the Section and in charge of the Sub-Commissions. Deputy-Chief of Staff, Economic Section, will produce a plan of the Economic Section, with names of Directors and Deputy-Directors. Chief of Staff will produce a memorandum on the provision of British civilian staff. C

4. To consider the proposals of the Allied Commission prepared in implementation of General Wilson's NAF 310. Deputy-Chief of Staff, Economic Section, will produce memoranda

(5) File AC Reorg -

Declassified E.O. 12356 Section 3.3/NND No. 785015

(i) on feeding of Italy

(ii) Ration and supply position in Italy (with regard to transfer of responsibilities to Italian Government)

(iii) Joint programming situation

5. To consider the position of UNRRA and representations to be made by the Acting President in London and Washington on this matter.

6. To consider channels of communication between the Allied Commission and AFHQ, COS, CCAC, CLAC, etc. Brigadier General Spofford will submit a Staff study.

7. To consider the relations between Allied Commission, the Political Advisers, and the Allied Embassies, in light of a memorandum drawn up by the Acting President and agreed provisionally with the Embassy and Chief Commissioner.

M.S.L.

Brigadier,
Chief of Staff

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Declassified E.O. 12356 Section 3.3/NND No. 18515

HEADQUARTERS ALLIED COMMISSION
APO 394
OFFICE OF CHIEF COMMISSIONER

Ref: 9/17B/CJ

19 Nov 44.

SUBJECT: Approval of Decrees passed by the Italian Government.

TO: Acting President, Allied Commission.

1. It is desirable that policy should be clarified with regard to the attitude of the Allied Commission in approving decrees proposed by the Italian Government.

2. Up to the present time no definite arrangements have been made with the Italian Government, but in practice a large proportion of decrees proposed by them are in fact studied with the Sub-Commission concerned. It has occasionally happened, however, that some decrees of importance, e.g. the decree raising wage rates, are discussed by the Council of Ministers without receiving prior detailed approval from the Allied Commission, and difficulty has resulted.

3. Although it is comparatively easy to lay down principles and to say that all decrees coming within a certain category must be submitted for approval by the Allied Commission before being discussed at a Council of Ministers, it is exceedingly difficult to work out the detailed application of such principles. For instance, it has been suggested that all decrees which may have the following effects should be submitted for approval to the Commission:-

a) interference with Allied war effort,
b) increase of the degree to which Italy is a drag on the economy of the United Nations, or
c) re-introduction of persons or practices identified with Fascism into the functioning of the economic and governmental machinery.

In practice it is very difficult to determine what decrees fall within the above categories and what do not, and it is for this reason that a decision must be made as to whether or not decrees are to be approved by Allied Commission. If they are to be approved, then to be on the safe side, it is recommended that all decrees should be submitted for scrutiny for determination by AC as to whether or not they are interested.

4. This, however, does not entirely dispense with the question, for within the Commission it is desirable to lay down principles indicating in what decrees we are interested. Plainly any decree effecting the operation of the Armistice terms is one which should receive detailed scrutiny, but this category would not cover a number of decrees in which the Commission would be interested, e.g. decrees affecting overall economic policies, and it

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G. R. UPJOHN, BRIG.
VP C.A. Sec.
D. C.O.S.

(4) DZ Reg

19 Nov.

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HEADQUARTERS ALLIED COMMISSION
APO 394
CIVIL AFFAIRS SECTION

MEMORANDUM

Ref: A/2.1/C4. Fol: 525

SUBJECT : Functions of the Sub-Commissions of Civil Affairs Section in Italian Government territory. 16 Nov 44.

TO: Chief of Staff.

INTRODUCTION.

1. The purpose of this Memorandum is to set out shortly the functions and work performed by the Sub-Commissions in the Civil Affairs Section in Italian Government territory.
   a) In so far as the functions concern Sub-Commissions in Headquarters,
   b) The work of their representatives in the regions.

2. The Sub-Commissions concerned are:-
   Displaced Persons and Italian Refugees,
   Education,
   Legal,
   Local Government Sub-Commission and Patriots Branch,
   Monuments, Fine Arts and Archives,
   Public Health,
   Public Safety.

3. The main body of this Memorandum is divided into two parts, one part dealing with the functions in general of Sub-Commissions in Italian Government territory, and part two dealing with the particular functions which derive directly from presence of Allied troops in Italian Government territory. It is emphasised that this memorandum is NOT concerned with the many and various functions of Sub-Commissions, both at Headquarters and in the field, with regard to Allied Military Government territory.

PART I.

Functions of Sub-Commissions in Italian Government territory.

4. a) LEGAL HEADQUARTERS.
   To act as Legal Adviser to the Chief Commissioner.
   Advise and assist in the drafting of decrees submitted by the various Sub-Commissions in this Commission when negotiations are in progress between Sections of this Commission and the various Italian Ministries.

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of Civil Affairs Section in
Italian Government territory.

TO: Chief of Staff.

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   b) The work of their representatives in the regions.

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PART I.

Functions of Sub-Commissions in Italian Government territory.

4. a) LEGAL HEADQUARTERS.
   To act as Legal Adviser to the Chief Commissioner.
   Advise and assist in the drafting of decrees submitted by the various Sub-Commissions in this Commission when negotiations are in progress between Sebcomm of this Commission and the various Italian Ministries.
   The revising of all cases heard before Allied Military Courts.
   Advise the Chief Commissioner on the approval of the higher appointments to the Italian Ministry of Justice.

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LEGAL SUB-COMMISSION IN THE FIELD.
   To act as Advisers to Regional Commissioners in legal matters and Italian legislation.
   To supervise and sit upon Allied Military courts if such be specially authorised.

b) LOCAL GOVERNMENT SUB-COMMISSION - HEADQUARTERS
   Receive for approval from the Ministry of Interior changes of appointment which concern Prefectorial personnel originally appointed under Allied Military Government.

LOCAL GOVERNMENT SUB-COMMISSION - IN THE FIELD.
   Not represented by specialists

19 Nov. DTC Reorg

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c) PUBLIC SAFETY - HEADQUARTERS.

Advise the Chief Commissioner in all matters pertaining to the maintenance of law and order.

Liaise with Italian Ministry of Interior in all matters connected with the Police forces and Public organisation.

To act as liaison officer on behalf of the [illegible] with the Land Forces Sub-Commission with regard to matters connected with the administration and welfare of that force.

Deal with security matters in all parts of the country in conjunction with the Army Security branches.

Deal with the policy of war movement control as required by Commando operation and security.

PUBLIC SAFETY - IN THE FIELD.

Carry out investigations connected with the movements of individuals, both from a security and welfare angle.

In conjunction with the military forces cooperate with the Italian police agencies for the enforcement of law and order, control of movement, V.D. control, investigations into pilfering and other police matters concerned.

d) PUBLIC HEALTH AND WELFARE COMMISSION - HEADQUARTERS.

Act as advisers to the Chief Commissioner on all public health and welfare matters.

Act as advisers to the Italian Ministry of Interior on public health and veterinary matters.

Act as controllers of the Italian Ministry of Health where questions of epidemics arise.

Advise on policy as to distribution of medical supplies where these are received from allied sources.

PUBLIC HEALTH AND WELFARE COMMISSION - IN THE FIELD.

Act as advisers to the Regional Commissioner on all welfare and health matters.

Advise the Italian agencies concerned in distribution of medical supplies which are furnished from allied sources.

In conjunction with Public Safety and local military Commanders, formulate plans for control of V.D. and epidemic diseases.

e) EDUCATION AND RELIGIOUS AFFAIRS.

Act as advisers when required by the Ministry of Public Instruction on matters concerning education.

Approve the appointment of rectors of universities and the higher functionaries in the Ministry of Education.

Formulate the policy with regard to the expurgation of fascist teachings from textbooks. Arrange with regard to the printing of textbooks.

EDUCATION AND RELIGIOUS AFFAIRS - IN THE FIELD.

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b) [illegible] SUB-COMMISSION - IN THE FIELD.

Who shall see that the policy laid down by the Commission and higher Headquarters with regard to the occupation by Allied troops of ornamental buildings is carried out.

c) PATRIOTS BRANCH - HEADQUARTERS.

No functions.

However, should large numbers of patriots come through the lines this Sub-Commission may have to take in hand the disposal, welfare and care of these persons in conjunction with the Italian Government in the area administered by it.

d) DISPLACED PERSONS SUB-COMMISSION - HEADQUARTERS.

Work in close conjunction with the various international representatives in all matters connected with the welfare and feeding of displaced persons.

Coordinate with other Sub-Commissions of this Commission, and other military Headquarters (both higher and parallel) movement of Italian refugees. This involves both the primary evacuation and the eventual repatriation of these persons.

5. This Section also coordinates the work of the Sub-Commissions concerned in this Section and in the Economic Section with regard to evacuation, mine clearance, and devastated areas. All Sub-Commissions are concerned with supervising execution of the first-named; various other Sub-Commissions are concerned in the other two.

PART II

6. Functions of Sub-Commissions deriving directly from the presence of Allied troops in Italian Government territory.

a) LEGAL SUB-COMMISSION

The setting up and conduction of Allied Military Courts. These are necessary to deal with the cases in which Allied personnel and stores are concerned. All such cases are reviewed in the Headquarters office of the Legal Sub-Commission. It is pointed out that these functions involve a considerable amount of work, and as an instance, the recent necessity for setting up special courts in the Bari area to deal with stealing from the Ammunition dumps is quoted.

b) PUBLIC SAFETY SUB-COMMISSION.

Organise the assistance given by Italian police services to Provost Marshal departments of the armies for the maintenance of law and order among troops and the investigation of cases in which Allied personnel and stores are involved.

Formulating the policy and supervision of the execution of measures taken in V.D. control, and in any matters connected with the control of movement necessitated by outbreaks of epidemic diseases for security reasons.

c) PUBLIC HEALTH SUB-COMMISSION

Determine the requirements and the measures to be taken by the

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military headquarters (both higher and parallel) movement of Italian refugees. This involves both the primary evacuation and the eventual repatriation of these persons.

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b) PUBLIC SAFETY SUB-COMMISSION.

Organise the assistance given by Italian police as aides to Provost Marshal departments of the armies for the maintenance of law and order among troops and the investigation of cases in which Allied personnel and stores are involved.

Formulate the policy and supervision of the execution of measures taken in V.D. control, and in any matters connected with the control of movement necessitated by outbreaks of epidemic disease for security reasons.

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c) PUBLIC HEALTH SUB-COMMISSION

Determine the requirements and the measures to be taken by the Italian Ministry of Interior in connection with epidemic and other disease control.

d) EDUCATION SUB-COMMISSION

Assist the Italian Government and determine the real requirements of the education authorities in cases where educational buildings are about to be, or have been, requisitioned for military purposes.

e) M.F.A. & A. SUB-COMMISSION.

Are the channel through which settlement of cases arising from the occupation by Allied troops of monumental and semi-monumental buildings are made.

Making of inspections of buildings so occupied.

(3)

G.R.UPJOHN, Brig,
VF SA Section,
DCOS.

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10225

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Ref/251/63/005. 19th November 194.

SUBJECT: Work Achieved in London.

TO : Chief Commissioner.

1. The principle with regard to infiltration of British civilian officials into the Allied Commission agreed upon in London was that as suitable vacancies occurred civilians should be sought to fill them: only if wholly adequate civilians could be found should they be selected. It was agreed that

(i) that the number of vacancies occurring would be few
(ii) the possibility of finding civilians of sufficient ability and experience was remote
(iii) quality and not quantity was the criterion.

2. After overcoming these difficulties of general principles I concentrated chiefly on obtaining a co-Executive Director and Deputy Director for the Transportation Sub-Commission. Following is the situation when I left:-

3. Co-Executive Director, Economic Section.

Mr. Brand, S.I.A.C., and Mr Harden, M.W.F. in conjunction with Mr Dennis Harris, have between them proposed three names:-

Mr. Killery of I.C.I.
Mr. Robert Hall, M.W.F.
Mr Wright, M.W.F. in U.S.A.

I have added the names for examination of
Mr E.C. Couldrey and) late Sudan
Mr Elkington) Government, now Ministry of Supply.

Of the above names, Mr. Killery seems to me the best and I hope after an interview on November 18th we shall hear definite news of his acceptance.

4. I have also arranged for the despatch here from Dakar of Mr. Francis of M.W.F. who has been head of the Economic Board in that territory and is recommended for a senior but not the senior British post in the Economic Section. He will shortly arrive for an interview.

/Sheet Two.

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5. Director, Labour Sub-Commission.

I have obtained agreement from all concerned including the Foreign Office for the temporary attachment of Mr Brayne, Labour Attache to the British Embassy, Rome, as Director of the Labour Sub-Commission, provided local arrangements can be made with H.M. Ambassador. I see from the last V.P.S meeting that Mr Hopkinson is already undertaking this.

6. Deputy Director, Industry Sub-Commission.

I have asked here for a man with administrative ability and a technical background rather than a specialist in any one industry. I pointed out during the Conference held on this post that, in my opinion, the Director and Deputy Director of this Sub-Commission should have a small permanent staff and should call forward from time to time from both countries special missions or individuals to deal with special industries. Three names have been submitted and a choice will be made within a week.

7. Deputy Director, Transportation Sub-Commission.

I found here that the warning given to me on all sides that the best civilians were either in uniform or in key jobs was true and I was unable to find a civilian capable of fulfilling the appointment. I have, however, in conjunction with Brigadier Grey Phillipe who was in England, and Brigadier Bicknell, D.D. Tn, War Office, arranged for the appointment of Lt. Colonel Thomas who has M.E. Tn experience in North Africa and is senior official on the staff of the L.N.E.R. He should be arriving shortly.

