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b. SCAP should be responsible for preparing an inventory of individual Japanese industrial facilities selected under a above. This inventory shall include any available information which would aid a prospective claimant in determining the utility of the individual facility, such as technical specifications, make, age and condition.

c. SCAP should be responsible for assigning monetary valuation to industrial facilities selected and listed under a and b. Procedures for uniform monetary valuation should be determined by SCAP. Valuations should be in sufficient detail to permit charges to be made for parts of plants which may be allocated separately. Values assigned to reparations assets referred to in a and b above need have no relation to any other values as long as these values are consistent among the reparations assets comprised of industrial facilities and equipment.

d. SCAP should submit to representatives of countries, members of the FEC the inventory provided in b, and the valuation provided in c.

e. Upon receipt of the inventories and valuations mentioned herein, a country, member of the FEC may lodge with SCAP claims for the allocation to it of particular industrial facilities.

f. Upon receipt of directives indicating the over-all shares assigned to each country, SCAP should set up appropriate reparations accounts for recipient countries. The value of the facilities received by any one country should not exceed its percentage share of the total value of the industrial facilities selected and valued by SCAP for removal as reparations. As provided in the Directive, Serial Number 69, February 19, 1947, regarding the delivery of reparations goods in Japan, a recipient country will make a

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commitment to accept a specific facility at the time allocation is made. SCAP should likewise agree to reserve the accepted facility for the claimant country. At such time SCAP will make an initial charge of the monetary value assigned to the facility (in accordance with 1 c) to the reparations account of the recipient country. When the final title is taken by a recipient country to an individual facility aboard ship, a final charge shall be made against the reparations account of the recipient country, taking into account, if necessary, any unforeseen loss of value.

g. From those items of industrial facilities and equipment declared available for reparations removals SCAP should allocate particular industrial facilities to each country on the basis of claims submitted by that country. To the extent that claims of two or more countries are in conflict, he will work out what seems to him the most reasonable allocation, taking into primary consideration the proportion of each country's allocation still unfilled. After taking into account this primary consideration, consideration should be given the following four items in stated order of priority:

- (1) Claims for whole plants and related facilities, as opposed to claims for portions thereof.
- (2) Claims for parts of plants or related groups of items which can be integrated with the existing industrial pattern of the claimant country.
- (3) The extent to which the claimed item or items would replace property which was destroyed, damaged or looted in the war, or requires replacement because of excessive wear incident to prosecuting the war against Japan.

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(4) The extent to which the claimant country depended in pre-war years on imports from Japan of the item or items (or products thereof) claimed.

h. In making allocations as provided by subparagraph g, SCAP should, to the extent practicable, give consideration to striking a fair and equitable balance as between all claimant countries of items:

- (1) In integrated or consolidated units.
- (2) Of modern and efficient design and manufacture.
- (3) In good working condition.

i. Each country represented on the FEC should be permitted to have a Reparations Technical Mission in Japan. These missions should be afforded full opportunity for inspection of plants declared available, and should be kept fully informed by SCAP of all designations and allocations. They should be authorized by their governments to receive inventories, valuations and other communications from SCAP relating to reparations, to lodge claims, to make commitments to accept title to plants selected, to accept final title to industrial facilities on reparations account, and to make all necessary arrangements with SCAP including scheduling the required shipping for the actual removal of allocated facilities in accordance with the principles laid down in the Directive, Serial Number 69.

j. SCAP should organize a Reparations Technical Advising Committee (RTAC) composed of the heads of the above Reparations Technical Missions located in Japan and chaired by a representative of SCAP appointed by SCAP. The function of this committee should be to assist SCAP, in an advisory capacity, in the development of technical and administrative procedures to assure an orderly removal of reparations goods from Japan, and in the settlement of conflicts between

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claimant countries arising over claims for particular facilities. In the event of disagreement between SCAP and a member country concerning the allocation of a particular facility by SCAP, if a formal protest is made to SCAP by two-thirds of members of RTAC, SCAP, who has final authority in such matters, may, in his discretion, refer the dispute to the U. S. Government.

k. Claims for individual facilities must be filled with SCAP by a claimant country within 6 months after the fixing of a claimant country's final reparations percentage share, or receipt from SCAP of a final inventory and valuation of the facility, whichever is the later date.

l. Each claimant will arrange for transportation for its reparations goods at the port and will be prepared to accept transfer of title no later than 2 years after the designation of the goods for application to that country's reparations account, providing that such goods have been delivered to the loading point at the port within a reasonable time before the end of that period.

m. Industrial facilities, machinery or equipment (other than specialized war-making equipment) declared available for reparations, but either

(1) unclaimed for application against recognized reparations claims on Japanese assets from within Japan, or

(2) unaccepted as prescribed by l l above, should not be destroyed or otherwise disposed of by SCAP pending receipt of further directives.

n. The provisions of this paper shall apply to any country not a member of the FEC which may be declared eligible to receive reparations from Japan in industrial facilities, except that no country not a member of the FEC shall be a member of the RTAC.

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2. The provisions of paragraph 1 c and d requiring a monetary valuation for industrial facilities shall not operate to delay delivery of goods under the provisions of Part A of this directive. As soon as recognized and approved national reparations shares have been determined and announced by directive to SCAP all of the provisions of Part B of this directive will govern and provisions of Part A of this directive will be rendered inoperative.

~~FE~~
DC/R

In reply refer to
NA 894.60/4-947

APR 11 1947

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MEMORANDUM FOR THE SECRETARY GENERAL
FAR EASTERN COMMISSION

In accordance with a memorandum of April 9, 1947, from the State-War-Navy Coordinating Committee, there is enclosed a certified copy of Directive, Serial No. 75, to the Supreme Commander for the Allied Powers regarding Advance Transfers of Japanese Reparations and Reparations Allocation Procedures for Industrial Facilities in Japan, to be filed with the Far Eastern Commission under the provisions of paragraph III, 4, of its Terms of Reference.

894.60/4-947

E. W. CAMERON

for J. H. Hilldring
Assistant Secretary

Enclosure:
Copy No. 1 (certified)
of Directive to SCAP,
Serial No. 75.

DOB - ITP Unit

[Handwritten initials]

CS/A

894.60/4-947

CONFIDENTIAL

[Handwritten initials]
FE

NA:ADunning:hst
4-11-47

✓ CR
APR 11 1947

A true copy of
the signed original.
CR/219

STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT



708

TO : A-H - General Hilldring

FROM : JK - Mr. Whitman

SUBJECT: Financing Self-Liquidating Projects for Japan.

A number of weeks ago this division submitted a draft cable on the financing of self-liquidating projects, addressed to SCAP. Concurrence was reached with the War Department and there was an understanding that the cable would go shortly after (one week) there had been dispatched a cable bearing on the general subject of restoring trade.

Colonel Gilchrist later suggested that the State Department not press for the dispatch of the financing cable until after SCAP had replied to the cable covering restoration of trade generally. Upon receipt of that suggestion, JK ceased to press for the already-agreed-to cable on financing.

