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AC RELATIONS WITH ITALIAN GOV'T
FEB. - JULY 1945

FILE CLOSED : 18 July 1945

QUARTERS ALLIED COMMISSION
Office of the Chief Commissioner
APO 394

9A

13242/P

18 July 1945

SUBJECT: Financial Directive for Italy.

TO : Distribution below.

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

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

Ulysses W. Stone
ELDERY W. STONE
Rear Admiral, USNR
Chief Commissioner

Distribution:

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

33

LEGAL SUB-COMMISSION	
CLO	
DCLO	
Chief Counsel	
CFO	
Section Chief	
CL RKS	

21 JUL 1945

9B

HEADQUARTERS ALLIED COMMISSION

Office of the Chief Commissioner

APO 394

13242/P

18 July 1945

My dear Mr. Prime Minister:

1. I write with reference to the Aide-Memoire of 24 February, 1945, which was communicated by the Acting President and the Chief Commissioner of the Allied Commission to the President of the Council of Ministers, outlining certain steps taken by the Allied Governments to hand over an increasing measure of control to Italian administration.

2. In order to implement further the declaration of 26 September, 1944, by the President of the United States and the Prime Minister of Great Britain regarding Italy, I am now directed by the Combined Chiefs of Staff to inform your Government that the intervention of the Allied Commission in Italian fiscal matters and other internal financial affairs will in future be confined to cases involving Allied military necessity. The Allied Commission will assist or advise your Government on financial matters in territory under your jurisdiction only when your Government specifically requests such advice or assistance, which will be given at a high level between the senior officers of this Commission and appropriate officials of your Government.

3. I am further directed by the Combined Chiefs of Staff to inform your Government that, subject to certain exceptions and conditions which are indicated below, it is no longer necessary to obtain the approval of the Allied Commission prior to the execution of Italian external financial transactions.

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

(a) The Italian Government is requested to consult with the Allied Commission before authorizing the use of Italian external assets for the purpose of paying claims arising prior to 8 September, 1945. Thus all questions relating to the settlement of Italian clearing accounts should be discussed with this Commission before any action is taken.

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

that the intervention of the Allied Commission in Italian financial matters will in future be confined to cases involving Allied internal financial affairs which will in future be confined to cases involving Allied military necessity. The Allied Commission will assist or advise your Government on financial matters in territory under your jurisdiction only when your Government specifically requests such advice or assistance, which will be given at a high level between the senior officers of this Commission and appropriate officials of your Government.

5. I am further directed by the Combined Chiefs of Staff to inform your Government that, subject to certain exceptions and conditions which are indicated below, it is no longer necessary to obtain the approval of the Allied Commission prior to the execution of Italian external financial transactions.

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

(a) the Italian Government is requested to consult with the Allied Commission before authorizing the use of Italian external assets for the purpose of paying claims arising prior to 3 September, 1943. Thus all questions relating to the settlement of Italian clearing accounts should be discussed with this Commission before any action is taken.

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

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

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

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

- 2 -

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

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

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

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

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

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

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

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

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

Yours very truly:

/s/ Henry H. Stone

Deputy Chief

Rear Admiral, USN

Chief Commissioner

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

Distribution:

Hon. Alexander Kirk, American Embassy, Rome
Sir Noel Charles, British Embassy, Rome
Executive Commissioner
Political Adviser (A)
Political Adviser (B)

Acting Vice President, Loan Section
C-5 Section (Financial Adv.), AFM.

40571
HEADQUARTERS ALLIED COMMISSION

APR 5 1945

Office of the Executive Commissioner

Ref 9/10.N/CA

SUBJECT : Cooperation with Italian Government:
Liberation of Northern Italy.

TO : Vice President, Economic Section
Political Advisers
All Sub-Commissions

42 April, 1945

The following is the text of a letter addressed by the Prime Minister to the Chief Commissioner and is passed to you for information:

"The developments of the military operations, and the great victories of the valiant armies of the United Nations make us believe that the liberation of Northern Italy is now imminent.

"This event, which fulfills the wishes of all the Italians, causes urgent the questions which concern the various political and administrative problems which interest these territories.

"My Government follows therefore with great interest the work and the plan drafted for this end by the Allied Commission and its Regional Commissioners, to give us the greatest possible support and the most diligent and useful collaboration.