8. I did not pursue the appointment of civilian legal or judicial officers. The verbal arrangement made with the Director of War Establishment, War Office was that the various ministries of H.M.G. , in co-ordination with Mr. Brand of S.L.A.C., (Ministry of War Production) would submit the names of their choice to the Director of War Establishment, through the Civil Affairs Section of the War Office, and that the Director of War Establishment would then arrange conditions of service etc.

9. It may be necessary for myself, or someone similar, to pay another very brief visit to the U.K., when the various Ministries have selected the men, in order to make certain that conditions of service are in accordance with conditions of life in this country and American conditions.

MSC

Brigadier,
Chief of Staff.

of 57

Copy to : President A.C.
D.C.C.S., Civil Affairs Section
D.C.C.S. Establishment Section
D.C.C.S. Economic Section
V.P. Political Section.

0227

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9m

DRAFT TELEGRAM TO
COMBINED CHIEFS OF
STAFF

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

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

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

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

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

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(19) 2ND DRAFT

See (22) for earlier

See (25) for New Drafts

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1917-1919. Neither the public nor the Government have ever made, so far as we know, any request for acceleration of the date when full responsibility would pass to Italian hands. Moreover, to the extent to which the Allied Governments find it a necessity to make available some foreign exchange either now or in the future to the Italians, they have an interest in securing that the slender foreign exchange resources now at the disposal of the Italian Government shall not be wasted either by improper or imprudent management. You seem to share this view since in several telegrams (TAM 136 and 398 and TAM Airgram 24) you have urged the necessity for exercising control not only on the operation of post-liberation accounts in the United States and the United Kingdom but also in all transactions in the currencies of neutral countries. You may feel that these considerations weigh against any premature relinquishment of controls, meanwhile I shall continue the policy of preparing for transfer to the Italians of full responsibility whenever you may so direct.

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

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at the disposal of the Italian Government shall not be wasted either by improper or imprudent management. You seem to share this view since in several telegrams (TAM 136 and 398 and TAM Airgram 24) you have urged the necessity for exercising control not only on the operation of post-liberation accounts in the United States and the United Kingdom but also in all transactions in the currencies of neutral countries. You may feel that these considerations weigh against any premature relinquishment of controls, meanwhile I shall continue the policy of preparing for transfer to the Italians of full responsibility whenever you may so direct.

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

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X-4605/c

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

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

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currency issue so far from being a welcome concession may well seem to the Italians no advantage since it involves the overt assumption of an armistice obligation which the Government has publically stated it is seeking to avoid. The institution of the lira account proposed last autumn would have meant a budgetary charge to the Italian Government of some fifteen-eighteen billion lire per annum. The new proposal would result in an immediate increase in the debt owed by the Italian Government to the Banca d'Italia, of some fifty billion lire, and a continuing budgetary charge of some five billion lire per month.

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

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

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(See addition for (21))

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7. As to the establishment of a lire account, all of the same considerations apply but in a reduced form. It is technically desirable but is politically difficult. ~~be more informal soundings of the Italians as to how they are likely to react before presenting an official demand.~~

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

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

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

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

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

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

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

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

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

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

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

10. Until otherwise instructed I intend to continue as heretofore.

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DISTRIBUTION:

1- Gen. Lyttford, G-5, AFHQ

2- Messrs. Hilldring (original)

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1- COS file.

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DRAFT TELEGRAM

to

COMBINED CHIEFS OF STAFF.

TAM 445 makes two major proposals. First, that the control of foreign exchange transactions should revert to the Italian Government. Second, that the Italian Government should become the sole issuing authority for all lire currency (including all AM lire now in circulation) whether this is for their own use or to meet their obligations to the Allies under Clause 25 of the Armistice. I support both these proposals in principle since they are in conformity with the developing policy of the Allied Governments towards Italy, which is to place upon the shoulders of the Italian Government those responsibilities normally associated with sovreignty.

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

3. The technique of exchange control, ~~as has been painfully learned in Great Britain and America,~~ is not an easy one. It demands both experience and probity. Neither of these are available in Italy at the moment. Some of the individuals most expert in the matter have unfortunately gone into that ~~area~~ portion of Italian territory at present under

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Acting President of the Control Commission of the Allied Governments. The requests are agreed wise.

now in circulation) whether this is for their own use or to meet their obligations to the Allies under Clause 23 of the Armistice. I support both these proposals in principle since they are in conformity with the developing policy of the Allied Governments towards Italy, which is to place upon the shoulders of the Italian Government those responsibilities normally associated with sovreignty.

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

3. The technique of exchange control, ~~has been painfully learned in Great Britain and America,~~ is not an easy one. It demands both experience and probity. Neither of these are available in Italy at the moment. Some of the individuals most expert in the matter have unfortunately gone into that portion of Italian territory at present under German control. Those who remain behind are suspended and awaiting epuration hearings. We are attempting to expedite these hearings in the hope of obtaining at least a competent nucleus, but this has to be done with considerable care. At the present time the Allied Commission is assisting the Italian Government in developing a machinery of exchange control

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(19) File "New Financial Directive" for Drafts

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which will be operated by the Banca d'Italia as the agents of the Italian Treasury substantially as in the period 1917 - 1919. Neither the public nor the Government have ever made, so far as we know, any request for acceleration of the date when full responsibility would pass to Italian hands. Moreover, to the extent to which the Allied Governments find it a necessity to make available some foreign exchange either now or in the future to the Italians, they have an interest in securing that the slender foreign exchange resources now at the disposal of the Italian Government shall not be wasted either by improper or imprudent management. You seem to share this view since in several telegrams (TAM 136 and 396 and TAM/Airgram 24) you have urged the necessity for exercising control not only on the operation of post-liberation accounts in the United States and the United Kingdom but also in all transactions in the currencies of neutral countries. I would suggest, therefore, that on this issue I continue a policy of preparing for ultimate transfer to the Italians of full responsibility and instruct my officers to achieve this end with the greatest possible rapidity.

You may feel that other considerations weigh against any premature relinquishment of control, presumably Dalton

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

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Italians, they have an interest in securing that the slender foreign exchange resources now at the disposal of the Italian Government shall not be wasted either by improper or imprudent management. You seem to share this view since in several telegrams (FAN 136 and 396 and FAN [illegible]ragram 24) you have urged the necessity for exercising control not only on the operation of post-liberation accounts in the United States and the United Kingdom but also in all transactions in the currencies of neutral countries. ~~I would suggest,~~ ~~therefore, that on this issue~~ I continue a policy of preparing for ~~ultimate~~ transfer to the Italians of full responsibility ~~and instruct~~ my officers to achieve this end ~~with the greatest possible rapidity.~~

You may feel that Italian sensitivities might be aroused by premature relinquishment of control, recommend to Dodd

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

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The fact that Allied Military lire have had to be printed and imported is due purely to the above military circumstance, but I have no doubt that in the minds of both of the public and of the Government, (as evidenced by its recent memorandum), there is a hope that the Allies might be persuaded to make available dollar and sterling credits commensurate with the currency thus created. Since I interpret the main purpose of the two Governments at the present moment as being to sustain ~~and Italian Government~~, I must warn you that this control over currency issue/~~tax~~/seem to the Italians no advantage since it involves the ~~public~~ assumption of an armistice obligation which the Government has publically stated it is seeking to avoid. The institution of the lire account proposed last autumn would, ~~even a direct~~ budgetary charge to the Italian Government of some fifteen-eighteen billion lire per annum. The new proposal would result in an increase in the debt owed by the Italian Government to the Banca d'Italia, ~~an extra-budgetary charge, of a figure which at the current amounts to~~ fifty billion lire, and a ~~direct~~ budgetary charge of some five billion lire per month ~~which if the war continues may well vastly increase the debt to the Banca d'Italia.~~

5. The Italian Government has recently presented a memorandum to the United States and United Kingdom Governments and to the Allied Commission requesting the dollar and/or sterling counterpart not only for all Allied Military lire

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the two Governments at the present moment as being to sustain and Italian Government. I must warn you that this control over currency issue may seem to the Italians no advantage since it involves the public assumption of an armistice obligation which the Government has publically stated it is seeking to avoid. The institution of the lira account proposed last autumn would mean a direct budgetary charge to the Italian Government of some fifteen-eighteen billion lire per annum. The new proposal would result in an increase in the debt owed by the Italian Government to the Banca d'Italia, an extra-budgetary charge, of a figure which at the moments amounts to fifty billion lire, and a direct budgetary charge of some five billion lire per month which if the war continues may well vastly increase the debt to the Banca d'Italia.

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

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this particular moment to make the Italian Government and people resolutely accept their financial obligation. The arguments in favour of doing so are very strong both in logic and in equity: the Italians should face the realities. The issue and control of their own money is the outward and visible sign of a sovereign state, and since at some time or other they will have to swallow this bitter medicine they might as well do so at once. On the other hand, it is arguable that in present circumstances the Italian Government is probably weaker than it will ever be again. At the last crisis it took my Chief Commissioner twelve days to produce an Italian Government, of any kind. If a crisis were precipitated by the proposal in TAM 445 it may be that no Government can be formed at all. I should then have the painful necessity of reimposing Allied Military Government, which would be a source of great embarrassment to us. Moreover, in spite of the grave financial situation of the country, the people retain what has been called an uncritical confidence in the value of the lire. Bank deposits continue, savings are made, contributions to life insurances, friendly societies and the like flow in, and there has been so far no sign of that flight from money into goods, which economists tell us is the first indication of a runaway inflation. I should not like merely for tidiness and logic to do anything to destroy the confidence in the currency, which is indispensable to our military operations.

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6. In view of all these circumstances, while I accept the desirability of the assumption of currency responsibility by the Government, I should like to invite your attention to the fact that this question should not be decided on purely financial or economic considerations, but in the light of the wide issues and grave dangers which I have brought to your attention. In any event, before officially presenting the demand to the Italians, I should like, after hearing your

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7. As to the establishment of a lira account, all of the same considerations apply but in a reduced form. Should the Italian Government accept responsibility for all lira circulation and issue, the creation of a lira account would then, of course, not be objected to. If the larger currency responsibility is not accepted I would be prepared to consider as a separate issue the setting up of the lira account.

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~~them~~, to make informal soundings as to how they are likely to react. before presenting an official demand.

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

A. AFA must continue to provide an adequate volume of ~~other~~ currency to the Allied Forces in Italy regardless of their location with reference to Italian Government or AMG territory. Therefore, if the Italian government assumes responsibility for all currency AFA should not ~~be~~ physically draw currency from the Government or ~~must~~ receive currency from overseas as at present for account of Italian Government but for military use. Moreover, after non-military currency arrives, AFA should retain remaining stocks of all lire and have the right to use them in an emergency.

B. Finance Sub-Commission (including AFA) is in process of ridding itself of financial operations such as mentioned in para 4 of TAM 445 but three months will be necessary to complete this process. Certain operations such as supply and ~~cash~~ accounting, financing of AC/AMG and Advisory Council, must be continued by AC and are in addition to those stated in para 4 c. of TAM 445.

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

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their location with reference to Italian Government or AMG territory. Therefore, if the Italian Government assumes responsibility for all currency it should obtain physically drew currency from the Government or ~~AMG~~ receive currency from overseas as at present for account of Italian Government but for military use. Moreover, after non-military currency arrives, AFN also is to retain remaining stocks of lire and have right to use in emergency.

B. Finance Sub-Commission (including AFN) is in process of ridding itself of financial operations such as mentioned in para 4 of FAO 445 but some months will be necessary to complete this process. Certain operations such as supply and ~~cash~~ accounting, financing of AC/AFN and Advisory Council, must be continued by AC and are in addition to those stated in para 4 B. of FAO 445.

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

9. From paragraph 9 of FAO 447 I was expecting to be asked my views as to the whole problem of giving a greater measure of responsibility in financial matters to the Italian Government. No doubt these proposals will be matters of direct discussion between the ~~two~~ Governments. Nevertheless, FAO 445 deals only with a limited part of the wider ~~field~~. At present the Allied Commission concerns itself ~~to~~ varying degrees between control and advice with many other areas of financial operations. For instance; (a) in the control of

problem of giving a greater measure of responsibility in financial matters to the Italian Govern.

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

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

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

(d) In the field of insurance the A.C. with the Italian Government is attempting to bring about normal operations of domestic insurance but at the same time is retaining a tight control over reinsurance operations, ~~with normally twelve foreign reinsurance and foreign treaties.~~ suitable safeguards as agreed by TWX

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

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10. FAC 487 places on the Italian Government prime responsibility for the control of inflation in Italy. I should like to be

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lower collection costs and in general stimulate the efficiency of the revenue service.

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

(4) In the field of insurance the A.C. with the Italian Government is attempting to bring about normal operations of domestic insurance but at the same time is retaining a tight control over reinsurance operations ~~which normally involve foreign reinsurance and foreign transfers~~.

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

10. FAC 497 places on the Italian Government prime responsibility for the control of inflation in Italy. I should like to be advised therefore whether the financial activities of the Allied Commission as outlined above are to be discontinued except insofar as the Italian Government may elect to consult the Allied Commission.

Until otherwise instructed I intend to continue as heretofore.

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HEADQUARTERS ALLIED COMMISSION
Office of the Chief Commissioner
APO 394

CC 1001

7 February 1945

Reference is made to "Minutes of a Meeting Held to Discuss FAN 487 (Directive from the Combined Chiefs of Staff)" of 6 February. Please make the following amendments to these minutes.

1. The second paragraph on page two should read:

"Admiral Stone directed.....etc.....appointees previously made by AMG officials without reference to the Allied Commission.

2. The third paragraph on page three should read:

"2. (d) It was agreed that Perugia and Terni should be attached to Abruzzi-Marche Region. Brigadier Upjohn suggested that Terni and Ascoli be handed back to the Italian Government."

