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PAYMENT
AUG. 1944

1943

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PAYMENT FOR GOODS & SERVICES IN ITALIAN TERRITORY
AUG. 1944 - APR. 1945

CC-4605

LIST OF PAPERS

Office of the
Chief Commissioner

File under No. 4605 PAYMENT FOR GOODS AND SERVICES IN
ITALIAN TERRITORY
(Establishment of lira account by Ital Govt)

ALLIED COMMISSION

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SERIAL NUMBER	FROM—	DATE	TO—	SYNOPSIS
18	Ltr Finance, 13076/F	20 Dec 44	CC	US Govt approve institution of lira account; UK feel inclined to view Ital Govt shd be required to do so.
19	Ltr Stone 13078/F	10 Jan 45	CG RAAC	Question of lira account raised with CCS by AFHQ: when answered received, AFHQ propose amend Adm Memo 95(43)31(44).
20	13214/F, Crafftey-Smith	8 Feb 45	Actg Pres AC	Proposals for modification of fin relations with IG, not practicable yet...
21	4614/5/EC, Lush	12 Mar 45	Actg Pres AC	AFHQ sections modifying Adm 95(43) & 31(44) to state policy is make cash payment where necessary to...
22	AFHQ Admin Memo 21	8 Apr 45		Procurement & Payment Police in Ital Territory for supplies & services; Adm Memo 95(1943)rescinded, 31(44)modified.

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File under No. 4605 PAYMENT FOR GOODS AND SERVICES IN ITALIAN TERRITORY
(Establishment of a lira account by the Italian Government)

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SERIAL NUMBER	FROM—	DATE	TO—	SYNOPSIS
1	AFHQ Admin Memo 31	1 Aug 44		Payments in Italian Territory
2	A/CC 100 Stone	10 Aug 44	Economic Section	Instructions in hand? Incl #31.
3	Ltr ES/11 O'Dayer	10 Aug 44	G-5 AFHQ	Payments in It Terr. protest a- gainst Admin Memo #31
4	Memo Densmore	16 Aug 44	Stone	Comments on ES/11
5	Ltr A/CC 100 CSO Densmore	18 Aug 44	Econ Section	Classification of ES/11 of 10/8
6	Ltr 13076/F Finance	25 Aug 44	A/CC	Objections to implementation of AFHQ Admin Memo #31
7	Memo Stone	28 Aug 44	Finance SC	Draft ltr to AFHQ, Wilson
8	Ltr 13076/F Finance	2 Sep 44	A/CC	Herewith draft
9	Ltr A/CC 100 Stone	4 Sep 44	Wilson AFHQ	Setting forth of protest against implementation of Admin Memo #31
10	ESC (44) 15 Econ Sub-Comm AFHQ Pol Committee	23 Sept 44		Summary of matter of objection by ACC to implementation of #31
11	Ltr G-5 AFHQ	27 Sep 44	IS & PS	Action at mtg of 26 Sept
12	Extract 6 Mtg of Econ Sub-Comm	28 Sep 44	Meeting of 26 Sep	Committee discussion & action on implementation of #31
13	Paper FC(44)112	28 Sep 44	Pol Comm AFHQ	Summary of Econ Sub-Comm action
14	Extract 27th Mtg Pol Comm AFHQ	4 Oct 44		Discussion & decision. Cable to go to CCAC to get views.
15	Cbl S-352 Stone	9 Oct 44	AFHQ	Bonomi says lira account effect would be "Disastrous"
16	FC(44) 120 G-5	10 Oct 44	Pol Comm AFHQ	Recent developments; draft cbl
17	Extract 28th Mtg Pol Comm AFHQ	12 Oct 44		Bonomi's views to be embodied in the cable.
17a	Memo, Lawler	21 Nov 44	Stone	Conference Quintieri Mission- Treasury officials in Washington.

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ALLIED FORCE HEADQUARTERS
APO 512

CHIEF Commissioner

283

ADMINISTRATIVE MEMORANDUM)

NUMBER

21)

8 April 1945

PROCUREMENT AND PAYMENT POLICY IN "ITALIAN TERRITORY"
FOR SUPPLIES AND SERVICES

AFHQ Administrative Memorandum Number 95, 1943 is rescinded.

1. The provisions of AFHQ Administrative Memorandum 31, 1944 are modified to the extent of permitting certain cash (lire) payments to be made by the military forces, United States and British, in accordance with paragraphs 5 and 8 below, pending the establishment of suitable arrangements along the general lines of AFHQ Administrative Memorandum Number 31, 1944. The provisions of this Memorandum are not retroactive and do not authorize payment of any unpaid invoices covering supplies furnished or services rendered prior to this date, which heretofore were not properly payable under the terms of Administrative Memorandum Number 31, 1944.

2. Separate instructions will be issued by AFHQ/INTOUSA to cover disposal of bills not payable under the terms of this directive or AFHQ Administrative Memoranda Numbers 31 or 95,

3. Nothing in this memorandum will be construed as affecting the controlled allocations of certain types of supplies, made by the AFHQ Board, vide Section III, AFHQ Administrative Memorandum Number 46, 1944. Similarly, it will in no way affect the established policies in regard to captured enemy material or equipment.

METHODS OF PROCUREMENT

4. There are two methods of procurement for supplies and services:

- a. Requisition.
- b. "Payment in cash" (Purchase or Rental).

5. While this headquarters authorizes "Payments in Cash" as an alternate method of procurement, such action is not to be considered as an indication that the Italian Government is not responsible under the terms of the Armistice to furnish supplies and services to Allied Governments in Italian Territory at the expense of the Italian Government. Procurement by payment in cash is resorted to in general as a matter of expediency in order to insure a continuing supply of essentials necessary for the prosecution of the war effort.

DEFINITIONS OF METHODS OF PROCUREMENT

6. The two methods of procurement are defined as follows:

- a. Requisition - The term "Requisition" shall mean the process whereby supplies, equipment, facilities or services needed by one of the

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AFHQ Administrative Memo #21 (Cont'd)

Allied Forces, or the use thereof, are acquired from their owners, regardless of their wishes in the matter or of the price or rental they require, against delivery to them of a requisition receipt note. It is left to the requisitioning authority to decide, in accordance with the terms of this directive whether to determine and pay a fair compensation, in cooperation with AMG/AC representatives whenever possible, or to turn over a copy of the requisition receipt note to the civil government, through such channels as may be directed by the respective forces (United States and British).

b. Payment in Cash - The term "Payment in Cash" shall mean a transaction between the owner of property or the purveyor of a service, or his duly authorized agent, and a purchasing officer of one of the Allied Forces whereby, at a price or rental in conformity with any price restriction measures, etc., in force agreed between proprietor and buyer, the ownership or use of such property is transferred to or the service is received by one of the Allied Forces and proprietor is paid in cash.

REGULATIONS GOVERNING PROCEDURE7. Requisitions

a. Procurement by requisitioning will be used to the maximum extent consistent with the policies set forth herein.

b. As requisitioning on the civilian population is apt to be a source of friction and misunderstanding, which can be substantially lessened in many cases by the avoidance of direct dealing between the requisitioning officer and the owner of the property to be requisitioned, arrangements will be made whenever possible whereby the service of requisition orders and the taking of property are effected by recognized local civil officials.

c. The requisitioning procedure will be used for the procurement of all items for which "Payment in Cash" is prohibited by paragraph 9 below.

d. The requisitioning procedure may be used in combat zones in those instances where it is impossible or inconvenient to arrange for purchase or rental. In such instances the requisitioning procedure will provide for prompt settlement of the requisition whenever payment in cash is appropriate as stated in paragraph 8 below.

e. The requisitioning procedure may be used in those cases where the owner cannot be located or ascertained with reasonable certainty or whenever it is considered that the price, rental or other terms asked are unreasonable.

f. Supplies and Services are not to be requisitioned unless strictly required for military purposes, the test being whether, if payment had to be made, the charge would be admissible against public funds.

g. Procurement authorities will normally exercise such authority within the areas of their respective area commands. Procurement by one authority in an area of another command will not be made except with the knowledge and consent of the area commander concerned.

CONFIDENTIALAFHQ Administrative Memo CONFIDENTIAL
#21 (Cont'd)

8. Payment in Cash (Purchase or Rental) - "Payment in Cash" is authorized in any of the following cases:

- a. Small day to day procurements.
- b. Where this is necessary for operational or security reasons or to insure a continuing supply or
- c. Where hardship to an individual would result from delay in payment.

9. No payment in cash will be made for the following:

- a. All public property to include supplies and facilities taken over from or owned by and services performed by state or local authorities or state owned enterprises.
- b. All communications, transportation and utilities including all ports, harbors, POL installations and other services rendered by or the supplies and facilities of concerns engaged in rendering public services.
- c. Private moveable property except as authorized in paragraph 8 above.
- d. All fixed assets in real estate including machinery, plant, equipment, etc, installed therein.

REAL ESTATE

10. The methods for procurement and payment described above will not be employed in obtaining the use of real estate. The real estate sections and hirings officers of the respective Forces shall continue to acquire buildings, land, and all other types of real estate, including accommodation and furnishings thereof, through the Italian Government Comando Genio Militare.