"While informing you, my dear Admiral, about our comprehension and good will, I must also tell you that I give strict orders to all the Ministries for them to answer without delay the requests of the Allied Commission and collaborate, each of them within the limits of its competence, to the solution of the problems that the liberation of North Italy will bring.

"For that same reason the organization of the Prefecture and of the Questura, the Interior Department has already made plans for the assignment of the personnel, in agreement with the competent Allied Sub-Commissions.

93

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"While informing you, my dear Admiral, about our comprehension and good will, I must also tell you that I gave strict orders to all the Ministries for them to answer without delay the requests of the Allied Commission and collaboration, each of them within the limits of its competence, to the solution of the problems that the liberation of North Italy will bring."

"For what concerns the organization of the Prefecture and of the Questura, the Interior Department has already made plans for the assignment of the personnel, in agreement with the competent Allied Sub-Commissions."

"The other Ministries have also drafted plans for what concerns their respective services."

"I trust that this Commission will see its requests answered without delay; among these requests, as it was done before, those of a general character can be sent to the Presidency of the Council, those concerning the Prefects and the personnel of the Public Safety to the Interior Department; the technical and administrative problems will be sent to the various other Ministries of whose competence they are."

11-1-1946

NORMAN E. FISKE, Col
Acting Executive Commissioner

11-1-1946

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SECRET

HEADQUARTERS ALLIED COMMISSION
AND 394
LEGAL SUB-COMMISSION

AG/4057/1 L.

2 April 1945.

SUBJECT : Restoration of Territory.

TO : VP. CA Dec.

*NOTE: For fuller action in respect
of restoration of territory see file
AC/4102/5/L*

1. Reference your 4/32 N/A of 2 Apr 45 herewith is submitted the suggested draft for the next transfer of territory to the Italian Government.

2. The only effective alteration in document "A" is the deletion of the previous Article 7 which required consent of SACMED to the removal of Italian officials. The deletion of this clause does not in my opinion involve the necessity for any other alteration to the terms of the document.

3. 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 my opinion 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.

4. Document "B" is substantially unaltered.

5. Document "C" is substantially unaltered.

Paragraph 3 of the Proclamation recognises as legal, valid and binding all appointments to and removals from offices affected by the Allied Military Government; this clause is obviously necessary to protect officials who have acted under AGG authority, and in the case of appointments made by AGG 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 Feb 45 for the appointments concerned.

Copy to : File AC/4102/5/L.

Tels . . .

W. E. BURNENS,
Colonel,
Deputy Chief Legal Advisor.

9057/1

6A

HEADQUARTERS ALLIED COMMISSION
AND 39A
CIVIL AFFAIRS SECTION

Ref: 1/32 A/CA

2 Apr 45.

SUBJECT: Fan. 487 - "New Deal for Italy".

TO: Legal Sub-Commission.

1 On instructions received from AFHQ the Chief Commissioner is preparing an interim report for the Combined Chiefs of Staff covering the period up to 31 Mar 45 upon the steps which have been taken to implement the directive contained in FAN. 487. — JB

2 In his written instructions to the Chief Commissioner, the Chief Administrative Officer makes the following comment:

— JB
"Para 2 d. (of FAN. 487). Your suggested amendment to the transfer of territory documents is awaited. The retention by Service Sub-Commissions of the right of veto in regard to military appointments is approved."

3 Will you therefore please make your recommendations as to the wording and form of the necessary amendments to Document "A" of the Transfer of Territory documents to this Section. In this connection your attention is drawn to Para. 1 (a) of Chief Commissioner's letter addressed to AFHQ, reference 1001/TC dated 19 Feb 45.

L1C

R. H. Whipple
G.S. UPJOHN, Brig..
VP CA Section.

ALLIED COMMISSION	
CIO	
DOLO	
Chief Counsel	
CIO	
Italian Section	
CL RKS	

2 APR 1945

1555 hrs

HEADQUARTERS ALLIED COMMISSION
APO 394
Office of the Executive Commissioner

27 MAR 1945

Lequese

Ref: 4001/163/EC

27 March 1945.

SUBJECT: Relations with Italian Government.