3. Page 4, Para 6. So much of it as reads "(B) paragraph" should read "(3) program".

cc: Political Section
Economic Section
CA Section
CC Files

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HEADQUARTERS ALLIED COMMISSION
Office of the Chief Commissioner
APO 394

JAQ/dfe

(16)

6 February 1945

MINUTES OF A MEETING HELD TO DISCUSS FAN 487 (DIRECTIVE FROM THE COMBINED CHIEFS OF STAFF)

Present: Colonel Densmore, Mr. Cleveland, Brigadier Upjohn, Colonel Behrens, Lieut. Colonel Campbell, Mr. Schott, Mr. Halford, Colonel Jones, Brigadier Dunlop, Colonel Fiske, Colonel Scudder, Brigadier Lush, and Major Talbot.

1. The Chief Commissioner said that he considered paragraph 1 only as a preamble and a statement of policy.

No other comments.

POLITICAL SECTION

2. (a) The Chief Commissioner pointed out that this was change in form rather than substance, since the same personnel would stay on as Advisers.

Colonel Scudder asked if the Political Advisers would continue to supervise the communications of the Italian Government with its outside representatives.

Admiral Stone pointed out in reply that the Allied Commission had never received an answer to their question as to whether Italians might have the usual cipher and code facilities, since diplomatic relations had been resumed with other countries. It was decided that this point must be taken up with AFHQ.

AFHQ 1

(b) Noted. The Chief Commissioner stressed the necessity of impressing this point on Signor Bonomi.

In reply to a question of Mr. Halford's, Admiral Stone stated that governments not in direct relation with the Italian Government; vis. French, Yugoslav, Greek; would have to maintain such relations as they had through the Allied Commission.

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Mr. Cleveland asked how the phrase "that the Allied Commission is kept generally informed by the Italian Government" was to be interpreted. By a periodic report?

(c) The Chief Commissioner stated that this clause should be conditioned by para 1 [illegible]

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1. The Chief Commissioner said that he considered paragraph 1 only as a preamble and a statement of policy.

No other comments.

POLITICAL SECTION

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Mr. Cleveland asked how the phrase "that the Allied Commission is kept generally informed by the Italian Government" was to be interpreted. By a periodic report?

(c) The Chief Commissioner stated that this clause should be conditioned by para 1, i.e., that "control would be exercised in any decree affecting 'military needs and the requirements of the campaign'."

Brigadier Upjohn maintained that a preview of proposed decrees was necessary not so much as a measure of control, but in order to avoid difficulty in implementation in AMG territory. Brigadier Upjohn believed that it was possible to take a step which would be something less than the present method of approving decrees.

Admiral Stone noted the Brigadier's proposal but said that he wished to impress upon the meeting the necessity for making the Italian Government take responsibility. If the directive was to mean anything, he said, half measures would have to be avoided.

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2. (d) It was agreed that the technical posts of Directors for Communications and Railroads should be considered as military appointments "under the terms of the clause".

AFHQ 2 Admiral Stone directed that the attention of AFHQ be drawn to the necessity of amending "Transfer of Territory Documents" so as to enable the Italian Government to remove appointees ~~in AMG territory~~ without reference to the Allied Commission.

(e) The Meeting then considered the draft directive on "Withdrawal of Allied Commission Officers from Italian Government Territory.

Admiral Stone at this point again urged that he wanted FAN 487 complied with to the utmost, stating that if the directive was wrong, then the only way to show that it was wrong was to comply with it.

AFHQ 3 2. (a)* After some discussion on the desirability of maintaining any officers at all to give advice on the output of the Sardinian coal mines,, it was decided that AFHQ should be informed that the Allied Commission proposed to withdraw all such personnel in compliance with FAN 487 unless desired not to do so by SACMED.

2. (b)* Sicily. It was decided that the export officer should be withdrawn; that the same principle should govern the retention in Sicily of the Regional Mining Officer as affected the Mining Division officers in Sardinia, and that his retention was for AFHQ to decide; that CAO's of Lampadusa and Pantelleria were not affected since they were in AMG territory.

AFHQ 4 When Mr. Cleveland stated that the four export officers were not under the control of the Economic Section although carried on the strength of the Allied Commission, Admiral Stone directed that the attention of AFHQ be drawn to the fact that these men were not in fact working for the Allied Commission but were engaged in exporting unilaterally for the British market.

On Brigadier Upjohn's recommendation it was decided that an officer should be left in both Sardinia and Sicily to supervise the distribution of medical supplies, but that the Italian Government be warned to have their own organization ready by March 31st, on which date the Allied Commission medical supply officers would be withdrawn.

3219 2. (c) (i)* The Meeting took note that the proposed establishment for the composition of staff for AMG, Naples Commune, represented a 75% cut on the existing establishment. It was agreed that the Public Health should be permitted to have three officers instead of two, and Public Safety four officers instead of two (one of these to be Fire Officer).

Economic Section were not prepared to state how many men they desired to keep in the Naples Commune.

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Economic Section were not prepared to state how many men they desired to keep in the Naples Commune.

Brigadier Lush inquired whether the officers engaged in the amassing of olive oil could still function although the Regional Headquarters of Southern Region had been abolished. The details of how this was to be done were left to the next Chief of Staff meeting.

2. (c) (ii)* It was decided that the Bari courts had served their turn and should be closed, thus releasing two legal officers and one public safety officer, though it was suggested that the liaison officer at Bari should be a lawyer.

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Colonel Densmore pointed out the difficulty of stating exactly how many members of the Economic Section it was desirable to retain in Southern Region until the CCS gave authority

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2.(c) (ii)* (continued) to the Allied Commission to turn over to the Italian Government the 400 trucks operating down there, as the responsibility for their maintenance lay with the Allied Commission. The Chief Commissioner directed that a letter on this subject should be written to AFHQ.

AFHQS

Colonel Densmore further pointed out the necessity of retaining an Allied Commission officer to make the necessary bidding for the hauling of supplies on a military operated railway, as the military authorities would be unlikely to permit an Italian representative to bid.

2. (d)* It was agreed that Perugia and Terni should be attached to Abruzzi-Marche Region. Brigadier Upjohn suggested that TERNI and ASCOLI be handed back to the Italian Government.

Colonels Scudder and Densmore were to work out a procedure for the issuance of petrol, tires, etc. -- a function now performed by the Communications officer of Lazio-Umbria Region.

It was decided that the Public Safety Officer, who it was proposed should be attached to Rome Area Command, should have charge of the issuing of passes.

It was decided that the Chief of Staff should discuss with the Regional Commissioner exactly what residue of the Lazio-Umbria Region it was necessary to attach to Rome Area Command.

6. Finally, March 1st was agreed to as a tentative date for the completion of the withdrawal program.

(This finished discussion of the draft directive on withdrawal)

[* CLAUSES OF DRAFT DIRECTIVE "WITHDRAWAL OF AC OFFICERS &c"]

2. (f) The Chief Commissioner pointed out that the implementation of this clause depended upon the repeal or amendment of the Trading with the Enemy Act so far as it affected Italy.

(g) No comments.

(h) Comments of General Browning, Land Forces Subcommission (MMIA) were awaited.

ADMINISTRATIVE SECTION

3. (a) and (b) The Chief Commissioner directed that the contents of these clauses should be impressed upon the Heads of Subcommissions.

(c) No comments.

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ADMINISTRATIVE SECTION

3. (a) and (b) The Chief Commissioner directed that the contents of these clauses should be impressed upon the Heads of Subcommissions.

(c) No comments.

(d) The Chief Commissioner pointed out that the clause was meaningless, since the proposal it contained was not feasible.

ECONOMIC SECTION

4. Mr. Cleveland stated that a memorandum designed to provide for the implementation of this clause had been prepared and was now before the Chief Commissioner.

5. Mr. Cleveland pointed out that this clause was a wider interpretation of the category (A) program, i.e., those goods considered

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necessary to prevent disease and unrest, than the Allied Commission had yet received. To implement it he proposed to re-submit some requisitions that had already been turned down and also to submit a part of a new joint program now being worked out with the Italian Government.

6. Mr. Cleveland pointed out that this clause was in the same way a wide interpretation of the (B) ~~paragraphs~~ i.e., those goods considered necessary yet not falling strictly within the (a) category.

7. (a) On this clause Mr. Cleveland made the comment that it would modify the Allied Commission's price work, and Admiral Stone said that it was in part an answer to the Anti-Inflation recommendations made long ago.

(b) Mr. Cleveland said that steps had already been taken to cannibalize munitions plants.

J. A. QUAYLE
Major, R. A.
Staff Officer to CC

3217 Distribution:

C.C. ✓
C.O.S.
Political Section
Economic "

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HEADQUARTERS ALLIED COMMISSION
OFFICE OF THE CHIEF COMMISSIONER

RC:mew

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My Dear Mr. Prime Minister:-

In order to implement the joint declaration of the President and the Prime Minister of 26 September 1944, the United States and United Kingdom Governments have agreed to relax the control of the Italian Government under the armistice and surrender instrument and only to exercise such control when military needs require. The rights under the armistice and surrender instrument will be held in reserve in the matter of day to day administration, subject to overriding military needs and the requirements of the campaign in Italy.

2. In the light of this agreed U.S.-U.K. policy, the Allied Commission is taking certain steps and is following certain policies concerning which it is desirable that your Government be informed. These steps are described in the paras below, together with an indication of the new procedures which it is proposed to adopt in working with your Government under the new arrangements:

3. The Political Section of the Allied Commission is being abolished as of Feb 45.

Your Ministry of Foreign Affairs will thus have no direct counterpart in the Commission. It will deal with the Chief Commissioner on matters of major policy, and on matters of minor policy and routine business it will address itself to the Economic Section or the Civil Affairs Section of the Commission, whichever may be appropriate to the subject involved. Matters

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control when military needs require. The rights under the armistice and surrender instrument will be held in reserve in the matter of day to day administration, subject to overriding military needs and the requirements of the campaign in Italy.

2. In the light of this agreed U.K. policy, the Allied Commission is taking certain steps and is following certain policies concerning which it is desirable that your Government be informed. These steps are described in the paras below, together with an indication of the new procedures which it is proposed to adopt in working with your Government under the new arrangements:

3. The Political Section of the Allied Commission is being abolished as of Feb 45.

Your Ministry of Foreign Affairs will thus have no direct counterpart in the Commission. It will deal with the Chief Commissioner on matters of major policy, and on matters of minor policy and routine business it will address itself to the Economic Section or the Civil Affairs Section of the Commission, whichever may be appropriate to the subject involved. Matters involving the travel of diplomatic and other public officials will hereafter be dealt with on behalf of the Commission by the

4. The Italian Government will continue, as at present, to have direct relations with foreign diplomatic representatives accredited to the Quirinal. It is absolutely necessary, however that the Allied Commission be kept generally informed by the Italian Government of any negotiations in which they engage with other Governments.

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Insofar as these negotiations have to do with economic and financial matters, this requirement will be met by keeping the Economic Section and its Finance Sub Commission informed of the progress of such negotiations. On policy matters, this might appropriately be done through the weekly meetings held between the Economic Section and the Interministerial Committee for Reconstruction, at which the Ministry of Foreign Affairs is generally represented.

We may also wish to work out jointly an arrangement for the preparation by the Italian Government of a periodic summary of negotiations completed or pending with other governments.

5. The Allied Commission will no longer give formal approval to decrees and other legislation enacted by the Italian Government in the territory under the jurisdiction of the Italian Government.

We would however desire to work out with your Government a procedure for making sure that this Commission is properly informed of proposed decrees some time before their enactment, in order to enable us to consult with you as to their applicability to territory under the jurisdiction of Allied Military Government (AMG), and to lay plans for their effective implementation in such territory when appropriate.

6. The Allied Commission will no longer give formal approval to any Italian appointments, whether to national or local offices, in territory under the jurisdiction of the Italian Government, except with regard to the attached list (Appendix "A") of positions having military significance.

7. The Allied Commission will as soon as possible withdraw all its

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pursuit by the Italian Government of a periodic summary of negotiations completed or pending with other governments.

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We would however desire to work out with your Government a procedure for making sure that this Commission is properly informed of proposed decrees some time before their enactment, in order to enable us to consult with you as to their applicability to territory under the jurisdiction of Allied Military Government (AMG), and to lay plans for their effective implementation in such territory when appropriate.

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7. The Allied Commission will as soon as possible withdraw all its officers, stationed in the field in the territory under the jurisdiction of the Italian Government. However, the Allied Commission will send its representatives into territory under the jurisdiction of the Italian Government when it considers such action necessary.

In line with this policy, it is intended to abolish by 1945 the Regional Offices of the Allied Commission for Sicilia, Sardegna, Southern Lazio-Umbria, and Abruzzi-Marche Regions.

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For a limited period certain specialist officers on economic functions will remain in territory under the jurisdiction of the Italian Government. A list of such specialist officers, and their functions, will be notified to you shortly.

It is also intended to retain teams of AMG officers at Naples and in the provinces of Reggio-Calabria and Abruzzi Marche Regions which are still under the jurisdiction of Allied Military Government.

8. It is the desire of the Allies to encourage free trade in knowledge and learning with the Italian people as far as the exigencies of the military situation permit, arrangements will be facilitated for the flow of books and other publications of a scientific, political, philosophical and artistic nature between Italy and the United Nations and for the movement of scholars, artists and professional men between Italy and the United Nations.

9. It is the desire of the Allies to encourage the holding of elections for local public offices in territory under the jurisdiction of the Italian Government.

10. The status of Italian Prisoners of War now or hereafter held in Italy other than those captured since the armistice was signed will be terminated upon adequate assurance being given by the Italian Government that their services will continue to be made available on terms satisfactory to the Supreme Allied Commander subject to Combined Chiefs of Staff approval.

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(Procedure for Implementation?)

11. In general, the staff of ACSC will occupy itself with respect to territory under the jurisdiction of the Italian Government, primarily with consultation and advice to the Italian Government.