11. Claims will be processed by the various claims sections and passed to the Italian Government for payment under the system now in operation.

BY COMMAND OF FIELD MARSHAL ALEXANDER:

DISTRIBUTION:

6

G. W. CHRISTIAN
G. W. CHRISTIAN
Colonel, AGD
Adjutant General

22

- 3 -
CONFIDENTIAL

CONFIDENTIAL

MAR 13 REC'D

b.b.Ref: 4614/5/SG.12 March 1945.

SUBJECT: Payment for Military Requisitions.

TO : Acting President.

I refer to your memo of 10 March on the above subject.

The appropriate branches of ASHQ are preparing a new Administrative Memorandum which will cancel the tortuous provisions of Administrative Memoranda 95 and 31 and will state in essence that the policy of the Allied Forces is to make current cash payment for supplies, services and facilities in all instances where payment is considered necessary to maintain the required volume of procurements or production. This memorandum should be issued shortly and I will keep you informed.

M. S. LUSH

MSL/JG.

Q

46057/c

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COPYHEADQUARTERS ALLIED COMMISSION
APO 394
FINANCE SUB-COMMISSION

13214/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 DPIC 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. Grafftey-Smith
Colonel,
Joint Director,
Finance Sub-Commission.

APGS/adm.

COPY

(20)

COPY

13078/F

10 January 145

Subject: Real Estate and Moveable Property held under
Requisition by Allied Forces.

To: Brigadier General Thoburn K. Brown, US Army,
Commanding General, Rome Area Allied Command,
APO 794.

1. I refer to your letter of 4 January 1945 on the above subject.
2. The Italian Government has delegated to the Comando Genio Militare, of the Ministry of War, the payment for premises and lands occupied by the Allied armed forces. The task of recording and assessing such properties is a difficult one but I understand that some progress has been made and certain payments, in cases of hardship, have been effected. It has not been considered desirable to encourage the Italian Government to make immediate payments, for the already large Government deficit would be further increased, with an added inflationary effect.
3. With respect to supplies and services, including automobiles, the question of whether current supplies are to be paid for by the Allied forces directly, or by the Italian Government through a "lira account" arrangement, has been raised with the Combined Chiefs of Staff by AFHQ. When a reply has been received, it is my understanding that AFHQ plans to revise Administrative Memoranda Nos. 95 (1943) and 31 (1944). Undoubtedly consideration will be given at that time to the problem of payment for goods and services requisitioned in the past.

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

Cy in file 590/CC

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cc 1219
DEC 21 RECDHEADQUARTERS
ALLIED COMMISSION
FINANCE SUB-COMMISSION
A.P.O. 394.

13076/F.

20 December 1944.

SUBJECT: Payment for Goods and Services.

TO : (1) Chief Commissioner. ✓
(2) Chief of Staff.
(3) D.C.O.S., Economic Section.

1. Over the telephone yesterday evening Commander Southard said that word had been received from the C.C.S. that the United States Government had signified their approval to the institution of a lira account in Italy. It was added that no action should be taken until London had expressed their views on the matter.

2. Yesterday morning Mr. Nosworthy informed me that the British Embassy in Rome had received the following cable from the Foreign Office:-

"Please telegraph your views on the question of Italian Government being required to set up a lira account to facilitate procurement of requirements of Allied Forces (MAT 353 October 12th). We incline to the view that the Italian Government should be required to do this after but not before official publication of detailed proposals for implementation of Allied policy in Italy now under discussion in Washington".

3. It is not clear from the second sentence of the cable whether the detailed proposals are in general or specific terms.

4. I sketched the background to Mr. Nosworthy, gave him a copy of MAT 353 of 12 October, and said that the position remains as stated, namely, that the attitude of the Italian Government is undoubtedly unchanged in its reluctance to assume an additional budgetary charge of about lit. 18 billion per annum.

*A.P. Grapton Smith*Colonel,
Joint Director,
FINANCE SUB-COMMISSION.

FILE

FILES A

(18)

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November 21, 1944

Subject: Conference of November 17, 1944

Present: Messrs. Ansel F. Luxford, Josiah DuBois, Harold Glasser, Allan Fisher of the Treasury Department, Mr. Reinstein of the State Department, Messrs. Mattioli, Orton, Guccio and Morelli of the Mission, Captain Kamarek and Lieutenant Commander Lawler, Finance Sub-Commission.

In opening the meeting, Mr. Mattioli presented to all present copies of the agenda which is attached to the memorandum of the meeting of November 15, 1944. This meeting discussed primarily points 1, 2 and 3 of the agenda.

Messrs. Mattioli and Guccio by means of long discussions, seemed to indicate that the present difficulties arose from the fact that there were two separate authorities issuing currency in Italy. Their suggestion was that all AM lire be issued by the Bank of Italy, which should also provide all funds needed by the Allied armed forces. It was stated that this issuance would be on behalf of the Italian Government. Mr. Luxford indicated that this proposal (which would eliminate the Allied Financial Agency) was a matter worthy of serious consideration so long as the Allied forces retained the right to issue lire at any time that the Bank of Italy failed to perform that obligation to their satisfaction. Mr. Mattioli stated that he thought that would be perfectly satisfactory and such issuance by the Allied forces could be on behalf of the Bank of Italy. Mr. Luxford felt that that was a matter of detail to be worked out later.

The point was then raised that when the question of payment by the Bank of Italy to the Allied forces of sufficient lire to cover acquisition of goods and services was raised with the President and the Cabinet, he objected on the ground that since such a step would increase the budget deficit by a considerable sum each month, it would be politically disastrous. Mr. Mattioli attempted to work out a system in which the Italian Government would be indebted to the Allied governments to the extent of the issuance for purposes of the Allied forces, but the Bank of Italy, as an independent institution, would have a credit against the Allied forces for this amount. After some discussion of this point, Mr. Mattioli withdrew it and said it was a matter of detail to be discussed later. The meeting then adjourned with an agreement to meet again on Tuesday, November 21.

JJ Lawler

17a

4605/cu

Extract from PC(44) 28th Meeting of Political Committee AFHQ

12 Oct 44

TOP SECRET

(16) 7. PAYMENT FOR GOODS AND SERVICES IN ITALY TERRITORY:

(Paper No. PC (44) 120)

THE COMMITTEE had before them a paper by G-4:

(a) Indicating that the Italian Prime Minister had informed the Acting Chief Commissioner of the ACC that the political effect of the proposed lira account would be "disastrous".

(b) Suggesting that a draft telegram, as submitted, be despatched to the Combined Civil Affairs Committee after insertion of a statement on the Italian Prime Minister's reaction as recorded at (a) above.

COMMODORE STONE, amplifying the paper, stated that it was now estimated that the drawings against the proposed lira account would amount to not less than one billion lire monthly. In the opinion of the Italian Prime Minister the proposed measure would seriously affect the stability of the Italian stock market and of the lira. He added that Italian financial circle had been led to understand by an article alleged to have originated in Wall Street that some remission of Italian obligations could be expected.

BRIGADIER GENERAL SPOFFORD observed that events might will prove Italian expectations to be pessimistic and pointed out that the German indemnity had been fixed at ten billion lire monthly of which some seven billion monthly had been paid. This was in excess of probable Italian indebtedness to the Allies.

THE SUPREME ALLIED COMMANDER:

Directed that G-5 insert in the draft telegram circulated under paper No. PC (44) 120 a statement (to be agreed with the U.S. Political Adviser, the British Resident Minister and the Allied Control Commission) embodying the reactions of the Italian Prime Minister, and that they then despatch the telegram in the MAT series.

TOP SECRET

* Pencilled note by Cmdre Stone: "exchange", substituted for underlined portion

(17)

12 Oct

SECRET

ALLIED FORCE HEADQUARTERS

PC(44) 120
10 October 1944

SECRET K 318

COPY NO. 47

POLITICAL COMMITTEE

PAYMENT FOR GOODS AND SERVICES IN
ITALIAN TERRITORY

Note by Assistant Chief of Staff, G-5.

1. In accordance with the instruction on page 5 of the Minutes of the Political Committee, 4 October 1944, the attached draft cable was prepared to ascertain the views of the Combined Civil Affairs Committee and was forwarded on 6 October to the British Resident Minister and to the U.S. Political Adviser for concurrence.
2. On 9 October the Acting Chief Commissioner of the A.C.C. advised (ACC-352) that Prime Minister Bonomi stated to him that the political effect of the proposed lira account would be "disastrous". The Acting Chief Commissioner, estimating that the drawings against the lira account would be not less than one milliard lira monthly, recommends that implementation of Administrative Memorandum No. 31 be deferred.
3. G-5 has, in view of the above message from the Acting Chief Commissioner, proposed to the British Resident Minister and the U.S. Political Adviser that the draft cable to the CCAC be appropriately modified to indicate the opposition of Prime Minister Bonomi to the proposed lira account.
4. G-5 is of the opinion that notwithstanding the unfavorable reaction of the Italian Prime Minister, the proposal of a lira account should be presented to the CCAC as planned. Admitting the possibility that adverse short-run political disadvantages might develop were Allied expenditures to be released, sight must not be lost of the longer-run disadvantages of continued concealment of the level of Allied expenditure. Continuation of the present policy invites speculation and rumor and unfavorable comparison with the German indemnity (which was always made known to the Italians), which would not exist if the facts were disclosed. Moreover, in view of the likelihood that Allied expenditures in Italy will increasingly take forms more distantly related to the war against Germany.