TO : VP, Economic Section (15)
VP, Civil Affairs Section (10)
Director, Communications Sub-Commission
Director, War Material Disposal &
Italian PW Sub-Commission

1. Vice Presidents will impress upon the Directors of their Sub-Commissions, and Directors of Independent Sub-Commissions upon their officers, the necessity of implementing the policy of the CCS directive defining the new relations of the Allied Commission with the Italian Government, especially with respect to the following paragraph:

"The Staff of Allied Commission Headquarters should occupy itself primarily with consultation and advice to the Italian Government at high levels."

2. Experience during the last six months has shown that whereas officers in the field have been careful to avoid executive action or speech with officials of the Provincial governments, there has been a tendency at HQ for officers in the Sub-Commissions to forget that the dropping of the "C" from A.C.C. was intended to convert the relations between the Allied Commission and the Italian Government to those of adviser (and provider of supplies) on the one hand and of a sovereign government on the other. I have heard reports of discussions and conferences which lead me to think that more forceful measures than advice have been used to persuade - if indeed not to compel - the Italian Government to accept the views of the Allied Commission and come into line. In some instances these measures have been taken by subordinate officers of Sub-Commissions speaking perhaps to subordinate officials of the Italian Government. But the effect has been the same - and is unfortunate. The Italians presume that every member of the Commission speaks with the authority of the Chief Commissioner and they suffer, in their estimation, from a multiplicity of masters, and the application of conflicting policies of "advice" and "control".

3. In future, therefore, Vice Presidents and Directors of Sub-Commissions

Allied Commission with the Italian Government, especially the following paragraph:

"The Staff of Allied Commission Headquarters should occupy itself primarily with consultation and advice to the Italian Government at high levels."

2. Experience during the last six months has shown that whereas officers in the field have been careful to avoid executive action or speech with officials of the provincial governments, there has been a tendency at HQ for officers in the Sub-Commissions to forget that the dropping of the "G" from A.C.C. was intended to convert the relations between the Allied Commission and the Italian Government to those of adviser (and provider of supplies) on the one hand and of a sovereign government on the other. I have heard reports of discussions and conferences which lead me to think that more forceful measures than advice have been used to persuade - if indeed not to compel - the Italian Government to accept the views of the Allied Commission and come into line. In some instances these measures have been taken by subordinate officers of Sub-Commissions speaking perhaps to subordinate officials of the Italian Government. But the effect has been the same - and is unfortunate. The Italians presume that every member of the Commission speaks with the authority of the Chief Commissioner and they suffer, in their estimation, from a multiplicity of masters, and the application of conflicting policies of "advice" and "control".

3. In future, therefore, Vice Presidents and Directors of Sub-Commissions will ensure that such formal advice as it may be necessary to convey to the Italian Government is given by Vice Presidents or their Deputies or by Directors of Sub-Commissions, to Ministers or Under-Secretaries. At lower levels officers should refrain from giving formal advice and should restrict their functions to verbal consultation and discussion, expressing informally and unofficially any advice which they may feel should be given and would have the complete approval of their Director or Vice President. Generally speaking, in all their dealings with members of the Italian Government on matters affecting Italian Government territory, officers must act with diplomacy and tact rather than as mentors or governors. Only thus will the Italian Government learn to shoulder its responsibility.

LEGAL SUB COMMISSION

W. H. Stone

WILLIAM W. STONE
Rear Admiral, USNR
Chief Commissioner

Copies to: Acting President
Political Advisers (2)
VP Establishment Section
Navy Sub-Commission
Land Forces Sub-Commission (MILIA)
Air Forces Sub-Commission
Public Relations Branch
Liaison Division.

3075

HEADQUARTERS ALLIED COMMISSION

APO 394

Office of the Executive Commissioner

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Ref: 6501/EC.

21 March 1945.

Subject: Allied Commission Relations with
Representatives of United Nations.

To:

V.P., Economic Section (10)
V.P., Civil Affairs Section (10)
Director, Navy Sub Commission
Director, Land Forces Sub Commission (MIA)
Director, Air Forces Sub Commission
Director, Communications Sub Commission
Director, War Materials Disposal & Italian PW Sub Commission.

1. With the abolition of the Political Section, the Italian Government has become responsible for conducting its own political relations with the United Nations as well as, of course, with the neutral powers which have never ceased to be represented diplomatically in Rome. This was not only the logical result of the disappearance of the machinery through which the Allied Commission acted in some degree as the mouthpiece of the Italian Government in its foreign relations but was also intended to be a further step forward in the establishment of normal conditions in the international sphere.