12. It is our intention to ascertain the views of the Italian Government as to the extent to which the advisory functions of the Education, Monuments and Fine Arts, Local Government, Legal, and Labor Subcommissions should continue to be performed.

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13. It is necessary that the maximum production and effective and equitable distribution and control of consumption of local resources possible under existing conditions be secured. To this end and as a prerequisite to increased economic assistance it is essential that the Italian Government formulate and implement appropriate economic controls and take all other steps possible. In the event that these conditions are not met the Allied authorities will not hesitate to impose the necessary controls or take other appropriate measures.

14. In the joint program of essential Italian imports, now being prepared by the Interministerial Committee for Reconstruction and the Economic Section of this Commission, there will be some supplies for which the combined US-UK military authorities will assume responsibility (Category "A"), and other supplies for which the military do not assume responsibility (Category "B"). For your information a definition of the supplies which fall into Category "A" follows:

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

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

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or take other appropriate measures.

14. In the joint program of essential Italian imports, now being prepared by the Interministerial Committee for Reconstruction and the Economic Section of this Commission, there will be some supplies for which the combined US-UK military authorities will assume responsibility (Category "A"), and other supplies for which the military do not assume responsibility (Category "B"). For your information a definition of the supplies which fall into Category "A" follows:

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

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

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15. The program for which the military authorities assume responsibility will be maintained for the duration of combined (U.K.-U.S.) operations in Italy. For this period, and within the limits defined in para 14, Italy will be treated as a whole.

16. In addition to the program of supplies for which the military assume procurement responsibility (Category "A") it will be our intention to assist your Government in the preparation of programs of supplies designed to rehabilitate Italian industry. Such programs, which we refer to as Category "B", are to be handled under procedures already notified to you in my letter of . It has been agreed that the purchasing authorities of supplies in Category "B" programs should immediately be undertaken, without reference to the present difficult shipping position, in order that the supplies so purchased may be called forward as and when shipping space becomes available.

17. It is the desire of the Allies that industrial rehabilitation in Italy be carried out by the Italian Government to the fullest extent permitted by Italian resources and such supplies as it may be possible to import under the terms of paras 14, 15, 16 above, and subject to the limitation in para 20 below. The sole exception to this principle is to be made in the case of industries where the production or repair of munitions or other implements of war, which should be rehabilitated only to the extent required by the Supreme Allied Commander in the discharge of his military mission, and to the extent necessary to further the military effort in other theatres. It is com-

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designed to rehabilitate Italian industry. Such programs, which we refer to as category "B", are to be handled under procedures already notified to you in my letter of . It has been agreed that the purchasing on of supplies in Category "B" programs should immediately be undertaken, without reference to the present difficult shipping position, in order that the supplies so purchased may be called forward as and when shipping space becomes available.

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18. It is desired to make clear that the prime responsibility for the control of inflation in Italy, including the imposition and administration

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of the appropriate financial controls and economic controls, and appropriate utilization of supplies, rests with the Italian Government. In considering CORRESPONDENCE, as in others, the AC Embassy is ready to advise and assist you.

19. The extent to which exports are to be stimulated and the development of machinery to handle export trade are for determination by the Italian Government. For this time being, the Italian export program will necessarily be dictated by certain shipping, military, financial, and supply factors which are controlled by the Allied Governments for purposes connected with the prosecution of the war. The applicability of these factors to individual programs is to be marked out between your Government and our Economic Section, along the lines already discussed by the Economic Section with the Intermediate Committee for Reconstruction.

20. Nothing in this letter should be taken as constituting a commitment with respect to shipping. Any supplies to be imported into Italy must be transported within such shipping restrictions as may be allocated from time to time.

Italian Government. For the time being, the Italian export program will necessarily be limited by certain shipping, military, financial, and supply factors which are controlled by the Allied Governments for purposes connected with the prosecution of the war. The applicability of these factors to individual programs is to be worked out between your Government and our Economic Section, along the lines already discussed by the Economic Section with the Interministerial Committee for Reconstruction.

2. Nothing in this letter should be taken as constituting a commitment with respect to shipping. Any supplies to be imported into Italy must be transported within such shipping ~~xxxx

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SECRET.

HEADQUARTERS ALLIED COMMISSION
APO 394
Office of the Chief of Staff

Ref: 4001/C03.

6 February 1945.

Chief Commissioner.

I submit notes on FAN 487 which may be of assistance to you at this afternoon's meeting.

M.S.C.

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SECRET.

HEADQUARTERS ALLIED COMMISSION
APO 394
Office of the Chief of Staff

6th February 1945.

NOTES ON COMBINED CHIEFS OF STAFF DIRECTIVE FAN 487.

Para 1. The words "only to exercise such control when military needs require it" are, of course, open to fairly wide interpretation. Administration of railways, maintenance of highways, turn-round of shipping, reporting of local resources, establishment of Allied Military Courts, are all matters which could be considered as military needs in respect of which military authorities might wish to exercise control.

Para 2(a) I understand that the intention is that the change should take place only in name and that the method of obtaining advice from the US and UK Ambassadors in Rome will be through the same media as are now employed. In other words, Mr.Schott and Mr.Hopkinson will have their office in the Commission but as the representatives of the Ambassadors rather than the servants of the Chief Commissioner.

Para 2(b) It will presumably be the duty of the political advisers to ensure that the Italian Government fulfil their responsibilities in this connection.

Para 2(c) It is presumed that SACMED retains the right to veto degrees affecting military operations such as the establishment of the Ministry for Occupied Territories.

Para 2(d) The Service Sub-Commissions should be required to submit their views on this and I understand Land Forces Sub-Commission are already doing this.

Para 2(e) A draft directive has been prepared for discussion.

Para 2(f) This must be brought into consideration when deciding on the future of the Education Sub-Commission which, in my view, must remain in order to deal with Allied Military Government.

Para 2(g) No comments.

Para 2(h) The Italian Government have already submitted a rather nebulous scheme under which the services of POW will continue to be made available. This is now under consideration by WMD & IPW Sub-Commission and Land Forces Sub-Commission.

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Para 3(a) "High levels" requires definition: presumably Heads of Sections and Directors of Sub-Commissions with Ministers and Under-Secretaries.

Para 3(b) No comments on Education, MFAA and Local Government. With regard to Labour, pressure will sometimes have to be brought to bear in order to coordinate labour and wage decrees with military requirements. Pressure will also have to be brought from time to time on the Italian Government with regard to judicial matters in which military interests are affected.

Para 3(c) This is now being done.

Para 3(d) This is impracticable.

Para 4. We shall probably find strong pressure from the military authorities to exercise control in order to ensure the proper distribution of local resources but the inclusion of Italian representatives on the AFLRB and its committees will be a step towards ensuring our chief objects.

Para 5(a)
Para 5(b)
Para 5(c) We might take the opportunity of reviewing our requisitions for these essential supplies.

Para 6. You will remember that the CAO was doubtful about direct communication between the AC and CCAC but I think he will be satisfied if/we send copies of our requisitions. Requisitions will have to be screened by ourselves in order to prevent exaggerated amounts but the penultimate paragraph is important.

Para 7(a) No comments.

Para 7(b) No comments.

Para 7(c) Presumably envisages the setting up of an Italian organisation to deal with purely commercial imports.

Para 7(d) I can see no machinery at the moment by which imports can be controlled except through the Allied Commission, but we can wait and see.

Para 8. No comments.

Para 9. CAO promised to send copy of the financial telegram which, of course, should have arrived from C-5 days ago.

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HEADQUARTERS ALLIED COMMISSION
APO 394
Office of the Chief of Staff

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Ref: 4001/CCS. 5 February 1945.

SUBJECT: New Directive from CCS on the Allied Commission.

TO : VP, CA Sec
VP, Pol Sec (2)
VP, Econ Sec
VP, Est Sec
Director, Comms Sub-Com
" WMD & IPW Sub-Com.

is
1. Attached/copy of the new directive from the Combined Chiefs of Staff addressed to the Supreme Allied Commander.

2. The Chief Commissioner will discuss the implications of this directive with you at 1600 hours, Tuesday, 6 February, and directs that you should study it in the meantime.

3. The terms of the directive are to be considered as SECRET and should not be referred to publicly in any way. The CCS are at present considering a simultaneous announcement in the United States, United Kingdom and Italy.

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MSL/JC.

Brigadier,
Chief of Staff.

Copy to: Chief Commissioner.
Land Forces Sub-Com (MMIA) } Not required to attend
Air Force Sub-Com } meeting.
Navy Sub-Com. }

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AFHQ MESSAGE CENTER
INCOMING MESSAGE

WAR
FILED 012259Z
RECD 020248A

AFSC N 214/02

DEFERRED OMG

FROM: AGWAR FROM CCS
TO: ALEXANDER, INFORMATION COMZONE ETOUSA, SOSM, HCS

REF TO THIS MESSAGE: WX-30628 1 February 1945

Cite CCAC

For FHGEG

TAM 445.

Refer MAT 353. See Draft Answer attached hereto.

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

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

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

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

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

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D. Full information should be made available to the Italian Government concerning those activities of AFA which will hereafter be the responsibility of the Italian Government. However, books and other

Declassified E.O. 12356 Section 3.3/NND No. 18515

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

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

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

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

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

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

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

MAT 353 is Ref No. FX 37798 MC OUT 3041 12-10-44 G-5

ACTION: G 5

INFORMATION:

SGS	G-4 (B)
CAD	QM
USPOLAD	Q(MAINT)
RESMIN	CINC MED
IS&PS	USN
DPIC	C/S MTO
F A (B)	MAAF
G-4	--
	FEDC DIR

MC IN 1098 2 February 45 1156A Ref No. MK 30629 b/p/c

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Declassified E.O. 12356 Section 3.3/NND No. 785015

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

ACTION: G 5

INFORMATION:

SGS	G-4 (B)
CAD	QM
USPOLAD	Q(MAINT)
NRSMIN	CINC MED
IS&PS	USN
DPIC	C/S MTO
F A (B)	MAAF
G-4	--
	FISC DIR

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

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SEEN AND APPROVED
BY CHIEF COMMISSIONER.

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HEADQUARTERS ALLIED COMMISSION
Office of the Chief Commissioner
APO 394

CC ____ __ February 1945

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

To: Supreme Allied Commander, Mediterranean Theatre

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

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

3. As regards 2(a) above, discussed in para 1(b) of TAM 445, the Allied Commission is presently instructed by TAM Airgram 24 of 11 October 1944 and TAMS 136 and 398 of 23 Jan 1944 and 18 Dec 1944 respectively to exercise control not only on the operations of post-liberation accounts in the U.S. and U.K., but also on all transactions in the currencies of neutral countries. The present machinery of exchange control is in process of development with the full agreement of the Italian Government; and is to be operated through the Banca d'Italia acting as the agent of

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

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

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

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

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

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

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

5. The financial proposals put forward reveal a misunderstanding of the role played by AFA in AC/AMG operations. AFA is not a separate entity charged with the provision of funds to the Allied Forces, but is an integral part of the Finance Sub-Commission, which handles all financial matters connected with the Allied Commission. If, as we hope, it is decided to reject as premature the proposal for transfer of the currency supply function discussed in the foregoing paragraph, the question of the transfer of AFA to ANMG will

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

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Banca d'Italia has raised numerous objections and some time will probably elapse before this program is completed.

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

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

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

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masters; transmission of effective AM lire notes and information on package discrepancies to the U.S. Treasury.

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

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

ELLERY W. STONE
Rear Admiral, USNR
Chief Commissioner

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ELLERY W. STONE
Rear Admiral, USNR
Chief Commissioner

7 February 1945.
APHS/sdn.

CONFIDENTIAL

Declassified E.O. 12356 Section 3.3/NND No. 785015

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SECRET

COPY.

FROM: AGWAR FROM THE COMBINED CHIEFS OF STAFF (ROCK MESSAGE)

TO: ALEXANDER FOR ACTION, TO SHAEF VERSAILLES FOR EISENHOWER, TO BRITISH JOINT STAFF MISSION FOR BRITISH CHIEFS OF STAFF, AND TO ARGONAUT FOR INFO

REF TO THIS MESSAGE: WX 29633, 31 January 1945.

FAN 487.

Following is Directive from Combined Chiefs of Staff.

1. In order to implement the joint declaration of the President and the Prime Minister of 26 September, 1944, the US and UK Governments have agreed to relax the control of the Italian Government under the armistice and surrender instrument and only to exercise such control when military needs require it, thus developing in the Italian Authorities a greater sense of responsibility. The rights under the armistice and surrender instrument will be held in reserve in the matter of day to day administration, subject to overriding military needs and the requirements of the campaign in ITALY.

In the light of this agreed US-UK policy, you should take action as rapidly as possible in conformity with the following paragraphs:

POLITICAL SECTION.

2. A. The Political Section of the Allied Commission will be abolished. The Allied Commission will obtain advice from the US and UK Ambassadors in ROME. There is NO intention, however, to make any change in the responsibility of the Combined Chiefs of Staff, acting

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through the Allied Commission; the Combined Chiefs of Staff will, therefore, as occasion requires, continue to transmit directives in regard to the combined views of the two Governments on matters of major policy, and such other matters as are within the scope of the activities of the Allied Commission.

B. The Italian Government shall be permitted to have direct relations with foreign diplomatic representatives accredited to the Quirinal, provided that the Allied Commission is kept generally informed by the Italian Government of any negotiations in which they engage with other governments.

C. The Allied Commission shall abandon the practice of approving the decrees and other legislation enacted by the Italian Government in the territory under the jurisdiction of the Italian Government. Any new Italian Government will be requested to confirm that they will adhere to the obligations under the terms of surrender undertaken by their predecessors.

D. The Allied Commission shall abandon the practice of approving any Italian appointments in territory under the jurisdiction of the Italian Government except in regard to Service Ministers and such military appointments as you may determine.