Political Adviser for concurrence.

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(Intd) C. M. S.

Incl: Draft Cable

SECRET

11

10 Oct

SECRET

AFHQ

ACC

S- 352

9 Oct.

SECRET

PRIORITY

Acting Chief Comm.

SECRET PD CONFIRMING ADVICE TO GENERAL SPOFFORD ~~GMA~~ AFTER FULL PRESENTATION
 OF THE PROCUREMENT AND FINANCIAL PROVISIONS OF AFHQ ADMIN MEMORANDUM THIRTY
 ONE OF FIRST AUGUST TO PRIME MINISTER BONOMI AND TREASURY MINISTER SOLERI
 GMA BONOMI STATED THAT POLITICAL EFFECT OF THE PROPOSED LIRA ACCOUNT GMA
 WHICH IT IS NOW ESTIMATED WOULD BE NOT LESS THAN ONE BILLION LIRA MONTHLY
 GMA WOULD BE QUOTE DISASTROUS END QUOTE PD PAREN TO AFHQ FOR SACRED GMA US
STATES POLITICAL ADVISER AND BRITISH RESIDENT MINISTER FROM ACC STONE PERSONAL
PAREN SINCE HE CONSIDERED THE EFFECT ON HIS GOVERNMENT WOULD BE EVEN MORE
 GRAVE THAN I HAD ANTICIPATED I MUST RENEW MY RECOMMENDATION THAT IMPLEMENTATION
 OF AFHQ ADMIN MEMORANDUM THIRTY ONE BE REFERRED

AUTHENTICATED:

HQ ACC Chief of Staff.Distribution :

10 Oct 1944.

A/CC

Econ Sec

Finance Sub-Comm.

Chief of Staff.

Political Section.

ELLERY W. STONE
 Commodore, USNR
 Acting Chief Commissioner

SECRET

Extract from PC (44) 27th Meeting of Political Committee AFHQ 4 Oct 44

TOP SECRET

5. PAYMENT FOR GOODS AND SERVICES IN ITALIAN TERRITORY:

(Paper No. PC (44) 112)

THE COMMITTEE had before them a paper outlining the Allied Control Commission's objections to Administrative Memorandum No. 31 which required the Italian Government to set up:

- (a) A procurement agency to which the Allied forces would normally resort for goods, services, and facilities, and which would pay for such procurements.
- (b) Allira account which the Allied forces would use to pay for all goods, services and facilities which the Italian procurement agency did not or could not produce.

CAPTAIN STONE said that he had discussed the proposed procurement agency with the Italian Government. He saw no great obstacle to its establishment but pointed out that it would be unlikely to meet more than 10% of Allied demands. He had not yet discussed the Lira Account, which was a more complicated subject, and it was estimated that its enforcement would require the Italian Government to pay out some three to five hundred lire monthly. Replying to a question by the Supreme Allied Commander, he stated that the measures demanded of the Italians were in accordance with the terms of the armistice. The Italians would interpret their enforcement, however, as an indication that, despite Italian cobelligerency, the Allies were contemplating no remission of the Armistice terms. The Allied Control Commission were strongly of the opinion that their enforcement at this juncture was inopportune and might lead to political repercussions, including press attacks. He suggested that he be allowed to sound the Italian Prime Minister and Finance Minister informally on the whole subject, emphasizing to them that this was part of the assistance expected of ITALY as a cobelligerent.

BRIGADIER GENERAL SPOFFORD pointed out that under the existing arrangements currency was provided by the Allies, flown into ITALY, expended, and the sum charged to the Italian State suspense account, for ultimate reimbursement of the Armistice. While not suggesting

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BRIGADIER GENERAL SPOFFORD pointed out that under the existing arrangements currency was provided by the Allies, flown into ITALY, expended, and the sum charged to the Italian State suspense account, for ultimate reimbursement in accordance with the terms of the Armistice. While not suggesting that the proposed lira account should operate retroactively, he queried whether it was not time to put the procedure on the proper basis by obliging the Italian Government to pay currently for all goods, services and facilities required by the Allied in ITALY. The largest item would probably be labour. He added that US War and Navy Department regulations required all American expenditures in ITALY to pass through the US Army and Navy appropriations, where dollars were held against them. He agreed that this was an internal matter, but observed that the War Department were already questioning the propriety of spending dollars on goods and services in respect of which they did not consider themselves obligated. The proposed scheme would remove this problem.

ADMIRAL CUNNINGHAM emphasized the need to ensure that the effectiveness of work was not impaired as a result of dilatory settlement of bills. The present situation required clarification since the Admiralty had advised him that there was no need to pay for floating docks, now under construction, or for other services. He explained that the British Army Pay services

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TOP SECRET

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TOP SECRET

acted as agents for the Royal Navy for such items as were paid for in ITALY, charging the Admiralty in LONDON at the rate of 400 lire to the pound.

MR. MACMILLAN observed that the rapidly mounting overdraft resulting from Allied expenditure in ITALY was not shown in the Italian budget, and the future presentation of the final bill in a single statement to the Italian Government would cause a considerable shock. He agreed with the proposed scheme in principle, but nevertheless queried whether the time was psychologically opportune for enforcing it on the Italian Government and he favoured Captain Stone's suggestion that he discuss the matter informally with the Italian Prime Minister, and Finance Minister and propose to them the gradual assumption of responsibility for procurement and the establishment of the lira account at a specified future date.

LIEUTENANT GENERAL CLARK, replying to a question by the Supreme Allied Commander, remarked that, apart from the US War Department's difficulties referred to by Brigadier General Spofford, the present procedure was working satisfactorily. If the proposed scheme were enforced in its entirety, there would ensue not only political troubles, but very probably a drying up of supplies and labour.

THE SUPREME ALLIED COMMANDER:

(a) Directed that the Acting Chief Commissioner of the Allied Control Commission approach the Italian Government with a view to:

- i. Obtaining their views on the proposed lira account.
- ii. Directed that G-5 in conjunction with the U.S. Political Adviser and the British Resident Minister ascertain and report to him the views of the Combined Civil Affairs Committee on the proposed lira account.

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T O P S E C R E T

COPY

EC (44) 112
28th Sept 44ALLIED FORCE HEADQUARTERS

CONFIDENTIAL

COPY NO. 48

POLITICAL COMMITTEEPAYMENT OF GOODS AND SERVICES IN ITALIAN
TERRITORY

Note by Assistant Chief of Staff, G-5

1. At its meeting on 26th September, the Economic Sub-Committee considered the recommendation of the Allied Control Commission that Administrative Memorandum No. 31 be rescinded, in favour of the continuance of the present procedure whereby the Allied Forces on General directly procure and pay cash for all goods, services, and facilities needed by them in Italy.
2. The Chairman of the Economic Sub-Committee, after hearing the discussion, directed that the political questions involved be reported to the Political Committee for decision, and that G-5 prepare a brief statement of those questions.
3. Administrative Memorandum No. 31, in brief, required the Italian Government to set up a procurement agency to which the Allied Forces would normally resort for goods, services, and facilities, and which would pay for all goods, services, and facilities which the Italian agency did not or could not procure. Certain classes of procurement would in any case not be paid for.
4. The Allied Control Commission is of the opinion that the Italian Government is incapable of setting up an effective procurement agency, and objects to the lira account on the grounds that Allied vouchers would thereby come into the hands of the Italian Government, with undesirable political consequences. These undesirable consequences assertedly would result from Italian Government objection to the nature, magnitude or cost of Allied procurement in Italy.
5. The U.S. Fiscal Director urges the setting up of the lira account in order to relieve the present necessity of passing all American expenditures in Italy through the U.S. Army or Navy appropriations. The British services state that they do not suffer from this difficulty, but on the other hand have no objection to the lira account.

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directed that the political questions involved be reported to the Political Committee for decision, and that G-3 prepare a brief statement of those questions.

3. Administrative Memorandum No. 31, in brief, required the Italian Government to set up a procurement agency to which the Allied Forces would normally resort for goods, services, and facilities, and which would pay for all goods, services, and facilities which the Italian agency did not or could not procure. Certain classes of procurement would in any case not be paid for.

4. The Allied Control Commission is of the opinion that the Italian Government is incapable of setting up an effective procurement agency, and objects to the lira account on the grounds that Allied vouchers would thereby come into the hands of the Italian Government, with undesirable political consequences. These undesirable consequences assertedly would result from Italian Government objection to the nature, magnitude or cost of Allied procurement in ITALY.

5. The U.S. Fiscal Director urges the setting up of the lira account in order to relieve the present necessity of passing all American expenditures in ITALY through the U.S. Army or Navy appropriations. The British services state that they do not suffer from this difficulty, but on the other hand have no objection to the lira account.

6. Apart from the advantages to the American side which the procedures in Administrative Memorandum No 31, will yield, there would appear to be certain broad policy advantages gained from shifting to the Italian authorities - so far as practicable - the acts of procurement and payment.