2. It presents few difficulties in the case of powers such as the United States and the Soviet Union which have already established full diplomatic relations, or the United Kingdom and France which are now in direct relations with the Italian Government. In the case, however, of countries of the United Nations which have no diplomatic relations with Italy and which have either only established Consulates-General, such as Belgium and Holland, or whose representation in Italy is limited to membership of the Advisory Council, such as Yugoslavia and Greece, the matter is not so simple.

3. While the intention is, so far as possible, to make the Italian Government on the one hand and the foreign powers concerned on the other hand stand on their own feet, there may be questions on which, owing to absence of diplomatic or direct relations or the lack of goodwill on the part of one of the parties, it is difficult to reach a settlement. In such cases it is suggested that the Allied Commission, as the agent of the powers which signed the Armistice on behalf of the United Nations, should not only keep itself informed of any negotiations which may present problems, but should also exercise its influence both on behalf of the

United Nations as well as, of course, with the neutral powers which have never ceased to be represented diplomatically in Rome. This was not only the logical result of the disappearance of the machinery through which the Allied Commission acted in some degree as the mouthpiece of the Italian Government in its foreign relations but was also intended to be a further step forward in the establishment of normal conditions in the international sphere.

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3. While the intention is, so far as possible, to make the Italian Government on the one hand and the foreign powers concerned on the other hand stand on their own feet, there may be questions on which, owing to absence of diplomatic or direct relations or the lack of goodwill on the part of one of the parties, it is difficult to reach a settlement. In such cases it is suggested that the Allied Commission, as the agent of the powers which signed the Armistice on behalf of the United Nations, should not only keep itself informed of any negotiations which may present problems, but should also exercise its influence both on behalf of the foreign representatives concerned and on behalf of the Italian Government when difficulties arise between negotiators. Accordingly, Sub-Commissions should be prepared, as heretofore, to exercise their good offices in assisting diplomatic representatives of the United Nations Governments in their dealings with the Italian authorities, but only in the circumstances set forth above.

Copy to: Political Adviser (A)
Political Adviser (Br.)
PRO.
Liaison Division

LEGAL SUB-COMMISSION	
CLO	NORMAN E. FISKE, Colonel, Acting Executive Commissioner.
DCLO	
Chief Counsel	
CJO	
Italian Section	
CL RKS	

22 MAR 1945

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File

04057/1

Legal Sub Com (4A)

RESTRICTED

HEADQUARTERS ALLIED COMMISSION
APO 394

26 February 1945.

EXECUTIVE ORDERS)

NUMBER 19)

Prohibition of Participation of Allied Personnel in Italian Political Affairs I

I - PROMISSION OF PARTICIPATION OF ALLIED PERSONNEL IN ITALIAN POLITICAL AFFAIRS

The following letter from Allied Force Headquarters, subject as above, file AG 000.1/095 GEG-C, dated 17 February 1945, is published for the information, guidance, and compliance of all concerned:

"1. Members of the Allied Forces must refrain from any direct or individual participation in Italian politics. Strict compliance with this principle will become more important than ever as the Italian Government assumes an increasing measure of political responsibility over a more extensive area of Italy.

2. Casual attendance by Allied Forces personnel at political meetings, and even private conversations with Italians on political subjects, may lead to misunderstandings and will be avoided on all occasions.

3. All commanders will issue orders to all concerned to refrain at all times from any form of participation in Italian political affairs."

Ellery W. Stone

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

DISTRIBUTION:

"A"

Including Gp III
Less Serial 84.

RESTRICTED

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HEADQUARTERS ALLIED COMMISSION
APO 394
Office of the Chief Commissioner

Ref: 4001/155/EC.

27 February 1945.

SUBJECT: New Deal for ITALY.

TO: Distribution below.

Folio 2B

Sending insurance 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.



ELLERY W. STOE²⁷
Rear Admiral, USNR
Chief Commissioner

Encl.