E. The Allied Commission shall as soon as possible withdraw all its Officers stationed in the field in the territory under the jurisdiction of the Italian Government. However, the Allied Commission should retain the right to send its Representatives into territory under the jurisdiction of the Italian Government for any special tasks when Allied interests require it.

F. The US and UK Governments have agreed that the Italian Government will be advised that it is the Allied desire to encourage free trade in knowledge and learning with the Italian people. As far as the exigencies of the military situation permit you will facilitate any arrangements for the flow of books and other publications of a scientific, political, philosophical and artistic nature between ITALY and the United Nations and for the movement of scholars, artists and professional men

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between ITALY and the United Nations.

G. The US and UK Governments have agreed that in accordance with the terms of the MOSCOW declaration it is desirable to encourage the holding of elections for local public offices in territory under the jurisdiction of the Italian Government and you should be guided accordingly.

H. The status of Italian Prisoners of War now or hereafter held in ITALY other than those captured since the armistice was signed should be terminated by you upon adequate assurance being given by the Italian Government that their services will continue to be made available on terms satisfactory to you as Supreme Allied Commander subject to Combined Chiefs of Staff approval.

ADMINISTRATIVE SECTION.

3. The internal organization of the Allied Commission is primarily your responsibility. In the reorganization of the Allied Commission it is desired that you give consideration to the following policies and objectives:

A. The Staff of Allied Commission Headquarters should occupy itself primarily with consultation and advice to the Italian Government at high levels.

B. As far as certain Subcommissions of the Allied Commission Headquarters are concerned such as Education, Arts and Monuments, Local Government, Labour and Legal, their advisory functions in respect of Italian Government territory should be exercised only when requested by the Italian Government. Control should NOT be exercised in respect of territory under the jurisdiction of the Italian Government.

C. The Sections and Subcommissions of the Allied Commission Headquarters should be progressively civilianized to the fullest extent which in your opinion circumstances allow, except the Service Subcommissions and except to the extent that Subcommissions exercise functions with respect to territory under Allied Military Government (AMG).

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D. To the extent feasible, Officers of Allied Commission Headquarters dealing with AMG functions should be located at places other than Allied Commission Headquarters.

ECONOMIC SECTION

4. It is necessary that the maximum production and effective and equitable distribution and control of consumption of local resources possible under existing conditions be secured. The Italian Government should be advised that to this end and as a prerequisite to increased economic assistance it must formulate and implement appropriate economic controls and take all other steps possible. In the event that these conditions are NOT met the Allied authorities will NOT hesitate to impose the necessary controls or take other appropriate measures.

5. For the duration of combined operations, the combined US-UK military authorities will be responsible for providing:

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

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

C. Those supplies necessary for the restoration of such of the Italian power systems and transportation and communication facilities as will further the military effort against GERMANY and JAPAN.

To the extent contemplated by this Paragraph 5, essential civilian supplies cannot be divorced from the military supply program and ITALY must be treated as a whole. It is understood that the date of termination of combined military responsibility for providing supplies as set out above will be decided by the Combined Chiefs of Staff on your recommendation.

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6. The Allied Commission shall be advised to assist the Italian Government in the preparation of programs of supplies designed to rehabilitate Italian industry. These supplies will be in addition to those to be provided as a military responsibility. Such programs when established by the Italian Government will NOT be subject to screening by Allied Force Headquarters, but will be reviewed and transmitted directly with appropriate comments and recommendations by the Allied Commission to the Combined Civil Affairs Committee, which will transmit the programs to the Combined Liberated Areas Committee for action by the appropriate civilian agencies of the UNITED STATES and British Governments. The UNITED STATES and British Governments will each make available such shares as may be mutually agreed of the cost of the provision of such of these programs as may be approved by the Combined Liberated Areas Committee. Procurement covering such programs should immediately be put in hand without reference to the present shipping position in order that the supplies may be called forward as and when shipping space becomes available. In this connection see Paragraph 8 below.

7. The questions raised by you in Sub-paragraphs A, B and C of Paragraph 4 of NAF 770 are answered as follows:

A. The prime responsibility for the control of inflation in ITALY, including the imposition and administration of appropriate financial and economic controls and appropriate utilization of supplies, must rest with the Italian Government. Your responsibility in this connection, other than with respect to the importation of supplies, is, through the Allied Commission, to advise and assist the Italian Government.

B. It is desired that industrial rehabilitation in ITALY be carried out by the Italian Government to the fullest extent permitted by the Italian resources and such supplies as you may be authorized to import, consistent with the discharge by you of your military mission, with the exception that industries for the production or repair of munitions or other implements of war shall be rehabilitated only to the extent required by you in discharge of your military mission and as will further the military effort in other Theaters. Except for those industries the rehabilitation of which is essential to the discharge of your military mission and in furtherance

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of the military effort in other Theaters, which rehabilitation should be given first priority, industries other than those excluded by the preceding sentence will be given such precedence in rehabilitation as may be determined by the Italian Government.

X-4005/cc

C. The extent of your responsibility with respect to the importation of supplies into ITALY is defined in Paragraphs 5 and 6 hereof. Except as is so defined, you have NO responsibility for the importation of supplies into ITALY.

X-4005/cc

X-4008/cc

D. Within the limitation of available shipping and subject to military considerations as determined by you, the extent to which exports are to be stimulated and the development of machinery to handle export trade are for determination by the Italian Government. The appropriate civilian agencies of the British and American Governments are currently considering methods by which the Italian Government may be assisted in these respects and as soon as decisions in this connection are reached, you will be advised with respect thereto.

8. Nothing herein contained shall constitute a commitment with respect to shipping. Any supplies to be imported into ITALY must be transported within such shipping as may be allocated from time to time.

FINANCIAL SECTION.

9. The two Governments are discussing proposals for giving the Italian Government a greater measure of responsibility in financial matters; a further directive on these matters will follow.

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29 January 1945.

I have the following comments to make on the draft joint statement of our two Governments with respect to Italy:

Paragraph 2, first sentence. After "relations", should not "with those countries with whom it has diplomatic relations" be inserted? The sentence as now drafted would appear to authorize and even compel the Italian Government to deal directly with any government, for example Yugoslavia and Greece, with whom Italy does not have diplomatic relations, and the Lublin Government, which is not recognized by the U.S. and U.K. Governments.

Paragraph 5, last sentence. Insert "regional" before "officers of the A.C.". This change is only to prevent A.C. Headquarters and Headquarters personnel being required to move from Rome into A.M.G. territory.

/s/ Ellery W. Stone

ELLERY W. STONE
Rear Admiral, USNR
Chief Commissioner

Mr. Harold MacMillan,
British Embassy,
Athens.

cc: Major Talbot
A Files

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HEADQUARTERS ALLIED COMMISSION
Office of the President
APO 394

PRES/45204/1/SI. 29th January, 1945.

Major Quayle.
Major Talbot.

I handed you this morning a draft joint statement designed to be issued on behalf of the Governments of the United States and the United Kingdom about the Macmillan "New Deal."

The following background information may be of interest.

The draft statement is based on a U.S. draft but incorporates some suggestions made by the British members of the C.C.A.C. It has been approved by the U.S. members of the C.C.A.C.; and by the British members subject to the approval of H.M.G.

The public statement referred to in Paragraph 10 of the draft statement is that made by the President on 10th October 1944. We understand that the Americans attach importance to putting in this reference. They do not want the Italians to think that any new or additional facilities are in prospect.

J.E.R.W.

Personal Assistant.

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kept generally informed of any negotiations in which the Italian Government may engage with other Governments. The Commission will discontinue present practice of approving decrees and other legislation of the Italian Government, as well as approval of Italian Governmental appointments except those of military significance. The officers of the A.C. permanently stationed in the territory under the jurisdiction of the Italian Government will be withdrawn as soon as possible and holding of elections for local public offices in this territory will be encouraged.

6. Italians held as prisoners of war in Italy, other than those who fought on the side of the Germans after the Italian armistice will be released upon the Italian Government entering into arrangements which give satisfactory assurances to the Theatre Commander that the services of men so released will be available in the war effort.

7. The Allies desire to encourage cultural relationships with the Italian people. Arrangements will be made to the fullest extent permitted within military exigencies for movement of scholars, artists and professional men between Italy and the United Nations and for the flow of books and other publications of a scientific, political, philosophical and artistic nature between Italy and the United Nations.

8. In the economic field the instructions to the Supreme Allied Commander are based on understanding that Italian authorities will develop the greatest measure of production and most effective and equitable distribution and control of consumption of local resources which existing conditions allow.

9. Further, the provisions for imported supplies will necessarily be dependent upon shipping which can be made available for this purpose having regard to imperative military requirements of the present time.

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Dated [illegible] 25-1-45

Draft of Joint Statement to be Issued on behalf of the Governments of the United States & United Kingdom.

The following joint statement was issued to-day on behalf of the Governments of the United States and United Kingdom.

2. On September 26th 1944, the President and the Prime Minister issued a joint declaration on the subject of Allied policy in Italy. They announced in particular that an increasing measure of control would be gradually handed over to Italian administration subject to the effective maintenance of law and order and regular administration of justice, and that the first steps would be taken for the restoration of Italian economy.

3. Discussions have recently taken place in Washington concerning practical measures to give effect to this declaration, and Field Marshal Sir Harold Alexander, the Supreme Allied Commander in the Mediterranean Theatre of Operations, has now received directions from the Combined Chiefs of Staff in Washington to put these measures into effect through the Allied Commission at Rome.

4. The general purpose of these measures is to give the Italian Government a greater degree of authority and responsibility in territory under their jurisdiction. Accordingly in that territory, the provision of surrender instrument will be held in reserve in the matter of day to day administration, this will be subject of course to requirements of the Italian campaign and over-riding military needs. Relationship of the A.C. to the Italian Government will in general be one of advice and counsel rather than of control.

5. In particular, the Italian Government will in future conduct its relations direct and not through the A.C. The Commission will be

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kept generally informed of any negotiations in which the Italian Government may engage with other Governments. The Commission will discontinue present practice of approving decrees and other legislation of the Italian Government, as well as approval of Italian Governmental appointments except those of military significance. The officers of the A.C. permanently stationed in the territory under the jurisdiction of the Italian Government will be withdrawn as soon as possible and holding of elections for local public offices in this territory will be encouraged.

6. Italians held as prisoners of war in Italy, other than those who fought on the side of the Germans after the Italian armistice will be released upon the Italian Government entering into arrangements which give satisfactory assurances to the Theatre Commander that the services of men so released will be available in the war effort.

7. The Allies desire to encourage cultural relationships with the Italian people. Arrangements will be made to the fullest extent permitted within military exigencies for movement of scholars, artists and professional men between Italy and the United Nations and for the flow of books and other publications of a scientific, political, philosophical and artistic nature between Italy and the United Nations.

8. In the economic field the instructions to the Supreme Allied Commander are based on understanding that Italian authorities will develop the greatest measure of production and most effective and equitable distribution and control of consumption of local resources which existing conditions allow.

9. Further, the provisions for imported supplies will necessarily be dependent upon shipping which can be made available for this purpose having regard to imperative military requirements of the present time.

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10. Subject to these considerations provision is being made for furnishing certain additional items of goods for basic civilian needs as part of military supply programme. The A.C. will in addition advise the Italian Government on preparation of programmes of supplies designed to commence the rehabilitation of Italian industry and agriculture the resulting imports involved will be additional to military programme and will be financed by foreign exchange made available to the Italian Government by U.S. and U.K. Governments under arrangements already made public.

11. Finally, the U.S. and U.K. Governments are discussing proposals for giving the Italian Government a greater measure of responsibility in financial matters.

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PRIORITY

AFHQ SIGNED SACSEO CITE FIELD

AIODI

CONFIDENTIAL.

Information received from SPOFFORD, who plans to depart from U.S. approximately 30 January, that new Italian directive now cleared CCAC and issue of directive by CCS may be expected shortly. Also stated public announcement on directive in progress of clearance. Will keep you informed of further developments

AC DIST

Action Chief of Staff (2)

Info A/President
Chief Commissioner
File (2)
Float

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HEADQUARTERS ALLIED COMMISSION
Office of the President
APO 394

PRES/45204/1/SI. 26th January, 1945.

The Chief Commissioner.
The Chief of Staff.

The C.C.A.C. on the 22nd January agreed on the draft directive to Field Marshal Alexander for Mr Macmillan. This will now be urged through the Combined Chiefs of Staff. The financial clause reads as follows:-

"The two ~~Embassies~~ governments are discussing proposals for giving the Italian Government a greater measure of responsibility in financial matters; a further directive on these matters will follow."

On the financial question the British members of the C.C.A.C. said that they hoped very shortly to receive instructions which would permit them to go some distance to meet the American point of view. Meanwhile, it was agreed in order to keep the matter on a strictly combined basis to send a combined telegram to SACMED for Mr Macmillan asking for his views. This is being prepared.

The American representatives have been drafting a proposed public statement. Mr Macmillan has asked that the text of the draft be made available to him at the Allied Commission before it is finally agreed.

J.E.R.W.

Personal Assistant

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FILE. Q.

SECRET

D R A F T

Ref:- 9/1 A/CA

SUBJECT:- Approval of the appointment of Italian officials by A.C.

TO:- Acting President, Allied Commission. 16 Nov '44.

1. It is requested that clarification may be obtained as to the policy which should be adopted by the Allied Commission in the approval of appointments made by the Italian Government in Italian Government territory, i.e. territory which has been handed back to the administration of the Italian Government and is no longer administered by Allied Military Government. For your information the following is a brief history of the policy hitherto adopted by the Allied Commission, and a statement of the present position

2. Shortly after the first handover of territory to the Italian Government which took place on the 11th February '44, there was an exchange of letters between the then Chief Commissioner, Lt.Gen. Sir Noel Mason MacFarlane and the then Prime Minister Marshal Badoglio. (Copies of these letters are at App."A"). In effect by these letters it was agreed that all senior Government appointments would be subject to the prior approval of the Commission.