7. It is therefore recommended that a prompt decision be reached as to the political aspects of Administrative Memorandum No 31. The technical details which will be involved in implementing the Memorandum can then be worked out primarily between the ACC and the pay services of the Allied Forces.

(Intd) C.E.I. L-H

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(13)
28 Sept

Extract from ESC (44) 6th Meeting of Economic Sub-Committee 28 Sept 44
AFHQ Political Committee

K 278

TOP SECRET

4. PAYMENTS FOR GOODS AND SERVICES IN ITALIAN TERRITORY

(Paper No. ESC (44) of 23rd September 1944)

THE SUB-COMMITTEE had before them a paper by G-5, revealing the Allied Control Commission's disagreement with Administrative Memorandum No. 31, which required that an Italian procuring agency be set up and that the Italian Government provide a fund (to be known as the Lira Account) to enable the Allied Forces to pay for such supplies, facilities and services as the Italian procuring agency were unable to provide and pay for.

LIEUTENANT-COMMANDER SOUTHARD, amplifying the paper, stated that he understood the Allied Control Commission to have three main objections to Administrative Memorandum No. 31, namely that :-

- (a) No Italian procuring agency could be set up because the Italian Government were incapable of setting it up and making it function.
- (b) The proposed Lira account had no parallel with the Franc Account in NORTH AFRICA as the French were gaining dollars and sterling in exchange for their disbursement in francs, whereas in Italy the Allies were dealing, not with an ally, but with a conquered and dispirited nation.
- (c) It was politically unwise to allow the Italian Government to have knowledge of the nature, magnitude and cost of Allied procurements in ITALY.

LIEUTENANT-COMMANDER SOUTHARD added that :-

- (d) In the opinion of G-5 the Italian Government should now, after twelve months, be required and encouraged to run a procurement agency and that payments by the Allies should be made in funds provided by the Italian Government. He felt that the present arrangement whereby the Allies directly spent money brought into the country by them

LIEUTENANT-COMMANDER SOUTWARD, understood the Allied Control Commission to have three main objections to Administrative Memorandum No. 31, namely that :-

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- (c) It was politically unwise to allow the Italian Government to have knowledge of the nature, magnitude and cost of Allied procurements in ITALY.

LIEUTENANT-COMMANDER SOUTWARD added that :-

- (d) In the opinion of G-5 the Italian Government should now, after twelve months, be required and encouraged to run a procurement agency and that payments by the Allies should be made in funds provided by the Italian Government. He felt that the present arrangement whereby the Allies directly spent money brought into the country by them should on policy grounds give way to the more logical arrangement whereby the Italian Government lived up to its responsibility to procure and pay for the goods, services and facilities needed by the Allies.

- (e) The French had not received dollars and sterling for all expenditure in NORTH AFRICA and the Allied Control Commission's argument against the comparability of the French case was therefore not wholly relevant.

MR. KIRK said that he had previously supported the Allied Control Commission's opinion that it was unwise to allow the Italians to have knowledge of Allied procurements and payments. He had understood that there was some objection to this on grounds of military security but, as this apparently was not the case, he wished to withdraw his objection.

CAPTAIN ARCHER supported the proposed scheme as it would obviate the present necessity of passing all American expenditures in ITALY through the US Army and Naval appropriation.

BRIGADIER ERICKMAN stated that he was satisfied with the existing procedure

- reconsider the political aspect of the problem. (*Emendation by Emile Stone*)

TOP SECRET

(12)
28 Sept

- 2 -

TOP SECRET

but that he could perceive advantages in the proposed Lira Account for his US colleagues and that he therefore would raise no objection to it.

COLONEL GRAFFTEY SMITH :-

- (a) Pointed out that the Italian Army was the only organisation with the knowledge required for procuring supplies for the Allied armed forces but that it had informed the Allied Control Commission that it could not undertake the proposed commitment owing to a lack of competent officers and of transport. The Allied Control Commission naturally encouraged Italian help in this direction where it was possible, and the naval procurement agency at TARANTO for example was doing good work.
- (b) Observed that at the present time the Allied Control Commission's relations with the Italian Government were rather difficult and in particular that little could be done to stop press attacks on the Commission. It was his view that the scheme under discussion would, if put into effect, prove another strong argument in the hand of the press.
- (c) Stated that Sir Noel Charles had considered the proposed scheme inopportune at a time when lend-lease was under consideration. As lend-lease was no longer under consideration the Allied Control Commission's argument on that score had admittedly weakened.
- (d) Pointed out that under the proposed scheme money would have to be advanced to the Italian Treasury by the Allied Control Commission.
- (e) Stated that he had been informed by AAI that outstanding accounts could be settled, and enquired:
 - (i) Whether the American forces were settling any of their accounts and
 - (ii) Whether it was proposed that ACC would be obliged to handle Italian objections of a technical military nature arising out of the use of the Lira account. He did not consider that the Allied Control Commission had the technical knowledge required to value procurements for the Allied armed forces.

CAPTAIN ARCHER, replying to Colonel Grafftey Smith's question at (e), stated that the American armed forces were leaving all accounts in the hands of the Administrative

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(ii) Whether it was proposed that ACC would be obliged to handle Italian objections of a technical military nature arising out of the use of the Lire account. He did not consider that the Allied Control Commission had the technical knowledge required to value procurements for the Allied armed forces.

CAPTAIN ARCHER, replying to Colonel Grafftey Smith's question at (e) (i) above, stated that the American armed forces were leaving all accounts outstanding for the present, in view of the uncertain status of Administrative Memoranda Nos. 95 and 91. In regard to (e) (ii) an agency had acted for the American forces in NORTH AFRICA.

BRIGADIER ERICKMAN stated that claims on the British forces of the nature referred to at (e) (ii) above had been dealt with in NORTH AFRICA by the British Pay and Finance Sections and he did not anticipate any difficulty in ITALY.

MR. MACMILLAN said that the technical difficulties of the scheme did not appear to be insurmountable and suggested that the main points at issue, which appeared to be political, might be submitted to the Supreme Allied Commander's Political Committee.

THE CHIEF ADMINISTRATIVE OFFICER :

Directed that G-5, in conjunction with the Allied Control Commission, prepare a paper embodying the points at issue for submission to the Supreme Allied Commander's Political Committee.

TOP SECRET

ALLIED FORCE HEADQUARTERS
G-5 Section
APO 512

CELIN/TAS/as

27 September 1944

SUBJECT: Payment of Goods and Services in Italian Territory.

TO : IS & PS.

1. At its meeting on 26 September, the Economic Sub-Committee considered the recommendation of the Allied Control Commission that Administrative Memorandum No. 31 be rescinded, in favor of the continuance of the present procedure whereby the Allied Forces in general directly procure and pay cash for all goods, services and facilities needed by them in Italy.

2. The Chairman of the Economic Sub-Committee, after hearing the discussion, directed that the political questions involved be reported to the Political Committee for decision, and that G-5 prepare a brief statement of those questions.

3. Administrative Memorandum No. 31, in brief, requires the Italian Government to set up a procurement agency to which the Allied the Allied Forces normally would resort for goods, services, and facilities, and which would pay for such procurement; and to set up a lira account which the Allied Forces would use to pay for all goods, services, and facilities which the Italian agency did not or could not procure. Certain classes of procurement would in any case not be paid for.

4. The Allied Control Commission is of the opinion that the Italian Government is incapable of setting up an effective procurement agency, and objects to the lira account on the grounds that Allied vouchers would thereby come into the hands of the Italian Government, with undesirable political consequences. These undesirable consequences assertedly would result from Italian Government objection to the nature, magnitude, or cost of Allied procurement in Italy.

5. The U.S. Fiscal Director urges the setting up of the lira account in order to relieve the present necessity of passing all American expenditures in Italy through the U.S. Army or Navy appropriations. The British services state that they do not suffer from this difficulty, but on the other hand have no objection to the lira account.

6. Apart from the advantages to the American side which the procedures in Administrative Memorandum No. 31 will yield, there would appear to be certain broad policy advantages gained from shifting to the Italian authorities -- so far as practice -- the acts of procurement and payment. It is therefore reco

mended that a prompt decision be reached as to the political aspects of Administrative Memorandum No. 31. The technical details which will be involved in implementing the Memorandum can then be worked out primarily between the A.C.C. and the pay services of the Allied Forces.