DISTRIBUTION:

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

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HEADQUARTERS ALLIED COMMISSION
APO 394
CIVIL AFFAIRS SECTION

26 FEB 1945

Tel. Ext. 478300

Ref: 14/32.A/CA

SUBJECT: Policy with regard to Italian Government

To: All Sub-Commissions, Civil Affairs Section

Exec
4001/155/EC
27 Feb 45

Attached, for your information only, is a copy of the aide memoire handed by the Acting VP of this Commission to the Prime Minister on Saturday 24 Feb. This is forwarded as a guide to you in your dealings with the Government, but future procedures will, it is anticipated, be the subject of a directive by the Chief Commissioner to be issued shortly.

R. R. Clipp
B. R. CLIPPS Col.
OSO CA Section

Circulation:

Displaced Pers. & Repat. S/C
Education S/C
Legal S/C
Local Government S/C
Monuments & Fine Arts S/C
Patriots Branch
Public Health S/C
Public Safety S/C
Devastated Areas Branch
File

	LEG. SUB-COMMISSION	23
	CLO	
→	DCLO	✓
	Chief Counsel	
	CL	
	Design Section	
	CL RKS	
	27 FEB 1945	

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24th February, 1945

AIDE MEMOIRE FOR COMMUNICATION TO THE ITALIAN
GOVERNMENT BY THE ACTING PRESIDENT OF THE
COMMISSIONS 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

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. Undeposited cipher 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.

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 as to previously of 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

Offices of the Allied Commission for Sicily, Sardinia, Southern and Lacio-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.

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, fertiliser,

fertiliser, 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 programme 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.

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.

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.

13

18.

18. 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.

19. Nothing contained in the above 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.

HAROLD MACMILLAN

16

APPENDIX "A".

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

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, CG.EF.

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

SECRET

(1A)

HEADQUARTERS ALLIED COMMISSION
APO 394
CIVIL AFFAIRS SECTION

Tel. Ext. 525

Ref: 4/32 B/CA.

22 Feb 45.

SUBJECT: New Deal for Italy.

TO: Directors, All Sub-Commissions
and Branches,
Civil Affairs Section.

1 Enclosed herewith for your SECRET information:-

- (a) Copy of PAN 487 addressed by Combined Chiefs of Staff to SACM.
- (b) Copy of letter from Chief Commissioner to AFHQ, with enclosures.

2 The following programme has been arranged:-

- (a) The Chief Commissioner will give the Allied Advisory Council for Italy an outline of the New Deal for Italy on Saturday morning next (24 Feb 45).
- (b) The Acting President and the Chief Commissioner will inform the Prime Minister of their proposals on Saturday afternoon.
- (c) The Acting President will hold a press conference and give the press an outline of his proposals on Saturday evening.

3 I will discuss the matter at my staff meeting tomorrow (Friday).

G. R. Upjohn
G. R. UPJOHN, Brig.,
VP CA Section.

TO: Displaced Persons & Repatriation S/C,
Education S/C,
Legal S/C,
Local Government S/C,
Monuments, Fine Arts & Archives S/C,
Public Health S/C,
Public Safety S/C,
Patriots Branch
Devastated Areas Branch.

COPY

1B

SECRET

NEW DIRECTIVE FROM COMBINED CHIEFS OF STAFF ON THE ALLIED COMMISSION.

SAN 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 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. 13
- (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

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 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.

-2-

- (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 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 Sub-Commissions 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. It should be noted in respect of territory under the jurisdiction of the Italian Government.
- (c) The Sections and Subcommissions of the Allied Commission Headquarters should be progressively civilianised 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).

ADMINISTRATIVE SECTION

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- (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 Sub-Commissions 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 jointly 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 civilianised 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).
- (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) These quantities of food, fuel, clothing, medical, sanitary and other armed 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 programs 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.

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

and ITALY must be treated as a whole. It is understood that the date of termination of continued military responsibility for providing supplies as set out above will be decided by the Combined Chiefs of Staff on your recommendation.

6. The Allied Commission shall be advised to assist the Italian Government in the preparation of programmes of supplies designed to rehabilitate Italian industry. These supplies will be in addition to those to be provided as a military responsibility. Such programmes 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 programme 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 programmes as may be approved by the Combined Liberated Areas Committee. Procurement covering such programmes 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 May 778 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 theatres. Except

for these industries the rehabilitation of which is essential to the discharge of your military mission and in furtherance of the military effort in other theatres, 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.

- (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.

- (d) Within the limitation of available shipping and subject to military considerations as determined by you, the extent to which efforts 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.