3. Details were worked out between the Sub-Commissions and the Ministries concerned as to the level down to which appointments made by the Italian Government would be subject to the Commission's approval. Appendix "B"Part I gives a list of offices as finally agreed between the Commission and the Government which were to be subject to the Commission's approval.

With regard to Sub-Commissions in the Economic Section, no detailed arrangements were made, but the practice grew up whereby the Ministries concerned did in fact submit for approval,to the appropriate Sub-Commission, appointments down to the level set out in App."B" Pt II.

4. The arrangements so made have worked quite smoothly in practice. It is fair to say that in the vast majority of cases no difficulty has arisen and appointments have been approved almost as a matter of course, but the right of approval has proved useful in practice, and occasionally approval for good reason has been withheld and the Italian Government has been required to submit another appointee for the office.

5. Recently, and in view of the change of name of the Commission, the Italian Government has requested that the practice be revised and they have submitted a very short list of offices which they suggest

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Military Government. For your information the [illegible]
history of the policy hitherto adopted by the Allied Commission, and a statement of the present position

2. Shortly after the first handover of territory to the Italian Government which took place on the 11th February '44, there was an exchange of letters between the then Chief Commissioner, Lt.Gen. Sir Noel Mason MacFarlane and the then Prime Minister Marshal Badoglio. (Copies of these letters are at App."A"). In effect by these letters it was agreed that all senior Government appointments would be subject to the prior approval of the Commission.

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5. Recently, and in view of the change of name of the Commission, the Italian Government has requested that the practice be revised and they have submitted a very short list of offices which they suggest should be submitted to the Commission for approval. (App."C").

6. It appears to be a matter of overall policy as to whether or not the Commission should agree to the revised list. It is the opinion of the Civil Affairs Section that the list is too short, and that at any rate the names of directors of personnel in each Ministry should be submitted to the Commission for approval. The main reason for this is that appointments in Allied Military Government territory are always made by the Allied Commission, but in practice the Italian Government is normally consulted over such appointments, and it seems desirable that the Director of personnel should be the person approved by the Commission.

7. In view also of the importance of the C.C.R.R. in Military Government territory, and the important negotiations now in train with

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18 Nov.

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regard to the reorganisation of that body, it is suggested that the senior staff officers of the Commanding General CC.RR. should be subject to approval, and also appointments to the Court of Cassation, the supreme judicial body of the country.

8. In this connection it must be remembered that in the secret terms agreed between the Commission and the Italian Government on each successive restoration of territory to the administration of the Government, it is always provided that no person appointed by the Allied Military Government may be removed, except with the consent of the Commission. If policy demands that the Italian Government is to have greater latitude in future, then it would seem necessary to modify or abandon this term, because so many appointments involve removal or transfer which requires the consent of the Commission, and thus indirectly the Commission controls appointments in many cases on a far lower level than those indicated in App. "B". Except as a matter of "amour propre" there does not seem to be any objection to abandoning this provision.

G R Lyttelton

G.R. LYTTELTON. Brigadier.
VP CA Sec.
D.C.O.S.

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APPENDIX "A" TO 9/1A/CA dated 18 Nov 44.

Recent events over certain appointments have shown that it is clearly desirable for us to have a mutually satisfactory arrangement to prevent misunderstandings and subsequent difficulties which it is in all our interests to avoid. I would suggest, therefore, that it should be agreed that you will let me know before any appointment to the Government is actually announced. Equally, I should be glad if you will impress upon all members of your Government that they should, in turn, consult the appropriate authorities in the Allied Control Commission before making any senior appointments in their own departments either at the seat of the Italian Government or in those provinces under Italian jurisdiction. As they already enjoy close and friendly relations with the Sub-Commissions with whom they work, this should be an easy matter to arrange. It is clear that each minister must be strictly accountable for all appointments in his department, and the arrangement which I propose should be to their interests in carrying out the work which we are doing together.

I should be glad if you will let me know whether you are in full agreement with the proposals made in this letter. If so, I will give the necessary instructions to the various heads of Sections and Sub-Commissions of the Allied Control Commission as soon as you confirm that members of your government have been notified of our agreement.

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APPENDIX "B1" TO 9/1A/CA dated 18 Nov 44.

LEGAL

First Presidents of Courts of Appeal
Consellors of Cassation and Appeal
Procuratori Generali
Sostituti di Procuratori Generali
Presidenti di Tribunali
Procuratori del Re
Primo Pretori (of towns of pop. 50,000)

INTERIOR

Prefects
Vice Prefects
Vice Prefect Inspectors
Consiglieri Primo Gredo
Consiglieri Secondo Gredo
First Secretary to Prefect
Special Secretary
Director of Religious Affairs
Sindaci) - of communes of
Town Clerk) - pop. 15,000

PUBLIC SAFETY

Legion Commanders CC.RR
Legion Commanders Guardia di Finanze
Questori Public Security Service.
Regional Directors Prison Service
Commendants (and upwards) Fire Service.

EDUCATION

Rectors
Professors (titular)
Presidi of Faculties
Academy Inspectors of
schools (local and centralised)
Heads of Divisions in Ministry
of Education
Provveditori
Presidi of Schools
Inspectors of Schools
University Lecturers.

PUBLIC HEALTH

Chief Medical Officer at
Ministry of Interior.

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"App. B2 to 9/14/Q1 dn d 18 Nov '44.

SUBJECT:- Level at which Appointment of Italian Officials should be approved by Allied Commission.

FINANCE: All appointments down to the level of Grade 4., Commissari, Direttori Generali, Segretaria Generale of banks, insurance companies and other finance institutions clothed with public interest. Other appointments which the Italian Government may believe to be of interest to the Commission.

PUBLIC WORKS AND UTILITIES: Appointments down to Grade 5 (Ispettore Generale del Genio Civile, Capo Compartimento, etc).

COMMERCE & INDUSTRY: Heads and Deputies of Direzione Generale, titular and managing directors of industrial or parastatal institutions. Vice Commissarios of important companies.

LABOUR: Commissioners of National Insurance Agencies and other national agencies formerly linked into the Fascist cooperative structures concerned with such labour matters as welfare, assistance, protection and safety of workers. Appointments to the position of Regional and Provincial labour Director.

AGRICULTURE: Chiefs of Ministerial Bureaus such as Bonifica and Upsoa, Compartimento officials of the rank of Agricultural Inspectors and Consorzio Agrario officials.

TRANSPORTATION: Director of Mercantile Marine, Principal Inspector of the General Inspectorate of civil motorization and transportation concessions. Director General of the Italian State Railways.

SHIPPING : Commissarios of the four subsidized Italian steamship companies, "Italia", "Adriatica", "Tirrenia" and "Orions", formerly "Lloyd Triestino".

FOOD; Direttore Generale dell'Alimentazione and the Head of the Ufficio Nazionale dell'Approvigionamento e Distribuzione Alimentare.

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APPENDIX "C" TO G/1A/CA dated 18 Nov 44

Ministri e Sottosegretari di Stato

Capo di Stato Maggiore Generale dell'Esercito

Capo di Stato Maggiore Esercito

Capo di Stato Maggiore Marina

Capo di Stato Maggiore Aviazione

Principali Rappresentanti diplomatici

Alto Commissario per l'Epurazione

Vice Alti Commissari per l'Epurazione

Direttore Generale della Pubblica Sicurezza

Commandante Generale dei Carabinieri

Added Suggestions:-

High Commissioners for Sicily and Sardinia.

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SECRET.

A File

Ref. 1008/10/308. 31st October, 1944.

SUBJECT: "The New Deal for Italy".

TO : DOS, Scenario Section.

1. I attach herewith minutes of a conference held in Rome on 26 October at which you were present, copy of Mr. Macmillan's paper entitled "The New Deal for Italy", minutes of the meeting held at the Resident Minister's office on October 23, and copy of telegram which it was proposed should be sent by SACMED to the CCS.

2. The A/CC directs that immediate action should be taken on the lines of 3(a) of the minutes of 26 October as qualified by the discussion recorded at the meeting on 23 October.

3. Section II(b) of Mr. Macmillan's paper indicates the form which the programme should take and you should take immediate steps to prepare (a) regulations under the disease and unrest formulae, and (b) a general programme for industrial first aid. This latter programme should be drawn up as rapidly as possible in consultation with the Italian Government. It will be impossible to commit even this the figure of 200 million dollars indicated as available but this should be proposed to them merely as a target figure and no commitment of any kind should be made that the sum will be forthcoming.

4. The A/CC will be glad to know how you propose to set about this programme at the first opportunity.

MS/ROL

Brigadier,
Chief of Staff.

MSM/RG.

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SECRET

AFHQ 731
OCT 27 1944
005

ALLIED FORCE HEADQUARTERS
C-5 SECTION
APO 512

CML-H/ahc

October 27 1944

28 OCT Recd

ECONOMIC AND SUPPLY PROBLEM OF ITALY

MINUTES OF A CONFERENCE HELD IN ROME ON 26 OCTOBER 1944.

1. Present:-

Rt. Hon. Harold Macmillan
Sir Anthony Rumbold
Hon. Alexander Kirk
Mr. Offie
Gen. G. Clark, CAC AFHQ
Colonel Lewin-Harris, C-5
Lt. Col. Goodbody, AFHQ
Commodore Stone
Brigadier Lush
Mr. Antolini

ACC

2. The meeting had before them:

a) Minutes of a meeting held at the Resident Minister's office at Caserta on 23rd of October

b) some papers drafted by Mr. Mitchell and Mr. Harris, for the Resident Minister

c) a paper entitled 'The New Deal for Italy' (Civil Supplies), by Mr. Macmillan

d) a draft telegram prepared by Mr. Macmillan for despatch by SACMED to the Combined Chiefs of Staff, after discussion with Mr. Macmillan.

3. After some discussion, during which Mr. Macmillan stressed the importance of having a plan in readiness should the policy recommended by SACMED be approved, it was agreed that the following recommendations should be made to SACMED:

a) That he should issue to C-5 AFHQ and to ACC a directive on the lines of the Resident Minister's draft paper 'The New Deal for Italy', with instructions that they should work these out in the closest co-operation (See 2c above).

b) That the Resident Minister should discuss with SACMED the despatch of a personal telegram on the lines of the Resident Minister's draft (See 2d above).

c) That the last sentence of para!(a) of the Resident's Minister's paper (See 2c above) should be amended to read, 'This arrangement will continue so long as Italy is a Theatre of, or Base for, military operations, and for a period of six (6) months thereafter.

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d) That an amendment to the same effect as 3a above be made to para 3 of the draft telegram (See 2d above).

4. That in the meantime, the ACC should prepare without delay a programme on the lines of the Resident Minister's paper (See 2c above).

C.E. Lewis Evans
C.E. [redacted], Colonel,
Deputy Asst. Chief of Staff, G-5.

DISTRIBUTION:

CAO
British Res Min
US Political Adviser
ACC
G-5, AFHQ

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THE NEW DEAL FOR ITALY

CIVIL SUPPLIES

Section I.

SAC has received no instructions from the Combined Chiefs of Staff. But he proposes to make the following assumptions, based upon a reasonable interpretation of the declarations of the President and the Prime Minister.

(a) Imports for civilian needs of consumption goods and certain durable and capital goods will continue to be provided and financed as heretofore, by the military authorities. The "disease and unrest" formula will still apply; but it will be interpreted more generously so as to provide for the proper needs of the population. These will include a uniform bread ration of 300 grams, essential clothing, trucks, mobile power units and many miscellaneous items.

This arrangement will continue as long as Italy is a theatre or base for military operations ~~are being conducted in or from the mainland of Italy~~ and for a period of ~~three~~ six (6) months thereafter.

(b) In addition to supplies requisitioned under (a), there will be a further programme of "industrial first-aid". For planning purposes this programme will be regarded as of the order of 200-250 million dollars to be spent over a period of twelve months in presently liberated Italy.

Section II.

In order to make as rapid progress as possible, SAC will direct as follows:-

A. (i) G-5 will forward to C.C.S. any requisitions from A.C. received since August 1st but not already forwarded to Washington. These should be modified as little as possible. The generous interpretation of the "disease and unrest" formula mentioned in I (a) will be observed.

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heretofore, by the military authorities. The "disease and unrest" formula will still apply; but it will be interpreted more generously so as to provide for the proper needs of the population. These will include a uniform bread ration of 300 grams, essential clothing, trucks, mobile power units and many miscellaneous items.

This arrangement will continue so long as ~~military operations are being conducted in or from the mainland of Italy~~ Italy is a theatre or base for military operations and for a period of (~~three~~ six) months thereafter.

(b) In addition to supplies requisitioned under (a), there will be a further programme of "industrial first-aid". For planning purposes this programme will be regarded as of the order of 200-250 million dollars to be spent over a period of twelve months in presently liberated Italy.

Section II.

In order to make as rapid progress as possible, SAC will direct as follows:-

A. (i) G-5 will forward to C.C.S. any requisitions from A.C. received since August 1st but not already forwarded to Washington. These should be modified as little as possible. The generous interpretation of the "disease and unrest" formula mentioned in I (a) will be observed.

(ii) G-5 will review all requisitions received since August 1st which have already been forwarded to C.C.S. and, in the light of the new interpretation, supplementary requisitions if necessary will be despatched.

(iii) A.C. will examine all the requisitions which they sent to G-5 before August 1st. Should any of these not have been forwarded in full by A.F.H.Q. immediate consideration should be given as to whether supplementary requisitions should not be filed in the light of I (a).