C.E.L. LEWIN-HARRIS
Colonel
Deputy Asst. Chief of Staff, G-5

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HQ ACC. APO 394
365 Acc. Gen.
Rec'd 25 Sep.
by DFE
ALLIED FORCE HEADQUARTERS

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ESC (44) 15
23rd September 1944

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COPY NO 22

ECONOMIC SUB-COMMITTEE

PAYMENT FOR GOODS AND SERVICES IN ITALIAN TERRITORY

Note by Assistant Chief of Staff G-5

1. Administrative Memorandum 31 was issued by this HQ on 1 August 1944 to prescribe policies and procedures as to the procurement of and payment for supplies, facilities, and services in Italian Territory. Briefly, the Memorandum (attached as Annex A) required the Allied Control Commission to cause the Italian Government to set up in the Ministry of Finance a procurement agency to handle Allied requisitions; and to provide a fund, to be known as the Lira Account, to enable the Allied Forces to pay for such supplies, facilities and services as the Italian procurement agency is unable to provide and pay for.
2. This Memorandum was the culmination of many months of discussion and experiment. In essence, it adopts the procedure used in North Africa, whereby the French were encouraged to procure for the Allies in all practicable cases, but provided a franc account to cover the instances where cash payment is made by the Allies.
3. In a letter dated 4 September, (copy attached as Annex B), the Acting Chief Commissioner of the ACC expressed the opposition of the ACC to the provisions of Administrative Memorandum No. 31, which had been stated orally at this Headquarters on 17 August (see memorandum by A.C of S, G-4, copy attached at Annex C). In summary, the ACC recommends :
(a) That no attempt be made to establish an Italian procuring agency.
(b) That Administrative Memorandum No. 31 be withdrawn in favour of continuing the existing procedure whereby the pay branches of the Allied Force draw lire from A.F.A. and pay cash for facilities, supplies, and services procured in Italy.
4. The basis for the objection by ACC to the policy and procedure set forth in Administrative Memorandum No. 31 is, (a) that the Italian Government is incapable of setting up and operating adequately a procurement

a procurement agency to handle Allied requisitions; and to provide a fund, to be known as the Lira Account, to enable the Allied Forces to pay for such supplies, facilities and services as the Italian procurement agency is unable to provide and pay for.

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(a) That no attempt be made to establish an Italian procuring agency.

(b) That Administrative Memorandum No. 31 be withdrawn in favour of continuing the existing procedure whereby the pay branches of the Allied Force draw lire from A.F.A. and pay cash for facilities, supplies, and services procured in Italy.

4. The basis for the objection by ACC to the policy and procedure set forth in Administrative Memorandum No. 31 is, (a) that the Italian Government is incapable of setting up and operating adequately a procurement service for the benefit of the Allies, and (b) that it is politically unwise to allow the Italian Government to have knowledge of what the Allies are procuring and how much they are paying. The objection in (b) makes it apparent that the ACC are now opposed to their own voucher scheme which went beyond Administrative Memorandum No. 31 and put on the Italian Treasury the task of paying for Allied procurement against Italian Government vouchers. To the argument that the lira account would operate in Italy (as the franc account operated in North Africa) to encourage the Italian Government to improve its procurement services so as to cut down the amount disbursed by the Allies from the lira account, the ACC replies (paras 7-9 of Annex B) that the situation in Italy is not comparable.

5. Recommendations:

(a) Modify Administrative Memorandum No. 31 by deleting the words "the Ministry of Finance of" in para 2(a). This will meet the objection of the ACC that in any event the Finance Ministry would not be the proper section of the Italian Government within which to set up a procurement agency.

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to Economic Section
23 25 September 1944 fsp

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(b) Retain in force the balance of Administrative Memorandum No. 31. It is the opinion of this Section that every effort should be made, after a year of Allied occupation, to improve the procedure by which the Italian Government carries out its obligation to procure and pay for supplies, facilities, and services needed by the Allies for the prosecution of the war in Italy. The continuance of the status quo, as urged by the ACC, does not appear necessary or desirable. The political objections to permitting the Italian Government to know what, in fact, is being procured by or for the Allies and at what price do not appear to have force. The objection that any procurement agency set up by the Italian Government will be ineffective should not be determining, inasmuch as the procurement by Italian action of even 10 per cent of the total procurement for Allied use is better than nothing. Payment of the remainder out of funds (i.e. a lira account) provided by Italian Government action and with the knowledge of the Italian Government would present a distinct improvement over present procedures. It seems hardly reasonable to suppose that the Allied Authorities are unwilling to permit the Italian people to know what contribution they are making to the prosecution of the war, or that the political consequences of such knowledge are something to be feared.

(intd) C.E.L-H.

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ANNEX A

K-260

ADMINISTRATIVE MEMORANDUM :

1 August 1944

NUMBER

31)

PAYMENTS IN ITALIAN TERRITORY

1. The following policies as to the procurement of supplies, facilities and services in Italian Territory are hereby prescribed, and the provision of Administrative Memorandum Number 95, 1943, are notified accordingly.

2. Italian Services of Requisition.

(a) The Allied Control Commission will cause to be set up within the Ministry of Finance of the Italian Government an agency, to consist of a Chief Agent and as many sub-agents as may be necessary, to accept and fill such requisitions for supplies, facilities and services, locally obtainable, as may be passed to it by the Allied Forces. This agency will obtain the supplies, facilities and services required by such means and methods as the Italian Government may provide.

(b) The sub-agents will be located at convenient points where they can readily co-operate with the Allied Forces.

3. Lira Account.

(a) The Allied Control Commission will require the Italian Government to advance from time to time to a designated officer of the Allied Control Commission specified sums of lire to be used by the various components of the Allied Forces to enable them to make cash payments as specified below. This fund will be known as the Lira Account.

(b) Cash Payments from the Lira Account may be made in the following cases :

1. For items and services which it is impracticable to procure through the Italian Services of requisition, or which cannot be procured speedily enough.
2. For procurement in the combat zone, where payment in cash is necessary to obtain supplies, facilities and services.
3. For small day-to-day purchases, the nature of which makes requisitioning impractical.
4. For all payments to local civilian employees.

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2. For procurement in the combat zone, where payment in cash is necessary to obtain supplies, facilities and services.
3. For small day-to-day purchases, the nature of which makes requisitioning impractical.
4. For all payments to local civilian employees.

(c) In every case the Allied procuring agent concerned will require an approved requisition or authority from the appropriate service prior to making a purchase or payment.

(d) Vouchers for payments charged to the Lira Account are to be turned over periodically to the Italian Government through the Officer of the Allied Control Commission controlling the Account.

4. Real Estate and Claims

(a) The methods for procurement and payment described above will not be employed in obtaining the use of real estate or in paying claims. The real estate sections and hirings officers of the respective Forces shall continue to acquire buildings, land and all other types of real estate, including accommodation and furnishings thereof, through the Italian Government Comando Genio Militare.

(b) Claims will be processed by the various claims sections and passed to the Italian Government for payment under the system now in operation.

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5. Certain Payments Not to be Made.

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Payments should not be made for the following:

- (a) Durable goods which are not in continuous, current production, or which the owner either will be unable to replace locally or will not need to replace at present. These include such articles as vehicles, heavy plant and machinery, constructional materials, structural steel, railway plant, stock piles and the like, not forming part of current output of an operating plant.
 - (b) Services which are normally performed by the State or local authorities, such as repairs to roads and bridges, removal of refuse, etc.
 - (c) Goods taken over from or owned by and services performed by the State or local authorities, or by State-owned or para-statal concerns.
6. When the arrangements contemplated in paragraphs 2 and 3 above have been effected by the Allied Control Commission, detailed instructions will be issued by the Commanding General, NATOUSA, for U.S. Army Forces, by the Commander, U.S. Naval Forces in Northwest African Waters, and by the British Navy, Army and RAF commanders, for their respective services. Such instructions will follow generally the plan outlined in Administrative Memorandum Number 18, Headquarters NATOUSA, 4 November 1943, for U.S. Forces, and the corresponding instructions which were issued in North Africa for the British forces.

By command of General WILSON:

H.V. ROBERTS,
Colonel, AGD,
Adjutant General.

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• By command of General WILSON:

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ANNEX B

K-260

A/CC 100-1

4 September 1944

SUBJECT: Payment for goods and services in Italian territory

TO: President, Allied Control Commission, C.M.F.

1. I write with reference to Administrative Memorandum No. 31 of 1 August 1944, of which a copy is attached. I much regret having to raise objections to an instruction issued by AFHQ, but since the Allied Control Commission is an interested party in the implementation of the Memorandum, I consider it my duty to acquaint you with our objections to the provisions contained therein. It is only right to add that if this Commission and Headquarters AAI, the principal organisations affected, had been consulted before the issue of the Memorandum it would not now be necessary to have to present our case at this late hour.

2. Under paragraph 2 of the Memorandum, the Allied Control Commission is instructed to set up within the Ministry of Finance of the Italian Government an agency to requisition such supplies, facilities and services as may be passed to it by the Allied Forces.

3. The Ministry of Finance, which is designed to superintend the collection of revenue, is incapable of providing any staff to perform the highly specialised task of procuring supplies for the Allied armed forces. The only organisation with any knowledge of this type of specialised work is the Italian Army of whom enquiries were made through the medium of the Army Sub-Commission. In reply, General Pelligra, Director of the Italian Army Commissariat, stated categorically that the army could not undertake such a commitment owing to a lack of competent officers and lack of transport. He added decisively that if this method were adopted the Allies would not receive what they required.

4. Both at AFHQ and HQ AAI, Heads of Services have expressed doubt that the Italians are competent to assume this function.

5. In a Memorandum 17 August 1944, addressed to G-5, AFHQ, G-4(A) and G-4(B) suggested that the method under which any agency should function should be identical with that used in North Africa under reciprocal aid.

6. Paragraph 3 of the Memorandum instructs the Allied Control Commission to require the Italian Government to set up a lira account.

9. In Italy the circumstances are entirely different. The Allies are dealing with a dispirited nation which has not the status of an ally. The procurement of goods and services are on a vastly greater scale than in North Africa; and the Italian Government considers that the country is being despoiled by its conquerors.