The subject of self-liquidating ("link") projects has been advanced at the Inter-Allied Trade Board as a means whereby nationals of this country and those of other countries represented on the FEC would participate in the financing of raw materials into Japan. The general attitude of the Board is that the U.S. should provide equality of opportunity and this would best be assured through formal announcement by the U.S. member, together with all the information which can be provided and which would enable other nationals to judge the possibilities of such an approach in order for Japan to obtain raw materials. JK feels there is much merit in the Board position.

In order, therefore, to avoid possible charges that the U.S. is acting unilaterally in this matter, JK would like to provide formal notification of the self-liquidating ("link") projects and formally invite other countries to participate. It is felt that the dispatch of the cable and SCAP's answer would provide a basis for the contemplated formal action and we therefore request A-H to reconsider with Colonel Gilchrist the immediate dispatch of the subject cable.

894-60/4-1047

RN Whitman

JK
JK: DO Bowman: bcb
4/10/47

Apr 10 1947

DEPARTMENT OF STATE

ASSISTANT SECRETARY

3/19/47

To: Colonel Chard
From: Mr. Lewis
Subj: Private Financing of Production in Japan.

MC OUT 45365, 18 Jan, advised SCAP that there was a critical shortage of soda ash in the U.S. and asked if any could be obtained from Japan provided the necessary salt and coal were furnished. In Z 33238 (MC IN 61394, 31 Jan) SCAP replied, giving the estimated capacity of the Japanese soda ash industry.

The enclosed draft cable advises that the possibilities of securing soda ash are being considered here and goes on to ask the comments of SCAP as to the possibilities of importing into Japan certain raw materials to be manufactured into finished goods, payment to be made in a number of ways. This question of private financing of Japanese production is being explored because of the growing desire for the expansion of Japanese industry and trade by such methods.

Lt. Col. Hartman of your office is familiar with the general background of the question. Will you kindly secure War Dept. concurrence and notify me on State, 3776.

3/26 - Nogle has.

AH-1298

ASSISTANT SECRETARY

3/19/47

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Lt. Col. Hartman of your office is familiar with the general background of the question. Will you kindly secure War Dept. concurrence and notify me on State, 3776.

*Rec'd H. C. Mangle 1100
25 Mar. 47 Jwn*

AH-1298

STANDARD FORM NO. 64

377

Office Memorandum • UNITED STATES GOVERNMENT

TO : A-H - JK Secretariat

DATE: February 28, 1947

FROM : JK - Mr. Martin

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SUBJECT: Introduction Private Financing of Production in Japan.

There is a growing desire for private resources to be used to move raw materials into Japan. There is also the necessity to explore means by which private financing can be restored and expanded in Japan for trade purposes. The following cable is designed to ascertain SCAP's views and also make suggestions.

DRAFT CABLE TO SCAP

1. Reourad WCL 45365 Urad Z33238 use of soda ash capacity if coal and salt delivered f.o.b. Japan. Inquirers informed possibilities and considering.

2. Strongly support principle private procurement raw materials delivered f.o.b. Japan for manufacture specified items to be returned supplier raw materials. Japan to be paid in portion of items for domestic consumption or portion exported to provide dollar credits. Specific inquiries here whether this principle can be implemented in following fields: textiles, chinaware and ceramics, light electrical and communication equipment, rubber goods, toys, glassware, bicycles, soap, and textile machinery. Can you indicate whether arrangements possible these fields. Also need know other possible fields, specific Japanese firms now or presently to be available for such arrangements, rapidity with which SCAP able permit contracts between such firms, U.S. and other nationals. Assume in cases items subject production by specifications mail negotiations could open now. Potential clients anxious open direct negotiations with Japanese firms with SCAP approval contracts. Basic information on possibilities needed in order answer inquiries and encourage such arrangements.

3. Such raw material advances viewed as part of overall program for resumption and stimulation private trade with Japan. Such program would envisage also some or all of follow:

(a) Private advances raw materials secured by pledge finished goods and payment from proceeds export finished goods; (b) credit advances from private sources for procurement raw materials for specific production program, advances for each program secured by pledge finished goods from such program with payment out of proceeds export finished goods from such program; possibility pledge limited fund or additional or alternative security; (c) raw material or credit advances from agencies US or other govts under similar arrangements for security and payment.

4. As developments progressed along these lines representatives of firms making advances would probably need enter Japan. Please Comment.

JK Bowman: bcb

2/28/47

(Cleared Treas-Lipsman; Cleared Commerce-Roberts)

FN JUA

A-H

1298
CONFIDENTIAL

STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

TO : SWNCC

DATE: April 16, 1947

FROM : General Hilldring

SUBJECT:

The State Department opposes the adoption of SWNCC 236/44.

With the exception of one clause in Part II, paragraph 11c, the entire contents of this paper have either been approved previously by the SWNCC or included by the State Department in instructions to the U.S. delegate on the Far Eastern Commission as derivative in substance from approved SWNCC policies or as representing matters of solely political interest, not properly of concern to SWNCC.

Of this latter character is Part I, paragraph 4, proposing percentage distributions of Japanese industrial assets among the claimant countries, which was approved by Secretary Marshall and sent to the U.S. delegate on the FEC on April 4, 1947.

The remainder of the paper provides a manual for implementation by SCAP of the reparations program. Such a manual, representing a compilation from approved SWNCC policy papers, acted upon by FEC or issued by the U.S. as interim directives, is a highly desirable project. It is not clear, however, why SWNCC should be called on to repeat its previous actions in approving these statements. It is even less clear why the FEC should be confused by being asked to take action in this form on policies which they have already approved, or are now discussing.

Part II, paragraph 11c contains a clause permitting SCAP to retain facilities, otherwise to be removed as reparations, to meet the needs of the occupation. The State Department believes that this provision was inadvertently omitted from SWNCC 236/43 and proposes that that document be amended by the insertion of the following provision as paragraph 3g of SWNCC 236/43:

"In addition to the facilities to remain in Japan, as provided in this document, SCAP may retain temporarily any items deemed essential to the needs of the occupation."

Σ
pc c 2H
JK:EMMartin:bg

4/16/47

894.60 / 4-16-47
 177 384 20000 2056/44

438

CONFIDENTIAL
DEPARTMENT OF STATE
ASSISTANT SECRETARY

April 29, 1947

To: SWNCC - Mr. Moseley
From: A-H - Mr. Gross *EG*
Subject: Reparations Removals of Industrial Facilities from Japan.

Attached hereto is a compilation which it is proposed shall be dispatched by the War Department as Executive for the Joint Chiefs of Staff to SCAP. The purpose of this statement is to arrange in a convenient form and to clarify the application of means for implementing the reparations removals of industrial facilities and merchant shipping from Japan. It is believed that the statement embodies all pertinent official policy decisions pertaining to procedures for the selection, allocation and delivery of reparations goods in Japan. It has been compiled by a working committee of the State, War and Navy Departments from official SWNCC and FEC papers. Because of partial treatment of this subject in several previous papers it has been considered desirable to give SCAP a single document which contains all of the official latest decisions.

A few minor modifications from existing SWNCC papers have been made as noted below.