B. (i) In accordance with Section I (b), SAC will instruct A.C. to draw up

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a definite programme of industrial first-aid. He understands that a tentative programme has already been compiled. In drawing up this programme it is important to aim at a balance between power and industrial facilities. A calculation can now be made of the amount of indigenous power likely to come into operation during the next six months out of the repair of existing Italian plants. Machine tools and industrial supplies generally should be ordered which can be operated with this source of power. The remainder of the programme should include both hydro-electric generating equipment and industrial supplies to be used by that equipment when ready. It is a matter for study in what proportion the expenditure on these two items should be. The programme will naturally have to be modified from time to time in accordance with the world supply situation.

(ii) A.C. will consult as they think fit the appropriate Italian authorities and secure Italian co-operation in preparing the programme, particularly with regard to priorities. Care should be taken to explain to the Italians the preliminary character of the planning and that there is no guarantee either as regards the provision of supplies or of finance. The figure of 250,000 dollars should not be mentioned to the Italians and should only be taken by A.C. as giving a general guide to the size of the programme.

C. Experience has shown that "progress officers" are required to ensure the placing and filling of requisitions, whether placed under A or B above. A.F.H.Q. will therefore arrange with A.C. to send an appropriate small team to Washington for this purpose. It would be a great advantage if one or more of them were familiar not only with the civilian requirements of Italy but with the working of the supply organisations at Washington. The latter could perhaps be found in Washington and attached to the team.

D. A telegram will be sent to the Combined Chiefs of Staff informing them

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the programme should include both hydro-electric generating equipment and industrial supplies to be used by the/ equipment when ready. It is a matter for study in what proportion the expenditure on these two items should be. The programme will naturally have to be modified from time to time in accordance with the world supply situation.

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C. Experience has shown that "progress officers" are required to ensure the placing and filling of requisitions, whether placed under A or B above. A.F.H.Q. will therefore arrange with A.C. to send an appropriate small team to Washington for this purpose. It would be a great advantage if one or more of them were familiar not only with the civilian requirements of Italy but with the working of the supply organisations at Washington. The latter could perhaps be found in Washington and attached to the team.

D. 5147 A telegram will be sent to the Combined Chiefs of Staff informing them of the action which SAC has taken - draft attached.

25th October 1944.

Office of the Resident Minister,
Central Mediterranean.

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ANNEX A

A. (i) General Wilson should instruct G-5 to forward to Washington those requisitions received from the A.C.C. since August 1st which G-5 they have not already acted upon, modifying them as little as possible and using a generous interpretation of the disease and unrest formula.

(ii) He should instruct G-5 to review in the same light all requisitions received from the A.C.C. since August 1st which have been the subject of action, and forward supplementary requisitions if necessary.

(iii) He should instruct the A.C.C. to review all requisitions forwarded to G-5 before August 1st and in respect of such of them as have not been forwarded in full by A.F.H.Q. consider whether supplementary requisitions should not be filed to accord with a more generous interpretation of the disease and unrest formula.

B. He should acknowledge the receipt from the A.C.C. of a tentative programme of industrial first-aid covering items outside the scope of the more generous interpretation of the disease and unrest formula to the value of 200 to 250 million dollars to be spent over a period

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requisitions received from the A.C.C. since August 1st which have been the subject of action, and forward supplementary requisitions if necessary.

(iii) He should instruct the A.C.C. to review all requisitions forwarded to G-5 before August 1st and in respect of such of them as have not been forwarded in full by A.F.H.Q. consider whether supplementary requisitions should not be filed to accord with a more generous interpretation of the disease and unrest formula.

B. He should acknowledge the receipt from the A.C.C. of a tentative programme of industrial first-aid covering items outside the scope of the more generous interpretation of the disease and unrest formula to the value of 200 to 250 million dollars to be spent over a period of twelve months, in that part of Italy south of the Pisa-Rimini line. He should instruct them to draw up a definitive programme of this kind.

Such a definitive programme should aim at a balance between power and industrial facilities so that it does not at any time leave power facilities unused in Italy south of the Pisa-Rimini line and includes no supplies which cannot be properly used owing to lack of power

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facilities or transport.

The indigenous power situation may be so limited that a decision should be taken at once as to whether to include hydro-electric generating equipment in the programme. Consideration should in that case be given to the advisability of reserving some of the money for the purchase of the industrial supplies needed by the factories which would ultimately utilise such additional power when installed.

As succeeding phases of the definitive programme are completed, the A.C.C. should proceed with the preparation of the necessary requisitions even though it is not yet certain that such a programme can be realised.

In preparing this programme of industrial first aid, General Wilson should authorise the A.C.C. to consult the appropriate Italian authorities at whatever time seems to them most fit and to secure Italian co-operation in the task. In particular, the A.C.C. should ask the Italian authorities to indicate the priorities in which they consider that industrial plants should be repaired. They should not, however, allow the Italian authorities to receive the impression that the preparation of a programme at this

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the industrial supplies needed by the factories which would ultimately utilise such additional power when installed.

As succeeding phases of the definitive programme are completed, the A.C.C. should proceed with the preparation of the necessary requisitions even though it is not yet certain that such a programme can be realised.

In preparing this programme of industrial first aid, General Wilson should authorise the A.C.C. to consult the appropriate Italian authorities at whatever time seems to them most fit and to secure Italian co-operation in the task. In particular, the A.C.C. should ask the Italian authorities to indicate the priorities in which they consider that industrial plants should be repaired. They should not, however, allow the Italian authorities to receive the impression that the preparation of a programme at this stage implied any commitment either as regards the supplies themselves or the provision of finances for them. In no case should any figure of 200 be mentioned to the Italian authorities and the figure to 250 million dollars referred to above should anyhow only be taken by the A.C.C. as indicating the size of the programme for which they should plan.

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C. General Wilson should send a signal to the C.C.S. making the following points:-

(1) The President and Prime Minister have made a number of statements recently upon which General Wilson has had no guidance other than in the paraphrase of a telegram received by Mr. Kirk from the State Department dated October 18th and communicated by Mr. Kirk to the A.C.C. in which reference was made to "the continuance for some months of procurement by the U.S. Army of items of basic relief" together with an indication that in addition there was contemplated a method of financing supplementary supplies with respect to which no responsibility would be assumed by the U.S. Army.

(2) The joint statement of September 26th contemplated that "first steps should be taken toward the reconstruction of an Italian economy", primarily for military reasons, including in particular, mention of assistance to the Italians in the restoration of power systems, railways etc. The statement also contained a reference to the relief of hunger. General Wilson interprets this statement as meaning that the disease and unrest formula should henceforth be given a more liberal interpretation than has been the practice till now.

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A.C.C. in which reference was made to "the continuance for some months of procurement by the U.S. Army of items of basic relief" together with an indication that in addition there was contemplated a method of financing supplementary supplies with respect to which no responsibility would be assumed by the U.S.Army.

(2) The joint statement of September 26th contemplated that "first steps should be taken toward the reconstruction of an Italian economy", primarily for military reasons, including in particular, mention of assistance to the Italians in the restoration of power systems, railways etc. The statement also contained a reference to the relief of hunger. General Wilson interprets this statement as meaning that the disease and unrest formula should henceforth be given a more liberal interpretation than has been the practice till now.

(3) In his statement of October 10th the President indicated that funds would be made available for the purchase in the U.S. of essential civilian supplies over and above those to be furnished for military purposes.

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(4) He has therefore arranged for current requisitions for civilian supplies to be reviewed and in addition has asked A.C.C. to draw up a programme of industrial first aid to conform with the President's suggestion of a supplementary programme in his statement of October 10th.

(5) Obviously the formulation of any civilian supply programme is predicated on the provision of the necessary finance. He must therefore ask for an assurance that so long as Italy is a base of operations and for some months thereafter finance will continue to be provided for those civilian supplies which are required for military reasons, apart from those funds referred to in the President's statement of October 10th.

(6) In order to facilitate the consideration of requisitions filed with the C.C.S. he is proposing to send to Washington a small party of officers who are familiar with the civilian requirements of Italy.

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(5) Obviously the formulation of any civilian supply programme is predicated on the provision of the necessary finance. He must therefore ask for an assurance that so long as Italy is a base of operations and for some months thereafter finance will continue to be provided for those civilian supplies which are required for military reasons, apart from those funds referred to in the President's statement of October 10th.

(6) In order to facilitate the consideration of requisitions filed with the C.C.S. he is proposing to send to Washington a small party of officers who are familiar with the civilian requirements of Italy.

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DRAFT TELEGRAM

From: General Wilson.

To: Combined Chiefs of Staff.

Subject: Civilian Supplies for Italy.

In view of the public statements of the President and of the Prime Minister, I am proposing to take the following steps.

1. I am arranging for all current requisitions for basic civilian supplies to be reviewed on two assumptions: first, that they will be provided and financed as heretofore; secondly, that they would be framed upon a more liberal interpretation of the "disease and unrest" formula.

2. In addition and in conformity with the joint statement of September 26th and the President's statement of October 10th, I have instructed the Allied Commission to draw up a programme of industrial first-aid. This will be forwarded to you as soon as possible.

3. I am assuming that the necessary finance for (1) will be provided so long as Italy is a theatre of or base for military operations and for a period of six months thereafter.

4. For planning purposes for (2) I am assuming an expenditure commensurate with the sources of new finance outside military responsibility mentioned in the President's statement, to be spent over a period of twelve months.

I hope this will meet with your approval as I am convinced that this is the right course to pursue.

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civilian supplies to be reviewed on two assumptions: first, that they will be provided and financed as heretofore; secondly, that they would be framed upon a more liberal interpretation of the "disease and unrest" formula.

2. In addition and in conformity with the joint statement of September 26th and the President's statement of October 10th, I have instructed the Allied Commission to draw up a programme of industrial first-aid. This will be forwarded to you as soon as possible.

3. I am assuming that the necessary finance for (1) will be provided so long as Italy is a theatre of or base for military operations and for a period of six months thereafter.

4. For planning purposes for (2) I am assuming an expenditure commensurate with the sources of new finance outside military responsibility mentioned in the President's statement, to be spent over a period of twelve months.

I hope this will meet with your approval as I am convinced that this is the right course to pursue.

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DRAFT TELEGRAM

From: General Wilson.

To: Combined Chiefs of Staff.

Subject: Civilian supplies for Italy.

In view of the public statements of the President and of the Prime Minister, I am proposing to take the following steps:

(1) I am arranging for all current basic requisitions for civilian supplies to be revised on the assumptions: first, that they will be provided and financed as heretofore ~~by the military authorities~~; secondly, that they would be framed upon a more liberal ~~generous~~ interpretation of the "disease and unrest" formula.

(2) In addition, and in conformity with the joint statement of September 26th and the President's statement of October 10th, I have instructed the Allied Commission to draw up a programme of industrial first-aid. This will be forwarded to you as soon as possible.

(3) I am assuming that the necessary finance for (1) will be provided so long as military operations ~~are conducted in or from the mainland of Italy~~ and for a period of

→ Will also attach [illegible] about [illegible] mil ofc

(1) I am arranging for all current basic requisitions for civilian supplies to be revised on two assumptions: first, that they will be provided and financed as heretofore ~~by the Italian Government~~; secondly, that they would be framed upon a more liberal ~~interpretation~~ interpretation of the 'disease and unrest' formula.

(2) In addition and in conformity with the joint statement of September 26th and the President's statement of October 18th, I have instructed the Allied Commission to draw up a programme of industrial first-aid. This will be forwarded to you as soon as possible.

(3) I am assuming that the necessary finance for (1) will be provided so long as military operations ~~are conducted in or from the mainland of Italy~~ and for a period of ~~three~~ 6 months thereafter.

(4) For planning purposes for (2) I am assuming an expenditure commensurate with the sources of new finance outside military responsibility mentioned in the President's statement, to be spent over a period of twelve months.

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→ With attached Aide Mémoire

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(5) In order to facilitate placing and filling of requisitions of both programmes, I am proposing to send a small number of progress officers to be permanently stationed in Washington.

I make a strong personal plea for your approval of my action. Official statements by the Heads of the United States and British Governments have raised high hopes in Italy. As the officer charged with the conduct of military operations in that country and responsible for securing the utmost cooperation of its inhabitants, I felt that I could take no other course.

I hope this will meet with your approval as I am convinced that this is the right course to pursue.

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for your approval of my action. [illegible]
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I hope this will meet with your approval as I am convinced that this is the right course to pursue.

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Extract from PC (44) 30th Meeting of Political Committee AFHQ 24 October 44

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T O P S E C R E T

4. SUPPLY SITUATION IN ITALY

Mr. MACMILLAN reported that there were a number of problems which he and Mr. Kirk had been discussing with Mr. Norris & Mr. Mitchell of the Combined Civil Affairs Committee. These questions had arisen largely out of recent statements made by the Prime Minister and the President. He pointed out that the Assistant Chief of Staff, G-5, would be returning to AFHQ on 25 October and suggested that, if it were possible to agree a programme of action with him and with the Chief Administrative Officer, the Supreme Allied Commander should authorise the sending of the necessary telegrams to WASHINGTON in his name and the giving of the necessary local instructions. This procedure was suggested in view of the urgency of the matter.

THE SUPREME ALLIED COMMANDER:

Approved Mr. Macmillan's suggestion at "X" above and directed that the officers concerned proceed accordingly.

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Minutes of a meeting held in the President Minister's Office at Caserta at 10.15 a.m. on October 23rd, 1944.

Present:

Rt. Hon. Harold Macmillan
Mr. Murphy
Sir Anthony Rumbold
Mr. Mayhew
Hon. Alexander Clark
Mr. Mitchell
Mr. Offie
Mr. Jackson.

MR MACMILLAN invited MR MITCHELL to describe his visit to the ACC at Rome.