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10. The establishment of an Italian procuring agency and the institution of a lira account postulate that the Italian Government will be kept informed of the amount spent on the payment of goods and services. Paragraph 3(d) of the attached memorandum states that vouchers for payments charged to the lira account are to be turned over to the Italian Government.
11. I consider that both procedures suggested will provide the Italian Government with information for which they have repeatedly and vainly asked, and which will probably be used to the detriment of the Allies to demonstrate what they will term the severe treatment accorded to Italy. Once in possession of this figure it is only a short step to asking for details of the amount paid to troops. It is also likely that the Italians will raise countless queries on the propriety and price of purchases.
12. I have consulted the Political Section of the Allied Control Commission as well as the British High Commissioner, Sir Noel Charles, and the American Delegate to the Advisory Council, Mr. Alexander Kirk. They are in agreement with the views expressed in the preceding paragraph and state that there are obvious disadvantages in furnishing this information to the Italian Government, particularly at a time when the granting of Lend-Lease facilities to Italy is under consideration.
13. It must be emphasized that the institution of a lira account would not result in a saving of time or personnel as funds would continue to be furnished to and payments made by the paymasters and finance officers. Nor does it result in a reduction in funds issued from Allied sources. The Italian Government has not sufficient funds to finance, out of its own resources, this additional expenditure; and would need to borrow from the Allied Financial Agency. The amount of lire issued by the Allied Financial Agency would thus remain constant.
14. In view of the foregoing I strongly recommend that (a) no attempt should be made to establish an Italian procuring agency, (b) the existing procedure whereby funds are drawn by the paymasters and finance officers from the Allied Financial Agency should be maintained, and (c) Administrative Memorandum No. 31 should be withdrawn and the proposals re-examined if and when Reciprocal Aid facilities are granted to Italy.

in agreement with the views expressed in the preceding paragraph and state that there are obvious disadvantages in furnishing this information to the Italian Government, particularly at a time when the granting of Lend-Lease facilities to Italy is under consideration.

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ELLERY W. STONE

Captain, USNR

Acting Chief Commissioner

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S. G. M. A. - 344 - 1100 - 250000

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ANNEX C

K-260

MEMORANDUM FOR: G-5

17 August 1944

SUBJECT: Administrative Memorandum No. 31.

1. At a meeting held this date and attended by G-4(B), General LEWIS: U.S. Fiscal Director, General SDAMS: the British Financial Adviser, Brigadier HIRONS: objections were raised to Administrative Memorandum No. 31 by Colonel GRAFFTEY-SMITH, head of Finance Sub-Committee, ACC. These objections were as follows :-

(a) The Lire Account is undesirable because the submission of vouchers to the Italian Government for expenditures from the Lire Account will make that government aware of the size of the Allied expenditures and give information upon which to base complaints as to the severe treatment of Italy.

(b) The requirement for the setting up within the Ministry of Finance of the Italian Government of an agency to accept and fill requisitions for supplies, facilities, and services is not within the capacity of the Allied Control Commission.

2. Reference sub-paragraph (a) above, it is the opinion of G-4(B), the Fiscal Director, and myself that the expenditures from the Lire Account will be relatively small proportion of the overall cost to Italy of Allied occupation and that, therefore, it is improbable that there will be any particular disadvantage to the United Nations in permitting this information to be made available to the Italian Government. However, this is a political question and since you will bear responsibility for any political reactions, it is considered you should seek political guidance in the matter.
3. Reference sub-paragraph (b) above, the proposed method, under which the agency objected to should function, is identical with that used in North Africa as set forth in Tab A (American) and Tab B (British) attached. It is difficult to understand why ACC is unable to arrange for the organization of such an agency and it is equally difficult to understand why ACC, being charged with the rehabilitation of Italy, does not find it essential to control the purchases by distributing them to the areas most capable of meeting the requirements. This

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(b) The requirement for the setting up within the Ministry of Finance of the Italian Government of an agency to accept and fill requisitions for supplies, facilities, and services is not within the capacity of the Allied Control Commission.

2. Reference sub-paragraph (a) above, it is the opinion of G-4(B), the Fiscal Director, and myself that the expenditures from the Lire Account will be relatively small proportion of the overall cost to Italy of Allied occupation and that, therefore, it is improbable that there will be any particular disadvantage to the United Nations in permitting this information to be made available to the Italian Government. However, this is a political question and since you will bear responsibility for any political reactions, it is considered you should seek political guidance in the matter.

3. Reference sub-paragraph (b) above, the proposed method, under which the agency objected to should function, is identical with that used in North Africa as set forth in Tab A (American) and Tab B (British) attached. It is difficult to understand why ACC is unable to arrange for the organization of such an agency and it is equally difficult to understand why ACC, being charged with the rehabilitation of Italy, does not find it essential to control the purchases by distributing them to the areas most capable of meeting the requirements. This question is also within your province and Colonel GRAFFTEY-SMITH has undertaken to prepare a memorandum to you stating his attitude in the matter.

4. Insofar as G-4(B) and myself are concerned we consider that Administrative Memorandum 31 should not be modified at present and its modification should be considered in the future only should it be proven ineffective after an adequate trial.

(sgd) CARTER B. MAGRUDER
Colonel, G.S.C.
A. C of S., G-4

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785015

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

EWE/hjp

A/CC 100-1

4 September 1944

SUBJECT: Payment for goods and services in Italian territory

TO : President, Allied Control Commission, C.M.F.

1. I write with reference to Administrative Memorandum No. 31 of 1 August 1944, of which a copy is attached. I much regret having to raise objections to an instruction issued by AFHQ, but since the Allied Control Commission is an interested party in the implementation of the Memorandum, I consider it my duty to acquaint you with our objections to the provisions contained therein. It is only right to add that if this Commission and Headquarters AAI, the principal organizations affected, had been consulted before the issue of the Memorandum it would not now be necessary to have to present our case at this late hour.

2. Under paragraph 2 of the Memorandum, the Allied Control Commission is instructed to set up within the Ministry of Finance of the Italian Government an agency to requisition such supplies, facilities and services as may be passed to it by the Allied Forces.

3. The Ministry of Finance, which is designed to superintend the collection of revenue, is incapable of providing any staff to perform the highly specialized task of procuring supplies for the Allied armed forces. The only organization with any knowledge of this type of specialized work is the Italian Army of whom inquiries were made through the medium of the Army Sub-Commission. In reply, General Pelligra, Director of the Italian Army Commissariat, stated categorically that the army could not undertake such a commitment owing to a lack of competent officers and lack of transport. He added decisively that if this method were adopted the Allies would not receive what they required.

4. Both at AFHQ and HQ AAI, Heads of Services have expressed doubt that the Italians are competent to assume this function.

5. In a Memorandum 17 August 1944, addressed to G-5, AFHQ, G-4(A) and G-4(B) suggested that the method under which any agency should function should be identical with that used in North Africa under reciprocal aid.

6. Paragraph 3 of the Memorandum instructs the Allied Control Commission to require the Italian Government to set up a lira account.

fodd

7. The main reason advanced by G-4 (A), G-4 (B) and the U.S. Fiscal Director at Allied Force Headquarters for (a) establishing an Italian procuring agency and (b) instituting a lira account, is that the system established in North Africa had worked admirably in expediting the supply and payment for goods and services supplied. On this premise it is claimed that similar satisfactory results would be achieved in Italy.

8. It must be remembered that in North Africa both schemes were interlocked with Reciprocal Aid with the result that the French were gaining dollars and sterling pro tanto, an incentive which was sufficient to ensure their whole-hearted co-operation.

9. In Italy the circumstances are entirely different. The Allies are dealing with a dispirited nation which has not the status of an ally. The procurement of goods and services are on a vastly greater scale than in North Africa; and the Italian Government considers that the country is being despoiled by its conquerors.

10. The establishment of an Italian procuring agency and the institution of a lira account postulate that the Italian Government will be kept informed of the amount spent on the payment of goods and services. Paragraph 3 d of the attached Memorandum states that vouchers for payments charged to the lira account are to be turned over to the Italian Government.

11. I consider that both procedures suggested will provide the Italian Government with information for which they have repeatedly and vainly asked, and which will probably be used to the detriment of the Allies to demonstrate what they will term the severe treatment accorded to Italy. Once in possession of this figure it is only a short step to asking for details of the amount paid to troops. It is also likely that the Italians will raise countless queries on the propriety and price of purchases.

12. I have consulted the Political Section of the Allied Control Commission as well as the British High Commissioner, Sir Noel Charles, and the American Delegate to the Advisory Council, Mr. Alexander Kirk. They are in agreement with the views expressed in the preceding paragraph and state that there are obvious disadvantages in furnishing this information to the Italian Government, particularly at a time when the granting of Lend-Lease facilities to Italy is under consideration.

13. It must be emphasized that the institution of a lira account would not result in a saving of time or personnel as funds would continue to be furnished to and payments made by the paymasters and finance officers. Nor does it result in a reduction in funds issued from Allied sources. The Italian Government has not sufficient funds to finance, out of its own resources, this additional expenditure; and would need to borrow from the Allied Financial Agency. The amount of lire issued

by the Allied Financial Agency would thus remain constant.