- a. Material not previously approved in SWNCC is contained in paragraph 6 c (other disposition), 7 c (time limit). However, in each of the two cited cases, working level agreement has been secured.
- b. Material previously approved by SWNCC but not previously transmitted to SCAP in JCS directive is included in paragraph 4 g (accounting and delivery).
- c. Modification in form for clarity or completeness in previous language have been made in paragraph 4 b (accounting and delivery), 6 c (time limits), 7 a (representation) and 9 a (miscellaneous - re-written).

It is requested that you review the attached statement for correctness as to quotations from SWNCC papers and for consistency (where paraphrasing or new language is involved) with SWNCC policy and advise this office of your findings.

Attachment.

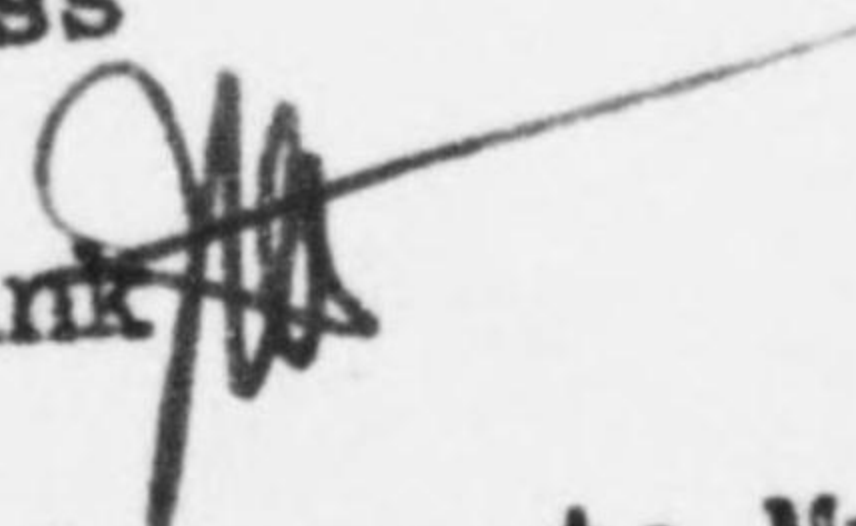
CONFIDENTIAL

894.60 / 4-2947
1791

DEPARTMENT OF STATE 938

ASSISTANT SECRETARY

April 29, 1947

To: Mr. Gross
From: Mr. Frank 
Subject: Attached memo to Mr. Moseley.

This is the manual of which I spoke to you.

Upon notification by us to War that we approve their dispatch of this message, they will withdraw SWNCC 236/44.

I propose that upon receipt of this from Mr. Moseley to dispatch it to War with our concurrence. JK now concurs.

STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

DATE: May 13, 1947

TO : A-H - Mr. Frank

FROM : JK - Mr. Martin

SUBJECT:

CAD agrees that the SWNCC decision of April 29 on SWNCC 236/44 makes action on the attached unnecessary.

550370

Handwritten vertical text: FRANK 5/13/47

Handwritten initials: e2M
JK:CLHodge:bg

5/13/47

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CONFIDENTIAL
DEPARTMENT OF STATE
ASSISTANT SECRETARY

May 12, 1947

TO: JK Mr. Martin.

FROM: AH Mr. Frank *[Signature]*

In view of the SWNCC decision of April 29 amending 236/44, I assume this is no longer appropriate. Would you please let me know?

Hodge - action?
Σ

*EQ - Pollard
agrees that since
decision of Apr 29
makes further action
on the attached
unnecessary (May 14)
H7*

CONFIDENTIAL

ah 1297

**DIVISION OF JAPANESE AND KOREAN
ECONOMIC AFFAIRS
DEPARTMENT OF STATE
MAY 12 1947**

CONFIDENTIAL
DRAFT OF CABLE

PREPARED BY: Col. W. T. Ryder/hvm EXTENSION: 6432 DATE: 21 April 47

CLASSIFICATION: CONFIDENTIAL CRYPTO. SYSTEM(S): _____ PRECEDENCE: ROUTINE

THEATER ADDRESS(ES): _____ NAME: _____ ACTION OR INFORMATION:
TO: SCAP, TOKYO, JAPAN FOR: _____ FOR: ACTION

CONTENTS OF THIS DRAFT: { CONCURRED IN BY: State (Gen. Hilldring); War (Mr. Petersen);
Navy (Mr. Sullivan)
{ COORDINATED WITH _____

DISTRIBUTION DESIRED: SWNCC; CSA; CAD
AAF; ADM LEAHY; ASW; CAD(STATE); JCS; ID; ADM NIMITZ; P&O; SSP;

NOTE: Submit this original in detail and one (1) tissue copy of text only. Double-space.

To MacArthur from ~~the JCS~~ **WARCAD**

The fol directive prepared ~~by the State-War-Navy Coordinating Committee~~ to implement directive on "Reparations Removals of Industrial Facilities from Japan." This directive consolidates directives No. 69 and No. 75. The schedule of final and complete national percentage shares of reparations will be a matter of subsequent instructions. Inasmuch as this directive is based on previous policy decisions and directives issued you, appropriate source notes are included for your convenience. All references to WAR 95604 are to Part B thereof only.

~~XXXXXXXXXXXXXXXXXXXX~~

Directive begins

MEMO FOR RECORD:
(Establishing factual background and necessity for cable)

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Disposition of Industrial Facilities1. Selection

a. In accordance with provisions of directives to SCAP regarding availability for reparations transfer of categories of Japanese industry, SCAP should be responsible for final selection of those particular industrial facilities and equipment to be made available for removal from Japan as reparations (para 1 a SWNCC 236/45; WAR 95604).

b. In making above selections SCAP should give consideration to the following:

(1) Security and industrial disarmament requirements:

Facilities which have been employed in primary and secondary war industries and facilities in war-supporting industries, the operation of which was directly and closely related to war industries, should be removed in preference to those not so employed.

(2) The achievement of a fair balance between:

(a) The general preferences of reparations claimants for plants, machinery, equipment and other facilities,

1. of modern and efficient design and manufacture,

2. in good working condition and capable of being

removed from Japan with minimum loss of value and

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and efficiency,

3. in consolidated or integrated units,
4. of special value or need to claimant countries,

and

(b) The legitimate needs of Japan's peacetime economy for similar equipment, having due regard:

1. for the geographical location of individual plants in reference to markets, raw materials, manpower, fuel supply, and complementary facilities;
2. for variations in specific products as among types, sizes and other variable characteristics;
3. for the feasibility of repair and rehabilitation in Japan.

(3) The occupation policies of dissolving large industrial and banking corporations which have exercised control over a great part of Japanese trade and industry (para 1, 2, 3, FEC 091/4).

c. Insofar as ownership is a basis for selection, highest priority should be given to the removal of plants belonging to Zaibatsu concerns and lowest priority to removal of plants in which nationals of members of the United Nations have substantial interest (para 4 j, SFE 162/15).

2. Inventory and Evaluation.

a. SCAP should be responsible for preparing an inventory of individual Japanese industrial facilities selected for reparations removals. This inventory shall include any available information which would aid a prospective claimant in determining the utility of the individual facility, such as technical specifications, make, age, and condition (para 1 b, SWNCC 236/45; WAR 95604).