MR MITCHELL said he felt that the visit which he and MR JACKSON, MR HARVIE and MR BRITNAY had paid to Rome had been of real value and would greatly assist in the understanding in Washington and London of the problems of the ACC. On arrival in Rome MR MITCHELL said that they had found that the ACC. had not prepared, as Departments in Washington and London had understood that the ACC had been doing, a comprehensive 12 months import programme from September 1st 1944 to October 31st 1945, covering the estimated Italian civilian needs for the supplies falling within the existing "disease and unrest" directives, together with a list of the elementary needs of the Italian economy for some industrial supplies of a sort not covered by this directive. The ACC had confined themselves to putting forward their requisitions periodically in accordance with normal practice and in accordance with the instructions which they had received.

After some discussion of the matter with Commodore STOTT and Brigadier HUNT, the head of the Political Section and the Acting head of the Economic Section, it had been agreed that during MR MITCHELL and MR JACKSON's visit to ACC, the ACC would attempt to prepare a 12 months programme for such industrial supplies up to an arbitrary figure of dollars 250,000,000. MR MITCHELL said that an attempt, and a very good attempt, to prepare such a programme had been made, but in the short time available it had not been possible for the Economic Section of the ACC to do much more than to indicate in general terms the type of supplies on which, in the opinion of the Economic Section, it was desirable to spend such a sum. It had not been possible to draw up detailed requisitions which would be necessary if procurement was to be proceeded with. Commodore STOTT had agreed, however, to proceed with this necessary task, and Caserta had suggested that copies of the general statement should be forwarded by the ACC to AFHQ with the object, if the approval of AFHQ were obtained, of copies of this document being taken back to Washington and London by himself and MR JACKSON as an indication of the sort of supplies, beyond those covered by the disease and unrest standard, which the ACC would like to secure. Provided AFHQ agreed detailed requisitions would follow later.

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MR MITCHELL added that whilst the work of compiling this general statement was being done by the ACC, Commodore STOTT had received from MR HILL, a paraphrase of a telegram dated October 20th from the Department of S

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[illegible] that the visit which he and Mr [illegible], and Mr [illegible] had paid to Rome had been of real value and would greatly assist in the understanding in Washington and London of the problems of the AMG. On arrival in Rome Mr [illegible] said that they had found that the AMG had not prepared, as instructed in Washington and London had understood that the AMG had been doing, a comprehensive 12 months import programme from October 1st 1944 to October 31st 1945, covering the estimated Italian civilian needs for the supplies falling within the existing "disease and unrest" directives, together with a list of the elementary needs of the Italian economy for some industrial supplies of a sort not covered by this directive. The AMG had confined themselves to putting forward their requisitions periodically in accordance with normal practice and in accordance with the instructions which they had received.

After some discussion of the matter with Commodore [illegible] and Brigadier [illegible], the head of the Political Section and the acting head of the Economic Section, it had been agreed that during Mr [illegible]'s visit to AMG, the AMG would attempt to prepare a 12 months programme for such industrial supplies up to an arbitrary figure of dollars 250,000,000. Mr [illegible] said that an attempt, and a very good attempt, to prepare such a programme had been made, but in the short time available it had not been possible for the Economic Section of the AMG to do much more than to indicate in general terms the type of supplies on which, in the opinion of the Economic Section, it was desirable to spend such a sum. It had not been possible to draw up detailed requisitions which would be necessary if procurement was to be proceeded with. Brigadier [illegible] had agreed, however, to proceed with this necessary task, and Brigadier [illegible] had suggested that copies of the general statement should be forwarded by the AAI to AFHQ with the object, if the approval of AFHQ were obtained, of copies of this document being taken back to Washington and London by himself and Mr [illegible] as an indication of the sort of supplies, beyond those covered by the disease and unrest standard, which the AMG would like to secure. Provided AFHQ agreed detailed requisitions would follow later.

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Mr [illegible] added that whilst the work of compiling this general statement was being done by the AMG, Commodore [illegible] had received from Mr [illegible], a paraphrase of a telegram dated October 11th from the Department of State in which it was stated that "the date on which the U.S. Army will relinquish its responsibility for procurement" had not yet been decided upon, and in which it was further indicated that there was a possibility that procurement by the U.S. Army of "basic commodities" might continue "for some months". The same telegram went on to indicate, however, that there was also in contemplation by the U.S. Government a method of financing supplies supplementary to those to be furnished by the U.S. Army and for which the U.S. Army would have no financial responsibility. Mr [illegible] said that in view of the fact that this telegram appeared to cast doubt on the length of time for which the U.S. Army would continue to finance the U.S. share of the basic supplies to be provided, Commodore [illegible] had felt it immediately necessary

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to request [illegible] to telegraph to the State Department to ask them to enquire of the Combined Chiefs of Staff and [illegible] for the latter to inform AFHQ for how long the U.S. Government would continue to finance such items, and to point out that the absence of certainty on this point made it impossible for the ACC to know how and when to plan to use, for the purpose of acquiring supplementary supplies, the funds released by the President in his statement of October 13th.

[illegible] said that a telegram making these points had been sent by the U.S. Embassy to the State Department.

Upon discussion of the nature of the general statement submitted by the ACC to AFHQ for transmission to Washington and London by message, [illegible] and [illegible] then followed. [illegible] pointed out that whilst this statement was useful in that it indicated the type of industrial supplies which the ACC considered it needed, it was defective in one respect in that it did not relate what was required in the way of supplementary supplies to the existing power capacity of South and Central Italy and the capacity likely to become available in that area in the first three months of 1944 as a result of the extensive repair work now being done by the Italians. If a true import programme of supplementary industrial supplies was to be prepared it must be related both to the power that would shortly become available, and must also take into account the possibility of the need to expend some part of the theoretical dollars 250,000,000 on the purchase of additional hydro-electric generating capacity.

Some further discussion then followed and it was agreed that in the absence of instructions from the CCS as to the manner in which the joint statement of September 26th and the President's statement of October 13th should be interpreted, the position urgently required that planning should nevertheless proceed, because (a) it was impossible for General Wilson to carry out his responsibility as Supreme Allied Commander-in-Chief Mediterranean and as President of the ACC unless he could count upon the receipt of the civilian supplies necessary for the conduct of military operations in Italy, (b) because it was equally impossible for ACC to plan the use, for the purchase of supplementary supplies of the funds to be released to the Italian Government by the President's statement of October 13th.

[illegible], and Mr [illegible] asked, that there be prepared for discussion with General [illegible] on his return:

a) Draft instructions from General Wilson to the G-5 Branch of A.F.H.Q. as to the manner in which the existing dispatch and transit directive of the CCS should be interpreted in the light of the joint statement of September 26th.

b) Complimentary instructions to the ACC on the lines of (a) above, and also instructions to prepare a supplementary programme.

c) A draft telegram from General Wilson to the CCS informing them:-

(1) of the difficulties in which AFHQ and ACC found themselves in the absence of instruction about the statements of the President and the Prime Minister

(2) of the [illegible]

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relate what was required in the way of supplementary supplies to the existing power capacity of South and Central Italy and the capacity likely to become available in that area in the first three months of 1945 as a result of the extensive repair work now being done by the Italians. If a true import programme of supplementary industrial supplies was to be prepared it must be related both to the power that would shortly become available, and must also take into account the possibility of the need to expend some part of the theoretical dollars 250,000,000 on the purchase of additional hydro-electric generating capacity.

One further general discussion then followed and it was agreed that in the absence of instructions from the CCS as to the manner in which the Joint statement of September 26th and the President's statement of October 10th should be interpreted, the position urgently required that planning should nevertheless proceed, because (a) it was impossible for General Wilson to carry out his responsibility as Supreme Allied Commander-in-Chief Mediterranean and as President of the ACC unless he could count upon the receipt of the civilian supplies necessary for the conduct of military operations in Italy, (b) because it was equally impossible for ACC to plan the use, for the purchase of supplementary supplies of the funds to be released to the Italian Government by the President's statement of October 10th.

IT WAS THEREFORE AGREED, and Mr CHANDLER asked, that there be prepared for discussion with General WILSON on his return:

a) draft instructions from General Wilson to the C-in-C Branch of A.F.H.Q. as to the manner in which the existing directive and current directives of the CCS should be interpreted in the light of the joint statement of September 26th.

b) Complementary instructions to the ACC on the lines of (a) above, and also instructions to prepare a supplementary programme.

c) A draft telegram from General Wilson to the CCS informing them:-

(i) of the difficulties in which AFHQ and ACC found themselves in the absence of instructions about the statements of the President and the Prime Minister

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(ii) of the action he was taking under (a) and (b) above, and

(iii) stating that he desired immediate assurance from the Combined Chiefs of Staff that so long as Italy should remain a base of military operations and for a few months thereafter, the basic supply items required by the civilian population of Italy would be forthcoming.

There is attached to this record a record of the action to be taken.

24th October 1944.

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0337

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0339

Brig. Lush introduced Mr. Mitchell and Mr. Jackson. Asked Mr. Mitchell to outline the points for discussion at the 4:00 meeting this afternoon.

Mr. Mitchell, State Department, Washington, D. C. reported:

In Washington, CCS representatives, both British and American, in connection with Italian problems that come up (on the economic side) there is one which relates to the interpretation that the Army puts on the instructions they were given by the President and which the British Army similarly accepted, as to what the Armies were to do in Italy. ;;;; impression at home in respect to the category of things which the two armies are responsible for is that there may be some slight chance that the category may be widened ;;; items of supply increased ..... for one thing - the bread ration. We are anxious to have some documentary evidence as to why 300 grams is the right figure necessary ... if there is anything which can be given to substantiate the necessity for increasing the ration .... any further evidence which is not now included in any available documentary evidence at hand. Minton and Sir _____ in their report of mission see some possible increase in food and power supply..... anything which would warrant a possible increase because of "disease and unrest". All of the supplies which are to be imported into Italy from the "disease and unrest" standpoint are to be supplied by the Army. These supplies would fall into Category "A".

Other supplies, in order to cut down on the necessity for the continuation of the present rate of supplies - things which the Army will not assume responsibility for other than "disease and unrest" standard - things for the longer range use of the Italian Government - would be called Category "B" supplies.

The two governments, Britian and US, would like to get together and agree on a certain sum of money to be available which would be spent for procurement of Category "B" supplies for Italy. Suggestion - on the assumption that money is $250 million and is to be spent for Category "B" supplies - give us some projects as to how money can best be spent. Cite Project "A", for example, relate the cost in labor, power, transport, etc., to achievement of project in way of cutting down tonnage of present or required imports.

Mr. Merritt - London:

Agrees with Mr. Mitchell's approach. Raises another point --

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Mr. Merritt - London:

Agrees with Mr. Mitchell's approach. Raises another point -- obviously one of the great difficulties is that the ~~areas~~ (ACC ?) is in a certain part of Italy and it is not the most difficult part. What has to be done in the northern part cannot be assessed until we get there. Therefore, it is ~~impossible~~ important, bearing in mind the difficulties of getting subsequent supplies for northern Italy, not to use all of the money for this portion of Italy but reserve some for the northern part.

Brig. Lush indicated that insofar as Category "A" is concerned we can deal with the whole of Italy.

Mr. Merrit :

Sugrested that it is to be remembered that this is not to be thought of as "industrial rehabilitation" but as emergency first aid on a very short term program with a very small sum of money. ;;;;

~~Priorities~~

16 OCT

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Mr. Mitchell and Brig. Lush talked about how priority of projects would be determined. Mitchell and Merritt agreed that priority would be effected by achievement to be made.

Mr. Antolini asked if for the most part, the increase of import in wheat, for instance, would come under "B" Category and would be carried as a "B" Category expence.

Mr. Cleveland said that at the last CCS meeting in Washington (Oct 6 xx) discussion was on subject of amount of wheat necessary for increasing ration from 200 to 300 grams and that this export was thought of as being in Category "B" instead of "A".

Mr. Merritt stated he wished to throw in a note of warning to the effect that he wasn't absolutely certain of current thinking in Washington and London. Left DC Sept. 14 but in light of the President's and Prime Minister's statement of Sept. 26 believes they are on sound ground as to assumptions but cannot say for certain.

Mr. Cleveland - regarding the combined militaries - said he believed that the British had not received instructions from London. American representatives were taking the position that it looked like a "big job" in Italy but not necessarily one for them - assumption is that wheat will be a non-military project - on power project, felt that 40,000 kw would be a military project and 60,000 kw would fall in Category "B". They were trying to find 1700 trucks as a result of the President's press release (that Italy would receive 1700 trucks for transport). They were still talking from standpoint of "disease and unrest". Had not determined (in CCS) what President and Churchill meant.

Mr. Merritt - on developments in London - prior to the President's and Prime Minister's statement at Quebec, a lot of thinking had been given to the need for some sort of a new economic policy to Italy. The Departments in London have now agreed on the objectives of the policy and they have telegraphed to London and received a reply that the objectives have been sent to Washington. Representatives in Washington have been told to discuss this interpretation of the President's and Prime Minister's statement with Washington.

Mr. Antolini asked if for views on the "disease and unrest" in light of shipping, shouldn't we be realistic in our assumptions in relation to shipping. Mr. Mitchell agreed that everything we do and everything we talk about is subject to this whole shipping problem.

Brig. Lush said that food and transport are top priorities in Category "A"; although Allied military interests must be paramount there comes a time when "disease and unrest" become Army interests as well.

It was agreed that on Wednesday, "projects" would be placed before State Department (Washington) and London officials.

UNRRA will be discussed at the 4 o'clock meeting.

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Q. M. C. Form 353 (Old No. 490)
Revised July 26, 1918

1005/CC

Office of the
Chief Commissioner

LIST OF PAPERS

File under No. _____

8—6788

SERIAL NUMBER	FROM—	DATE	TO—	SYNOPSIS

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INSTRUCTIONS.—When papers on a subject become numerous they will be numbered serially and brief entries made on this form.

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