SECRET

HEADQUARTERS ALLIED COMMISSION

APO 394

Office of the Chief Commissioner

Ref: 4001/2319 February 1945.

SUBJECT: New CCS Directive on the Allied Commission.

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

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 PERMAIN bear to SACRED.

(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

to nominate their representatives. They will require to have an office at this Headquarters. They will bear the same relation to me as POLAD and REMAIN bear to SACRED.

(b) Part 2(C).

(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.

43

(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)

Part 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 SACRED the right, when necessary, to exercise control in any decree affecting military needs and the requirements of the campaign.

-2-

(d) Para 2(D) The transfer of territory documents (Document "2") 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 "1").

(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) decentral, 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.

to fall between the two stools of (a) control, which necessitates many officers, and (b) decentral, 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 directive 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 I.M.G. I.M.G. Courts in Bari will cease.

(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 affects 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.

-3-

- (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 civilisation 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 programmes (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(A). 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

(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 (disaster 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(a). 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.

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

2. I attach memorandum (Annexure "3") 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.

Ellery W. Stone

ELLERY W. STONE
Rear Admiral, USNR
Chief Commissioner

Copy to:

Acting President.

The Hon. Mr. Alexander Kirk, US Ambassador.

Sir Noel Charles, Bt, KC, 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

ANNEXURE "A"

SECRET.2nd DRAFT DIRECTIVE.WITHDRAWAL OF ALLIED COMMISSION OFFICERS
FROM ITALIAN GOVERNMENT TERRITORY.

1. Para 2(e) of CCS telegram FAX 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 cut 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 | } } } } | Until 1st April 1945. |
| (ii) 1 Supply Accountant | | |
| (iii) 1 Property Control Officer | | |
| (iv) (i), (ii) and (iii) will work under Allied Commission | | |

exception of the officers and staff of the Mining Division who will restrict their functions entirely to advice regarding the cut 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 | } } } } } | Until 1st April 1945. |
| (ii) 1 Supply Accountant | | |
| (iii) 1 Property Control Officer | | |

(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.

(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 PANTALEERIA 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:

Local

(i) Provincial 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

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 APUZIA and LUCANIA, together with the Province of CALPOBASSO. This Liaison Officer and his staff will work with the Sub-Areas operating in this area³ and the 15th USAMT 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.

(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:

-5-

- (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 CIVITAVECCHIA 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 compartmento 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

CHIETI. Regional HQ will be moved to (?) and will administer Allied Military Government in such Provinces of the compartmento 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 out by Allied Commission officers such as supervision of railroads, highways and electric power on behalf of the military authorities will have to be headed ^{added} by ~~executed~~ those military authorities ^{but further instructions will follow on this} They will normally confine their activities to the neighbourhood of the Headquarters in which they are located, ie, PALERMO, CATANIA, MESSINA and ROMA, but in cases of necessity they will, of course, take cognizance of all matters arising from civil affairs affecting

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 PROVINCE.

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

DRAFT ONLY.

S E C R E T.

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

HEADQUARTERS ALLIED COMMISSION

AFO 394

Office of the Chief Commissioner

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

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.

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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.

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 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

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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.

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 Sicily, Sardinia, Southern and Lazio-Umbria Regions.

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,

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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 "I") and other supplies for which they will not assume responsibility (Category "E"). For your information a definition of the supplies which fall into Category "I" 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.

(b) Those supplies, requirements for the import of essential civilian supplies for the purpose referred to in this paragraph, such as, fertilizer, raw materials, machinery and equipment. When requisitions are combined being prepared and considered the time when 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.

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(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 programme of supplies for which the military assume responsibility for procurement (Category "1") 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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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

mission, and to the extent necessary to the 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.

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.

GILBERT W. STONE
Rear Admiral, USNR
Chief Commissioner

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

MEMORANDUM SHOWING SOME 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; organization of police; stimulation Italian Courts of law, particularly in dealing with offences against Allied troops.
- (b) Distribution of medical supplies; assistance in organization 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) Evacuation 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.

- (c) Treatment of civilian personnel: officers, smallpox, diphtheria, etc., except that a team of stationed in NWPLB 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 demunitioning of factories and industries.
- (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 unlandings: 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.
- (g) Transportation Sub-Commission. Coordination of civilian traffic with military traffic: clearance of rail wagons: movements work.

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