-3-
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b. SCAP should be responsible for assigning monetary valuation to industrial facilities selected for reparations removals. Procedures for uniform monetary valuation should be determined by SCAP. Valuations should be in sufficient detail to permit charges to be made for parts of plants which may be allocated separately. Values assigned to reparations assets need have no relation to any other values so long as these values are consistent among the reparations assets comprised of industrial facilities and equipment (para 1 c SWNCC 236/45; WAR 95604).

c. SCAP should submit to representatives of countries, members of the FEC, the inventory provided in a and the valuation provided in b above (para 1 d SWNCC 236/45; WAR 95604).

d. Upon receipt of the inventories and valuations mentioned above, a country, member of FEC may lodge with SCAP claims for the allocation to it of particular industrial facilities (para 1 e SWNCC 236/45; WAR 95604).

3. Allocation

a. From those items of industrial facilities and equipment declared available for reparations removal SCAP should allocate particular industrial facilities to each country on the basis of claims submitted by that country.

b. In making allocations to claimant countries SCAP should, to the extent practicable, give consideration to striking a fair and equitable balance as between all claimant countries of items:

- (1) in integrated or consolidated units
- (2) of modern and efficient design and manufacture
- (3) in good working condition.

c. To the extent that reparations claims of two or more countries are in conflict SCAP will work out what seems to him to be the most reasonable allocation taking into primary consideration the proportion of each country's allocation still unfilled. After taking into account this primary consideration, consideration should

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be given the following four items in stated order of priority:

- (1) claims for whole plants and related facilities, as opposed to claims for portions thereof.
- (2) claims for parts of plants or related groups of items which can be integrated with the existing industrial pattern of the claimant country.
- (3) the extent to which the claimed item or items would replace property which was destroyed, damaged, or looted in the war, or requires replacement because of excessive wear incident to prosecuting the war against Japan.
- (4) the extent to which the claimant country depended in pre-war years on imports from Japan of the item or items (or products thereof) claimed (para g., h., SWNCC 236/45; WAR 95604).

4. Accounting and Delivery.

a. Upon receipt of directives indicating the overall shares assigned to each country, SCAP should set up appropriate reparations accounts for recipient country.

b. The value of the facilities received by any one country should not exceed its percentage share of the total value of the industrial facilities selected and valued by SCAP for removal as reparations. At the time an allocation is made, SCAP will make an initial charge of the monetary value assigned to the item or items (in accordance with 2 b above) to the reparations account of the recipient country. When the final title is taken by a recipient country to an individual facility aboard ship or other appropriate craft, a final charge shall be made against the reparations account of the recipient country, taking into account, if necessary, any unforeseen loss of value (para 1 f, SWNCC 236/45; WAR 95604).

c. The port should be designated by SCAP after consultation with the claimant country.

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d. In delivering reparations goods in Japan to claimant countries, the Japanese Government will bear all costs connected with dismantling, packing, transporting to the port in Japan for waterborne craft or for airborne craft, handling, and loading on board craft at that port. None of the above-mentioned costs will be paid by the recipient country; however, all these costs involved in the delivery of reparations goods should in the future be appropriately charged toward the reparations accounts of the recipient countries in the same proportions as their respective national shares of reparations from Japan. The charging of these costs to the reparations accounts of recipient countries should not affect the distribution of reparations received by claimant countries.

e. Before proceeding with the removal of designated goods from their location, SCAP will require the recipient country to provide him with a written undertaking to accept such goods, provided they are delivered on board at the designated port free from any major damage sustained in processes of dismantling, packing, transporting, handling, and loading. SCAP will likewise agree to reserve the accepted facility for the claimant country. The Japanese Government will be required to make good any damage or shortage resulting from the processes of dismantling, packing, transporting, handling, and loading if such damage or shortage occurred prior to delivery on board the carrying craft.

f. The goods in question would become the property of the recipient country when they have been delivered on board at the designated port and thereafter they become the entire responsibility of such recipient country. Receipt for the goods shall be given by the recipient country when they have been delivered on board the carrying craft at the designated port.

g. Each recipient country will be responsible for arranging for the waterborne or airborne craft necessary to transport its reparations goods from the designated port in Japan. For purposes of developing priorities and schedules

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for dismantling operations and removal of reparations goods to the port, each claimant nation will notify SCAP of the order desired for receiving its respective reparations goods and the prospective availability of shipping to move these goods from the port. Firm schedules for dismantling operations, removal to the port, and loading on board recipient's craft will be determined by SCAP in agreement with the representatives of the recipient country (SWNCC 236/27; WAR 92372 and SWNCC 236/45; WAR 95604).

5. Other Disposition

a. Industrial facilities, machinery, or equipment (other than specialized war-making equipment) declared available for reparations but either:

- (1) unclaimed for application against recognized reparations claims on Japanese assets from within Japan, or
- (2) unaccepted as prescribed by 6 b below will not be destroyed or otherwise disposed of by SCAP pending receipt of further directives (para 1 m SWNCC 236/45; WAR 95604).

b. All buildings, machinery, and equipment in plants made available as reparations which are functionally limited to the special purpose of manufacturing or servicing combat equipment end products will be destroyed. (para 4 a SWNCC 302; para 1 Part IV SWNCC 150/10; SWNCC 58/9; JCS 1380/15).

c. Where plants are made available for reparations claim or are destroyed, buildings associated with such plants should not be destroyed if they can be converted for human habitation, for storage or for other approved uses (para 4 f SFE 162/15).

6. Time Limits

a. Claims for individual facilities must be filed with SCAP by a claimant country within six months after the fixing of a claimant country's final reparations percentage share, or receipt from SCAP of a final inventory and valuation

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1. k.
of the facility, whichever is the later date (para ~~1. k.~~, SWNCC 236/45; WAR 95604).

b. Each claimant country will arrange for transportation of its reparations goods at the port and will be prepared to accept transfer of title no later than two years after the designation of the goods for application to that country's reparations account, providing that such goods have been delivered to the loading point at the port within a reasonable time before the end of that period (para 1. l SWNCC 236/45; WAR 95604).

c. All removals of industrial facilities ~~(submarine shipping)~~ under this program will be made as quickly as practicable except that when in the judgment of SCAP specific items are required to meet the needs of the occupation, they may be retained beyond this period. (para 4 j SFE 162/15).

d. The processing of claims for the restitution of industrial machinery and equipment found in Japan shall not be permitted, in general, to delay removals of machinery and equipment on reparations account, but no item for which a restitution claim has been received by the Supreme Commander for the Allied Powers shall be allocated on reparations account until the claim has been acted upon. On the other hand, no restitution claim shall be recognized for articles already allocated to particular countries on reparations account (para 4 SWNCC 227/13; WCL 30315).