14. In view of the foregoing I strongly recommend that (a) no attempt should be made to establish an Italian procuring agency, (b) the existing procedure whereby funds are drawn by the paymasters and finance officers from the Allied Financial Agency should be maintained, and (c) Administrative Memorandum No. 31 should be withdrawn and the proposals re-examined if and when Reciprocal Aid facilities are granted to Italy.

ELLERY W. STONE
Captain, USNR
Acting Chief Commissioner

1 Incl:
AFHQ Adm. Memo #31
1 Aug 44

cc: N-5 AFHQ
Finance s/c

51168

Hq ACC - Sec'y Gen.
DISPATCHED
Date Time 4 Sep 1944
Via Hb.
Incls 1044.

HEADQUARTERS
ALLIED CONTROL COMMISSION
FINANCE SUB-COMMISSION
APO 394
TEL: 417

HQ ACC, APO 394
985 Sec'y Gen.
Rec'd 3 Sept 1944
By

13076/F

2 Sept 1944

SUBJECT: Payment for goods and services in Italian territory.

TO : Acting Chief Commissioner,
HQ, Allied Control Commission.

① Attached is a draft letter to the President, Allied Control Commission, on the subject of payment for goods and services in Italian territory with particular reference to Administrative Memorandum No. 31.

I do not know if you wish to write personally to General Wilson or in the form as submitted. In either case I should be glad if you will re-shape the letter into the form that you require.

A. S. Grassie Miller
Colonel,
Joint Director,
Finance Sub-Commission.

*Draft letter to SACMED
& copy of admin memo #31
sent to Capt Stone by hand of
Lt Fiske.*

3 Sept 44 REP

⑧
2 Sept

HEADQUARTERS ALLIED CONTROL COMMISSION
Office of the Acting Chief Commissioner
APO 394

EWS/hjp

28 August 1944

SUBJECT: Payments for goods and services in Italian territory

TO : Finance Sub-Commission, Hq ACC

1. With reference to your letter of 25 August, subject as above, the British High Commissioner and the American Delegate to the Advisory Council both feel that there would be unfortunate political repercussions in the implementation of Adm Memo #31 for the reasons set forth in para 10 of your letter.

2. In addition to communicating their views in reply to the letter of G-4 (A) AFHQ, I should like you to draft a letter from me to SACLED in his capacity as President of this Commission, setting forth the reasons why the Commission should not proceed as instructed in paras 2 and 3 of Adm Memo #31.

ELLERY W. STONE
Captain, USNR
Acting Chief Commissioner

54984

Hq ACC - Sec'y Gen.
DISPATCHED
Date: 29 Aug 1945
Via: mgt.
Initials: SKK

28 Aug

FILES (A-B)
for

100 minutes

HEADQUARTERS
ALLIED CONTROL COMMISSION
FINANCE SUB-COMMISSION
APO 394
Tel. Extns. 553 & 417

A 69
30 AUG 1944

28 August 1944.

13075/P.

SUBJECT: Payments for goods and services in Italian territory. ✓

TO: The Acting Chief Commissioner,
Allied Control Commission. (1)

1. Administrative Memorandum No. 31 of 1st August 1944 is attached. It will be seen that the ACC has the responsibility under paragraph 2 of setting up an Italian Agency to procure goods and services for the Allied forces.
2. Under paragraph 3 the ACC is to require the Italian Government to set up a lira account.
3. On the 17th August, the undersigned attended a meeting at AFHQ when he stated objections to both proposals.
4. As regards the instructions in paragraph 2, it is considered by the Finance Sub-Commission and by the heads of the procuring services at HQ AAI and the Italian Army, which is the only agency which would appear to be competent to handle such services, that no Italian agency exists nor could be formed to undertake competently the duty of procuring goods and services for the Allied forces.
5. The main argument of G4 (B) and the Fiscal Director AFHQ for the institution of a lira account was that the franc account established in North Africa had obviated the necessity of purchasing francs by British and American forces, expedited the payment for goods and services supplied and worked admirably. It must be remembered that this scheme was interlocked with Mutual Aid with the result that the French were gaining dollars pro tanto and co-operated whole-heartedly.
6. In Italy the circumstances are entirely different. The Allies are dealing with a dispirited nation, not an ally but with the doubtful status of co-belligerent. Procurement of goods and services are on a vastly greater scale than in North Africa; and the Italian Government considers that their country is being despoiled by its conquerors. The establishment of a lira account postulates that the vouchers for payments charged thereto are to be handed over periodically to the Italian Government.

7. It is not considered that the use of the lira account would assist in controlling inflation. If the lira account is established, the Italian Government will not be able to finance the resultant expenditure out of its own resources but will require to borrow an appropriate amount from the Allied Financial Agency. The funds would then be returned to AFA who would furnish the amount required to the Command Paymasters and Finance Officers of the Allied forces. By such action the Italian Government has directly furnished the funds necessary for the payments by Allied forces. The amount of lire expended remains constant.

8. It is considered that the procedure laid down in paragraph 3(d) of the attached Memorandum will provide the Italian Government with information for which they have repeatedly and vainly asked, and which will probably be used to the detriment of the Allies to demonstrate the severe treatment accorded to Italy. Once in possession of this figure it is only a short step to asking for details of the amount paid to troops. It is also likely that the Italians will raise countless queries on the propriety and price of purchases. Further, it should be borne in mind that no saving of time or personnel is involved, as funds would continue to be furnished to and payments made by, the Paymasters and Finance Officers.

9. A letter has been received from G4 (A) AFHQ which contains the following extract:-

" It is the opinion of G4 (B), the Fiscal Director, and myself that the expenditures from the Lira Account will be a relatively small proportion of the over-all cost to Italy of Allied occupation and that, therefore, it is improbable that there will be any particular disadvantage to the United Nations in permitting this information to be made available to the Italian Government. However, this is a political question and since you will bear responsibility for any political reactions, it is considered you should seek political guidance in the matter. "

10. In accordance with the suggestion contained in the last sentence of this letter, the undersigned has consulted both the Director of Public Relations and the Political Section. The former stated that he would be opposed to any action which would enable the Italian Press to criticise the Allies as having despoiled their country, and to produce figures to support their case. The Political Section were in general agreement with this view, and stated that there were obviously no political advantages in the scheme and that there might well be disadvantages in making this information available at a time when the granting of Lease/Lend or Mutual Aid facilities to Italy is under consideration. Further the Political Section advised that the matter should be referred to the American and British Ministers in Rome in order that they should have an opportunity to express their opinion.

11. It is recommended that the existing procedure should continue whereby funds are drawn direct by the Paymasters and Finance Officials from the Allied Financial Agency. It is clear that currency so disbursed is charged to the Italian Government, and that the relevant clauses of the Armistice terms are satisfied.

A. J. Grassie Smith

Colonel,
Joint Director,
Finance Sub-Commission.

HEADQUARTERS ALLIED CONTROL COMMISSION
Office of the Acting Chief Commissioner
APO 394

[Signature]
LDD/ajp

18 August 1944

A/CC 100

SUBJECT: Payments in Italian Territory

TO : Executive Director,
Economic Section.

1. Reference letter ES/11 from your section to G-5 AFHQ, dated 10 August 44, relative to "Payments in Italian Territory" (AFHQ Admin Memo No. 31 of 1 August 44).

2. Note your letter carried no classification. Having reference to Armistice terms and to a "confidential" document, I wonder if it should have been classified?

3. If you agree perhaps you will mention the matter to your staff so that they will keep the matter of classification in mind in the future.

(5)
Hq ACC Sec'y Gen.
DISPATCHED
Date Time 18 Aug 1630
Via *Mag.*
Initials *APP.*

L. D. DENSMORE
Colonel, Sig C
Chief Staff Officer

18 Aug

100 Finance

Files [Signature]

16 August 1944

Captain Stone.

Re attached.

- (2)
1. Note Administrative Memo 31, 1 Aug, attached.
 2. Your note 10 Aug to Economic Section.
 3. Their action letter ES/11, 10 Aug 44, direct to G-5 AFHQ -
 - a. Reference to Armistice Terms, would require "classification."
 - b. No copy to A.A.I.
 - c. Rather strong statements, even if true.
 - d. Lt. Col. R. A. Sharp did the drafting of this for Gen. O'Dwyer.
 4. Suggest you ask Lawler for private comments before you take any other steps.
- (3)

→
L. D. DENSMORE
Colonel

Suggest you send note to
Gen. O'Dwyer's Staff Officer - pointing out
that the letter should have been
classified the same as Exec ^{Memo} 31
"Restricted." G-5 is as opposed to
#31 as we are - probably will welcome
letter.

16 Aug 44

Tel: 307

HEADQUARTERS
ALLIED CONTROL COMMISSION
ECONOMIC SECTION
APO 394

GAS/1ab

ES/11

A 223/10 Aug 44.
20 AUG 1944

SUBJECT: Payments in Italian Territory.

TO : G-5, AFHQ

HQ ACC, APO 394
576 Sec'y Gen.
Rec'd 12 Aug 1944
By JPR

1. Full consideration has been given to AFHQ Administrative Memorandum No. 31.

2. This memorandum is the culmination of a long argument between AFHQ and AAI, the latter representing ACC's views. The original provisions of Administrative Memorandum 95 laid down that the Italian Government, under the Armistice terms, was responsible for the payment for sundry goods and services necessary to the Allied Forces. ACC Finance Sub-Commission was made responsible for devising a scheme to implement the provisions of a long and somewhat confused memorandum.