7. Representation of Claimant Countries in Japan.

a. Each country represented on the FEC should be permitted to have a reparations technical mission in Japan. These missions should be afforded full opportunity for inspection of plants declared available and should be kept fully informed by SCAP of all designations and allocations. They should be authorized by their governments to receive inventories, valuations, and other communications from SCAP relating to reparations, to lodge claims, to make commitments to accept title to plants selected, to accept final title to industrial facilities on reparations account, and to make all necessary arrangements with SCAP, including scheduling

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the required craft for the actual removal of allocated facilities (para 1 i SWNCC 236/45; WAR 95604).

b. When particular reparations goods have been designated for delivery to a particular country, SCAP will afford claimant countries the opportunity to be consulted prior to, and represented at, the dismantling and packing of such goods and to make such constructional plans and drawings as may be necessary for the purpose of re-erection, provided the making of such plans and drawings shall not be permitted to delay unduly the process of dismantling and removal. (para 2, SWNCC 236/27; WAR 92372).

c. SCAP should organize a Reparations Technical Advisory Committee (RTAC) composed of the heads of the above Reparations Technical Missions located in Japan and chaired by a representative of SCAP appointed by SCAP. The function of this Committee should be to assist SCAP, in an advisory capacity, in the development of technical and administrative procedures to assure an orderly removal of reparations goods from Japan, and in the settlement of conflicts between claimant countries arising over claims for particular facilities (para 1 j SWNCC 236/45; WAR 95604).

8. Resolution of Disagreements

In event of disagreement between SCAP and a member country concerning the allocation of a particular facility by SCAP, if formal protest is made to SCAP by two-thirds of the members of RTAC, SCAP, who has final authority in such matters, may, in his discretion, refer the dispute to the U.S. Government (para 1 j SWNCC 236/45; WAR 95604).

9. Miscellaneous

a. Provisions of this directive requiring a monetary valuation for industrial facilities shall not operate to delay delivery of goods under the provisions of Part A of Directive No. 75 (WAR 95604). As soon as recognized and approved national reparations shares have been determined and announced by directive to SCAP all of

CONFIDENTIAL
-9-

CONFIDENTIAL

the provisions of Directive No. 75 (WAR 95604) will be rendered inoperative and provisions of this directive will govern the implementation of Reparations Removals of Industrial Facilities ~~and Merchant Shipping~~ (para 2 SWNCC 236/45; WAR 95604).

b. The provisions of this paper shall apply to any country not a member of the FEC which may be declared eligible to receive reparations from Japan in industrial facilities, except that no country not a member of the FEC shall be a member of the RTAC (para 1 n. SWNCC 236/45; WAR 95604).

Directive Ends

CONFIDENTIAL

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MEMO FOR RECORD: -

1. This cable prepared as result of working party agreement re SWNCC 236/44 "Implementation of Reparations Removals of Industrial Facilities and Merchant Shipping from Japan." On 16 April it was decided that since most of the substance of this proposed directive had been previously approved by SWNCC and submitted to FEC or issued in earlier directives, re-submission to FEC would only lead to confusion. Purpose of this directive is to arrange conveniently and clarify the application of the implementation principles to the policy SWNCC 236/43 "Reparations Removals of Industrial Facilities and Merchant Shipping from Japan," now under consideration as FEC 218.

a. Material not previously approved in SWNCC is contained in para 6 c (other disposition), 7 c (time limit). However, in each of the two cited cases, working level agreement has been secured.

b. Material previously approved by SWNCC but not previously transmitted to SCAP in JCS directive is included in para 5 g (accounting and delivery).

c. Modification in form for clarity or completeness in previous language have been made in para 4 b (accounting and delivery) 6 c (time limits), 7 a (representation) and 9 a (Miscellaneous - re-written).

JGKM

Working MembersMr. Burr Smith *Burr Smith*Maj. J.G.K. Miller *J.G.K. Miller*

Comdr. Stephen Jurika _____

Proofread and approved

SWNCC Secretariat

Mr. J. A. Frank _____

CONFIDENTIAL



WAR DEPARTMENT
CIVIL AFFAIRS DIVISION
WASHINGTON 25, D. C.

WDSKA 383

1 May 1947
GENERAL HILLDRING
DEPARTMENT OF STATE
ASSISTANT SECRETARY
A-H
MAY 6 1947
GENERAL HILLDRING
DEPARTMENT OF STATE

Mr. Warde M. Cameron
Executive Assistant to General Hilldring
Room 4029
Department of State, N.S.
Washington, D. C.

Dear Mr. Cameron:

SCAP cable CM-IN 4343, 26 February, was referred to State Department on the 26th of February for action to Mr. Rudlin. Subsequent to that time, telephone conversations have been held between Mr. Pollard of Civil Affairs Division and Mr. Rudlin and Mr. Owen of State Department.

The latest information in regard to a State Department draft reply to the subject cable is a statement from Mr. Owen over the telephone that no action is necessary. Mr. Rudlin states that he does not recall the cable in question and is not sure that the cable was sent to him for action.

Would you please verify this and let me know whether or not this cable, in fact, requires no action?

Sincerely yours,

R. H. Chard

R. H. CHARD
Colonel, GSC
Executive

89460/5-147



*201 Noce, Daniel
201 Hildring, Stan*

SECRET

5-9-47

In reply refer to
JK

Dear General Noce:

I understand your letter of 18 April, to request concurrence of the Department of State in three changes in SWNCC 236/43 before communicating to General MacArthur some interpretative comments on that document.

The changes to or interpretations of SWNCC 236/43 which you propose are, if I understand them, as follows: 1. To exempt from possible reparations claim all sulfuric acid capacity integrated with any other kind of facility in Japan; 2. To exempt from possible reparations claim existing Japanese whaling vessels even though they exceed, as I understand they do, the limitation of 3,000 lightweight tons (or 15 knots) now provided in SWNCC 236/43; 3. To amend the language of paragraph 4 g.(7) of SWNCC 236/43 (FEC 218) to clarify what that paragraph was understood by all concerned to mean when it was adopted: That Japan should be permitted to retain capacity to make 25,000 metric tons of primary aluminum annually, the rolling thereof to be accomplished by utilizing facilities in the non-ferrous metals industry capable of handling aluminum, and all facilities for producing or rolling magnesium to be made available for claim.

SWNCC 236/43 provides that no chemical facilities (including sulfuric acid) will be removed which are necessary to maximize production of fertilizers necessary to meet Japanese indigenous fertilizer requirements including the Ryukyus; that during the period of the occupation additional capacity necessary to meet the fertilizer requirements of Southern Korea may be retained; and the general provision which State has agreed to as an amendment to SWNCC 236/43, that the Supreme Commander for the Allied Powers may retain temporarily any facilities available for reparation, the retention of which is essential to meet the needs of the occupation. A prohibition against removal of contact-type sulfuric acid plants would inevitably result in a higher sulfuric acid capacity level than is permitted in SWNCC 236/43. I cannot agree to an interpretation of a SWNCC decision the effect of which is to alter the clear intent of the decision itself. It seems to me that we have given the Supreme Commander all the protection and flexibility with respect to sulfuric acid retentions that could reasonably be asked. We must face the fact that reparations

removals

Major General Daniel Noce,
Chief, Civil Affairs Division,
War Department.

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removals will create burdens and inconvenience to Japanese industry. For reasons stated the Department of State does not feel this consideration to be of sufficient importance to warrant a change in its position.