3. With the full agreement of the interested sections of AAI and of the Italian Government, Finance Sub-Commission devised a scheme whereby payment would be made by means of vouchers encashable at the Intendenza di Finanza. AAI were prepared to put the scheme into operation without further reference to AFHQ. Unfortunately, AFHQ were informed by the British Financial Adviser of the suggested plan. Amour propre thereafter asserted itself so vigorously that the voucher scheme was turned down solely on the grounds that "it might not have worked" and the Lire account scheme, a poor imitation of the existing arrangement in North Africa, is now presented to AAI and ACC as a 'fait accompli' without any previous reference to or consultation with those who have to interpret its vague clauses.

4. No one in Rome, either at AAI or ACC, has any detailed knowledge of the Franc account procedure in North Africa, and there must be several officials at AFHQ whose advice and assistance could be of use particularly in persuading the Italian Government to accept conditions so light-heartedly planned from a distance.

5. A conference is being held with AAI to consider the many difficulties implied in the proposed procedure. It is recommended that the authors of Administrative Memorandum 31 be given opportunity of explaining how they consider that the proposed procedure should be implemented and that they should take some part in carrying out the recommendations of the Memorandum. The plea of distance and long journeys no longer appears to apply.

WILLIAM O'DRYER,
Colonel, A.C.
Vice-President,
Economic Section.

copy - Finance E/C

Office of the Acting Chief Commissioner

100

AFHQ Admin. Memo. No 31 (Payments in
Italian Territory)

10 August

4

Economic Section.

I take it that instructions contained in attached are
at hand.

(1)

Stone.

A 7 13

100 Finances

1 Incl-
AFHQ Admin. Memo #31.

A 772

Hq ACC - Sec'y Gen.
DISPATCHED
Date - Time 1946 9 1 10 1
Via Muz 1600
Initials Lij

files 7/13/4000

(2)

10 Aug

CONFIDENTIAL

DCK/er

AP 179

ALLIED FORCE HEADQUARTERS
APO 512

ECON. SECTION

(3 copies)

1 August 1944

for distribution

ADMINISTRATIVE MEMORANDUM)

NUMBER 31)

PAYMENTS IN ITALIAN TERRITORY

1. The following policies as to the procurement of supplies, facilities and services in Italian territory are hereby proscribed, and the provisions of Administrative Memorandum Number 95, 1943, are modified accordingly.

2. Italian Services of Requisition.

a. The Allied Control Commission will cause to be set up within the Ministry of Finance of the Italian Government an agency, to consist of a Chief Agent and as many sub-agents as may be necessary, to accept and fill such requisitions for supplies, facilities and services, locally obtainable, as may be passed to it by the Allied Forces. This agency will obtain the supplies, facilities and services required by such means and methods as the Italian Government may provide.

b. The sub-agents will be located at convenient points where they can readily cooperate with the Allied Forces.

3. Lira Account.

a. The Allied Control Commission will require the Italian Government to advance from time to time to a designated officer of the Allied Control Commission specified sums of lire to be used by the various components of the Allied Forces to enable them to make cash payments as specified below. This fund will be known as the Lira Account.

b. Cash Payments from the Lira Account may be made in the following cases:

1. For items and services which it is impracticable to procure through the Italian Services of requisition, or which cannot be procured speedily enough.

2. For procurement in the combat zone, where payment in cash is necessary to obtain supplies, facilities and services.

3. For small day-to-day purchases, the nature of which makes requisitioning impractical.

4. For all payments to local civilian employees.

c. In every case the Allied procuring agent concerned will require an approved requisition or authority from the appropriate service prior to making a purchase or payment.

- 1 -

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AFHQ Adm. Memo. # 31
(cont'd)

d. Vouchers for payments charged to the Lira Account are to be turned over periodically to the Italian Government through the officer of the Allied Control Commission controlling the Account.

4. Real Estate and Claims.

a. The methods for procurement and payment described above will not be employed in obtaining the use of real estate or in paying claims. The real estate sections and hirings officers of the respective Forces shall continue to acquire buildings, land, and all other types of real estate, including accommodation and furnishings thereof, through the Italian Government Comando Genio Militare.

b. Claims will be processed by the various claims sections and passed to the Italian Government for payment under the system now in operation.

5. Certain Payments Not to be Made.

Payments should not be made for the following:

a. Durable goods which are not in continuous, current production, or which the owner either will be unable to replace locally or will not need to replace at present. These include such articles as vehicles, heavy plant and machinery, constructional materials, structural steel, railway plant, stock piles and the like, not forming part of current output of an operating plant.

b. Services which are normally performed by the State or local authorities, such as repairs to roads and bridges, removal of refuse, etc.

c. Goods taken over from or owned by and services performed by the State or local authorities, or by State-owned or para-statal concerns.

6. When the arrangements contemplated in paragraphs 2 and 3 above have been effected by the Allied Control Commission, detailed instructions will be issued by the Commanding General, NATCUSA, for U.S. Army Forces, by the Commander, U.S. Naval Forces in Northwest African Waters, and by the British Navy, Army, and R.F. commanders, for their respective services. Such instructions will follow generally the plan outlined in Administrative Memorandum Number 18, Headquarters NATCUSA, 4 November 1943, for U.S. forces, and the corresponding instructions which were issued in North Africa for the British forces.

By command of General WILSON:


H. V. ROBERTS,
Colonel, AGD,
Adjutant General.

DISTRIBUTION:
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1997

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

785015

Q. M. C. Form 353 (Old No. 499)
Revised July 20, 1918

LIST OF PAPERS

File under No. 000.1

POLITICS

(1)

SERIAL NUMBER	FROM—	DATE	TO—	SYNOPSIS
251.	Count Sforza	3 June	Marshal Badoglio	Amalgam incident and miscellaneous.
	"	3 "	Richard Bauer	Coalition cabinet, King, etc.
CC/P/366	Chief Comm.	3 "	Noel Charles	Inclined not to lend ltr to Bauer
252. M223	Chief Comm.	5 "	AFHQ	Transfer document & announcement fr King. Political sit. Rome
253. CC/P/367	Chief Comm.	5 "	Gen. Alexander	Encl copies of messages which Macmillan took back to Algiers
254.	Chief Comm.	5 "	Reber & Caccia	Arranging bring Badoglio & party Rome 7 Jun.
255. M224	Chief Comm.	5 "	AFHQ rptd AAI	Transfer document signed by King at Ravello.
256. M225	Chief Comm.	5 "	AFHQ rptd AAI	Badoglio talks of cab. meeting & discuss. of Crown Prince & King
257. M226	Chief Comm.	5 "	AFHQ rptd AAI	Visit with Crown Prince. Question of his going to Rome.
258. M227	Chief Comm.	5 "	AFHQ rptd AAI	Reber & Caccia see Benavides & Ponomi. outlines reconstruction program. Met Office of Liberation
259. M228	Chief Comm.	5 "	AFHQ rptd AAI	Speaks with King. King agrees to leave pol. picture. Warns of Communist menace to Italy
260. M229	Chief Comm.	6 "	AAI for Caccia & Reber	Bringing Badoglio & party leaders to Rome 8 June
261.	Marshal Badoglio	5 "	King	Request that hand-over document be signed at Ravello.
262.	King Victor Emanuele	5 "	- - -	Appoints Crown Prince as Lt Gen
263. CC/G/372	Chief Comm.	6 "	SAC, AFHQ	Wds folios (261) and (262)
264.	Marshal Badoglio	6 "	- - -	Some govt. members desire to renew protests of CP interview. TIMES
265.	Marshal Badoglio	6 "	Chief Comm.	Defascistization - Need for uniform legislation. It. Govt. & AMG.
266.	Mr. Greene, Pol.S.	6 "	- - -	Sig. Caracciolo, Action Party, opposes sending only 1 rep fr Party to Rome.
267. 28	Reber & Caccia	6 "	Chief Comm.	Admin sit. Rome does not enable us advise date for visit of party
268. L/1423	Hq Region VI	6 "	Chief Comm.	Defini. of word "Fascist". Ref CC/G/331. Order not recd.
269. M230	Chief Comm.	6 "	AFHQ rptd AAI	Cabinet resolves that incident re Crown Prince & TIMES be dropped.
" M231	Chief Comm.	6 "	AFHQ rptd AAI	Text of resolution of Cabinet re M230.
270. M232	Chief Comm.	6 "	AFHQ rptd AAI	Crown Prince accepts Badoglio's resignation of his govt. and instructs Badoglio to form new one
271. M233	Chief Comm.	6 "	AFHQ rptd AAI	Question of Crown Prince's first visit to Rome discussed with him.
272. M234	Chief Comm.	7 "	AAI	Badoglio & party arrive Rome tomorrow.
273. M235	Chief Comm.	7 "	5 Army	am arriving Rome tonight. Tony arrives Rome tomorrow.

INSTRUCTIONS.—When papers on a subject become numerous they will be numbered serially and brief entries made on this form.

1998