The area and extent to which Japanese fishing, whaling and floating cannery operations may be permitted is essentially a matter to be settled in the peace treaty. It is more than questionable if the Far Eastern Commission could, under its existing terms of reference, consider such a matter. SWNCC 236/43 appropriately, I think, avoided this problem. I agree that, until this question is disposed of in the peace treaty, the Supreme Commander for the Allied Powers should be allowed to retain some fishing and whaling facilities. However, it is the State Department's view that the general amendment to SWNCC 236/43 which would permit the Supreme Commander to retain temporarily any facilities deemed essential to the needs of the occupation, adequately covers this point without pre-judging the peace treaty. It is understood however that retention of an item or facility deemed essential to the needs of the occupation does not relieve the Supreme Commander of the obligation to make the item available for claim and therefore for possible ultimate removal.

I agree that the language with regard to the light metals industry needs revision in the interest of clarity. Since there is no disagreement as to the substance of such an amendment, I suggest that the Department of State instruct the U.S. Member of the Far Eastern Commission as to appropriate language to be substituted for the present provision. In this connection, however, I am not prepared to accept the proviso: "that at no future time any of the non-ferrous metal rolling capacity will be made available for claim, except insofar as this recommendation is modified by SCAP in accordance with the provisions of paragraph 1 b." This proviso is not in accord with intent of SWNCC 236/43 and is both confusing and inconsistent.

I suggest that the proposed letter to General MacArthur be revised to meet the objections which I have stated. Moreover, I think it would be appropriate to advise him that we must be prepared to make some concessions in order to secure the approval of at least a majority of the Far Eastern Commission countries to this program. In this connection, I call your attention to the following statement made by the State Department representative at the New York meeting of the SWNCC-Strike-Pauley conferees:

"As a whole, the paper represents a reasonable solution which I am prepared to recommend that the Department of State accept.

"The decisions with respect to ball-bearings and primary aluminum production are, in my judgment, subject to the most question. However, in relation to the entire paper the differences between the agreed proposals and the original Pauley recommendations do not seem of sufficient importance to justify a formal reservation.

"It is

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"It is understood that essentially minor modifications in these and other items, including the addition of such an item as cement capacity, will be made when, in the judgment of SWNCC, it is essential to do so in order to secure the prompt international action which it is agreed is of major importance at this time."

Sincerely yours,

J. H. Hildring
Assistant Secretary

JK:CLHodge:bg (5/7/47)

FE ESP IR TRC NA AH JK
jma e wf hd jke clh

AH:JAFrank:lk (5-9-47)

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STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

TO : A-S Mr. Claxton *cc ok*

FROM : A-S Mr. Hemminger *WH*

SUBJECT: SWNCC 236/50.

DATE: December 2, 1947

I recommend approval of the attached paper SWNCC 236/50 with the amendments which are intended merely to clarify the original intent indicated and to conform to SANACC 236/52 since introduced.

This paper already received full State Department approval when it was under consideration by the sub-committee for the Far East. ||

The object of the paper is to settle questions relating to reparations from Japan not dealt with in previous papers. In general it covers the following points:

(1) The reparations shares which are settled upon for industrial assets shall be applied to all other categories of assets made available for reparations, except merchant shipping.

(2) Reparations receipts shall be considered compensation for all governmental claims against Japan arising out of the war which are compensable from assets within Japan except:

- (a) restitution identifiable looted property.
- (b) claims relating to Government property treated as enemy property by Japan during the war.
- (c) occupation costs.

(3) Japanese external assets in countries at war with Japan and Korea to be retained there.

(4) Reparations claims by non-FEC countries at war with Japan, but not actively, to be satisfied from Japanese external assets in those countries and from such other categories as may be made available.

(5) Non-FEC countries actively at war with Japan to be awarded national percentages applicable to assets available for apportionment as reparations to FEC countries.

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Col. R. H. Chard, Executive Officer, CAD

May 20, 1947

N. Hemmendinger, A-H

Electric Furnace Steel Capacity in Japan.

Enclosed is draft cable to SCAP on the above subject. This cable was originated by the Department of State.

In the interim reparations program the FEC last June approved reduction of electric furnace capacity to 100,000 m.t. annually. In December SCAP was given authorization to retain an additional 300,000 m.t. of capacity until 30 June 1947, when the authorization will expire unless SCAP requests and the FEC approves an extension. If, as is likely, SCAP desires to have the authorization extended, it is urgent that the request be transmitted to the FEC well in advance of 30 June.

If the FEC adopts the proposal in the final program, overall steel ingot capacity would be reduced to 3,500,000 m.t., as in the interim program, but SCAP would be left full discretion in determining the amount of this capacity which should be in electric furnace facilities. Because this proposal involves a definite departure from the policy approved in the interim program, difficulty is anticipated in obtaining FEC approval unless information is supplied as to the amount of electric furnace capacity which in SCAP's judgment should be retained under the final program.

The State Department has also been unable to answer satisfactorily questions raised in the FEC as to why SCAP has designated for removal only about 173,000 m.t. of electric furnace capacity out of about 1,800,000 m.t. which should apparently be available under the interim program.

The object of the draft cable is, therefore, to request information from SCAP which will facilitate FEC approval of United States policy on electric furnace capacity in Japan.

Will you kindly obtain War Department concurrence in this cable and let me know. If any questions arise, please call me on State Department extension 3611.

Attachment.

A-H:NHemmendinger:eg

CONFIDENTIAL

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STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

TO : JK - Secretariat
FROM : ESP - Mr. Martin
SUBJECT: Draft Cable for SCAP.

DATE: May 14, 1947

The attached draft cable to SCAP is necessary, in our view, because of the difficulties which we are likely to encounter in negotiating in FEC the proposal in the U.S. final reparations program on electric furnace steel capacity. In the interim reparations program the FEC last June approved reduction of electric furnace capacity to 100,000 m.t. annually. In December, SCAP was given authorization to retain an additional 300,000 m.t. of capacity until 30 June 1947, when the authorization will expire unless SCAP requests and the FEC approves an extension. If, as we believe, SCAP desires to have the authorization extended, it is urgent that his request be transmitted to the FEC well in advance of 30 June.

If the FEC adopts the proposal in the final program, overall steel ingot capacity would be reduced to 3,500,000 m.t., as in the interim program, but SCAP would be left full discretion in determining the amount of this capacity which should be in electric furnace facilities. Because this proposal involves a definite departure from the policy approved in the interim program, we anticipate difficulty in obtaining FEC approval unless we can supply information as to the amount of electric furnace capacity which, in the judgment of SCAP, should be retained under the final program. We have also not been able to make a satisfactory reply to questions raised in FEC as to why SCAP has designated for removal only about 173,000 m.t. of electric furnace capacity out of about 1,800,000 m.t. which should apparently be available under the interim program. We are, therefore, asking the aid of SCAP in supplying information which will facilitate FEC approval of U.S. policy on electric furnace capacity in Japan.

~~Will you please undertake to clear the attached cable with A-H, and if they concur, follow through with the War Dept. as a matter of urgency?~~

Will you please follow through with the War Dept. as a matter of urgency?

JK:SGKallis:CL⁶¹⁴Hodge:bg

5/14/47

A-H:JJK
JE

A-H

1806

DRAFT CABLE FOR SCAP

Now before FEC is ^{U.S.} ~~our~~ proposal that in final reparations program steel ingot capacity be reduced to 3,500,000 mt without specifying level to which electric furnace capacity should be cut. In negotiating this proposal urgent we have your views re (1) necessity for extension beyond 30 June 1947 your authorization for temporary retention 300,000 mt electric furnace capacity in addition to 100,000 mt provided in interim program; in accordance with FEC policy decisions (JCS Serial No. 65, WAR 87682, 13 Dec. 1946 and JCS Serial No. 52, WCL 49908, 15 June 1946); (2) what amount of electric furnace capacity should in your judgment be retained under final program. FEC also inquiring when additional designations of electric furnace capacity under interim program will be made.

JK:SGKallis:bg

5/8/47

JK
C14

ESP

NA

A-H

HB
(cleared by
phone)

1806

7-203

JK - Secretariat

May 14, 1947

ESP - Mr. Martin

Draft Cable for SCAP.

The attached draft cable to SCAP is necessary, in our view, because of the difficulties which we are likely to encounter in negotiating in FEC the proposal in the U.S. final reparations program on electric furnace steel capacity. In the interim reparations program the FEC last June approved reduction of electric furnace capacity to 100,000 m.t. annually. In December, SCAP was given authorization to retain an additional 300,000 m.t. of capacity until 30 June 1947, when the authorization will expire unless SCAP requests and the FEC approves an extension. If, as we believe, SCAP desires to have the authorization extended, it is urgent that his request be transmitted to the FEC well in advance of 30 June.

If the FEC adopts the proposal in the final program, overall steel ingot capacity would be reduced to 3,500,000 m.t., as in the interim program, but SCAP would be left full discretion in determining the amount of this capacity which should be in electric furnace facilities. Because this proposal involves a definite departure from the policy approved in the interim program, we anticipate difficulty in obtaining FEC approval unless we can supply information as to the amount of electric furnace capacity which, in the judgment of SCAP, should be retained under the final program. We have also not been able to make a satisfactory reply to questions raised in FEC as to why SCAP has designated for removal only about 173,000 m.t. of electric furnace capacity out of about 1,800,000 m.t. which should apparently be available under the interim program. We are, therefore, asking the aid of SCAP in supplying information which will facilitate FEC approval of U.S. policy on electric furnace capacity in Japan.

Will you please undertake to clear the attached cable with A-H, and if they concur, follow through with the War Dept. as a matter of urgency?

JK:SGKallis:CLHodge:bg

5/14/47

1806

DRAFT CABLE FOR SCAP

Now before FEC is our proposal that in final reparations program steel ingot capacity be reduced to 3,500,000 mt without specifying level to which electric furnace capacity should be cut. In negotiating this proposal urgent we have your views re (1) necessity for extension beyond 30 June 1947 your authorization for temporary retention 300,000 mt electric furnace capacity in addition to 100,000 mt provided in interim program, in accordance with FEC policy decisions (JCS Serial No. 65, WAR 87682, 13 Dec. 1946 and JCS Serial No. 52, WCL 49908, 15 June 1946); (2) what amount of electric furnace capacity should in your judgment be retained under final program. FEC also inquiring when additional designations of electric furnace capacity under interim program will be made.

JK:SGKallis:bg

5/8/47

ESP

NA

A-H

1806

FAR EASTERN COMMISSION
2516 MASSACHUSETTS AVENUE, N. W.
WASHINGTON 8, D. C.

22 May 1947

DIVISION OF
NORTHEAST ASIAN AFFAIRS

MAY 23 1947

DEPARTMENT OF STATE

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RESTRICTED

The Honorable George C. Marshall
Secretary of State
Washington, D. C.

My dear Mr. Secretary:

The Terms of Reference of the Far Eastern Commission provide that one of the functions of the Commission should be to "formulate the policies, principles and standards in conformity with which the fulfillment by Japan of its obligations under the Terms of Surrender may be accomplished."

It is further provided that when such decisions are made by the Far Eastern Commission, "The United States Government shall prepare directives in accordance with the policy decisions of the Commission and shall transmit them to the Supreme Commander through the appropriate United States Government agency."

IR
740-00119

At the fifty-eighth meeting of the Far Eastern Commission held at 2516 Massachusetts Avenue, Northwest, Washington, D. C., on 22 May 1947, the enclosed policy decision relative to The Selection of Plants for Reparations Removals, Destruction or Retention in Japan was approved.

As Secretary General of the Far Eastern Commission, I have been instructed to forward this decision to you on behalf of the Commission, in order that the appropriate directives may be prepared and transmitted to the Supreme Commander in accordance with the Terms of Reference.

In adopting the enclosed policy decision the Commission agreed that it should be released to the press after being received by the Supreme Commander. In accordance with our normal procedure I would appreciate it if you could make arrangements to notify me when the enclosed policy decision has been received in Tokyo.

Sincerely yours,

Nelson T. Johnson

Nelson T. Johnson
Secretary General

TOP ITP Unit
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C.S.M.

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FILED
JUN 22 1947

FAR EASTERN COMMISSION
2516 MASSACHUSETTS AVENUE, N. W.
WASHINGTON 8, D. C.

The attached copy of a document adopted at the fifty-eighth meeting of the Far Eastern Commission, held at 2516 Massachusetts Avenue, Northwest, Washington, D. C., on 22 May 1947, has been compared with the original text and is hereby certified to be correct.

Nelson T. Johnson

Nelson T. Johnson
Secretary General

Washington, D.C.
22 May 1947

RESTRICTED

ENCLOSURE

THE SELECTION OF PLANTS FOR REPARATIONS REMOVALS
DESTRUCTION OR RETENTION IN JAPAN

1. Within those amounts of industrial capacity determined by the Far Eastern Commission for retention in Japan, for destruction or for removal as reparations, ^{you will,} [the Supreme Commander for the Allied Powers should] in selecting specific plants, machinery, equipment, and other facilities, give consideration to the following:

a. Security and industrial disarmament requirements: facilities which have been employed in primary and secondary war industries and facilities in war-supporting industries, the operation of which was directly and closely related to war industries, should be removed in preference to those not so employed.

b. The achievement of a fair balance between:

(1) The general preferences of reparations claimants for plants, machinery, equipment and other facilities

(a) Of modern and efficient design and manufacture

(b) In good working condition and capable of being removed from Japan with minimum loss of value and efficiency

(c) In consolidated or integrated units

(d) Of special value or need to claimant countries, and

(2) The legitimate needs, as determined by the Far Eastern Commission, of Japan's peacetime economy for similar equipment having due regard for the geographical location of individual plants in reference to markets, raw materials, manpower, fuel supply, and complementary facilities; for variations in specific products as among types, sizes and other variable characteristics; and for the feasibility of repair and rehabilitation in Japan.

c. The occupation policies of dissolving large industrial and banking corporations which have exercised control over a great part of Japanese trade and industry.

F.W.

DOB - ITP Unit

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d. Consistent with the provisions of paragraphs a., b. and c., the following order of preference in the selection of particular plants, machinery and equipment for removal:

- (1) Plants and equipment owned by the "Zaibatsu" concerns and other big industrial and financial concerns and companies
- (2) Plants and equipment owned by other Japanese nationals, the Japanese Government, and by nationals and Governments of the countries which were allies of Japan
- (3) Plants and equipment owned by nationals and Governments of the neutral countries.

2. Property of nationals of Members of the United Nations should be dealt with in accordance with FEC-226/1 (Destruction or Removal of United Nations' Property in Japan, Serial No. 76, approved 24 April 1947).

FEC-091/6

P - 38

In reply refer to
NA

SIGNED & RECEIVED
IN SWNCC

5/29/47
H.W.M.
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RESTRICTED

MEMORANDUM FOR THE SECRETARY, SWNCC

Subject: Draft Directive Regarding the Selection of
Plants for Reparations Removals Destruction
or Retention in Japan.

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740.00119 P.W.

There is enclosed a draft directive prepared on
the basis of policy decision approved at the fifty-
eighth meeting of the Far Eastern Commission on May 22,
1947 under the provisions of paragraph III, A, 1, of
its terms of reference.

It is requested that the enclosed directive be
forwarded to the Joint Chiefs of Staff for transmission
to General MacArthur for his guidance in accordance with
paragraph III, 1, of the terms of reference of the Far
Eastern Commission. It is assumed that if the Joint
Chiefs of Staff have any question regarding the draft
directive they will refer the matter to the State Depart-
ment for clarification before transmitting a directive
on this subject.

The Secretary General of the Far Eastern Commission
has requested that the Joint Chiefs of Staff, in trans-
mitting the enclosed draft directive to the Supreme Com-
mander for the Allied Powers inform him that in adopting
the policy decision regarding the selection of plants
for reparations removals destruction or retention in
Japan, the Commission agreed that it should be released
to the press after being received by the Supreme Com-
mander. Therefore, in accordance with normal procedure,
acknowledgment of the receipt of the directive is requested.

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C.G.M.
Enclosure:
Draft Directive.

J. H. Billdring
Assistant Secretary

NA: ALDunning:xs 5-23-47

Cleared with
Mr. Allison via phone
5/27/47
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RESTRICTED

ENCLOSURE

DRAFT DIRECTIVE REGARDING THE SELECTION OF
PLANTS FOR REPARATIONS REMOVALS DESTRUCTION
OR RETENTION IN JAPAN

The following directive, prepared by the State Department to implement the policy adopted by the Far Eastern Commission on May 22, 1947, under the provisions of paragraph II, A, 1, of its terms of reference has been received from the State, War and Navy Departments for transmission to you for your guidance in accordance with paragraph III, 1 of those terms of reference:

1. Within those amounts of industrial capacity determined by the Far Eastern Commission for retention in Japan, for destruction or for removal as reparations, you will, in selecting specific plants, machinery, equipment, and other facilities, give consideration to the following:

a. Security and industrial disarmament requirements: facilities which have been employed in primary and secondary war industries and facilities in war-supporting industries, the operation of which was directly and closely related to war industries, should be removed in preference to those not so employed.

b. The achievement of a fair balance between:

- (1) The general preferences of reparations claimants for plants, machinery, equipment and other facilities
 - (a) Of modern and efficient design and manufacture
 - (b) In good working condition and capable of being removed from Japan with minimum loss of value and efficiency
 - (c) In consolidated or integrated units
 - (d) Of special value or need to claimant countries, and

(2) The

-2-

- (2) The legitimate needs, as determined by the Far Eastern Commission, of Japan's peacetime economy for similar equipment having due regard for the geographical location of individual plants in reference to markets, raw materials, manpower, fuel supply, and complementary facilities; for variations in specific products as among types, sizes and other variable characteristics; and for the feasibility of repair and rehabilitation in Japan.

g. The occupation policies of dissolving large industrial and banking corporations which have exercised control over a great part of Japanese trade and industry.

d. Consistent with the provisions of paragraphs a, b, and g, the following order of preference in the selection of particular plants, machinery and equipment for removal:

- (1) Plants and equipment owned by the "Zaibatsu" concerns and other big industrial and financial concerns and companies
- (2) Plants and equipment owned by other Japanese nationals, the Japanese Government, and by nationals and Governments of the countries which were allies of Japan
- (3) Plants and equipment owned by nationals and Governments of the neutral countries.

2. Property of nations^u of Members of the United Nations should be dealt with in accordance with FEC-223/1 (Destruction or Removal of United Nations' Property in Japan, Serial No. 76, approved 24 April 1947).

FEC-091/6

In reply refer to
NA

RESTRICTED

MEMORANDUM FOR THE SECRETARY, SWHCC

**Subject: Draft Directive Regarding the Selection of
Plants for Reparations Removals Destruction
or Retention in Japan.**

There is enclosed a draft directive prepared on the basis of policy decision approved at the fifty-eighth meeting of the Far Eastern Commission on May 22, 1947 under the provisions of paragraph II, A, 1, of its terms of reference.

It is requested that the enclosed directive be forwarded to the Joint Chiefs of Staff for transmission to General MacArthur for his guidance in accordance with paragraph III, 1, of the terms of reference of the Far Eastern Commission. It is assumed that if the Joint Chiefs of Staff have any question regarding the draft directive they will refer the matter to the State Department for clarification before transmitting a directive on this subject.

The Secretary General of the Far Eastern Commission has requested that the Joint Chiefs of Staff, in transmitting the enclosed draft directive to the Supreme Commander for the Allied Powers inform him that in adopting the policy decision regarding the selection of plants for reparations removals destruction or retention in Japan, the Commission agreed that it should be released to the press after being received by the Supreme Commander. Therefore, in accordance with normal procedure, acknowledgment of the receipt of the directive is requested.

J. H. Hilldring
Assistant Secretary

Enclosure:

Draft Directive.

NA: ALDunning: xa

5-23-47

FE

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RESTRICTED

ENCLOSURE

DRAFT DIRECTIVE REGARDING THE SELECTION OF
PLANTS FOR REPARATIONS REMOVALS DESTRUCTION
OR RETENTION IN JAPAN

The following directive, prepared by the State Department to implement the policy adopted by the Far Eastern Commission on May 22, 1947, under the provisions of paragraph II, A, 1, of its terms of reference has been received from the State, War and Navy Departments for transmission to you for your guidance in accordance with paragraph III, 1 of those terms of reference:

1. Within those amounts of industrial capacity determined by the Far Eastern Commission for retention in Japan, for destruction or for removal as reparations, you will, in selecting specific plants, machinery, equipment, and other facilities, give consideration to the following:

a. Security and industrial disarmament requirements: facilities which have been employed in primary and secondary war industries and facilities in war-supporting industries, the operation of which was directly and closely related to war industries, should be removed in preference to those not so employed.

b. The achievement of a fair balance between:

- (1) The general preferences of reparations claimants for plants, machinery, equipment and other facilities
 - (a) Of modern and efficient design and manufacture
 - (b) In good working condition and capable of being removed from Japan with minimum loss of value and efficiency
 - (c) In consolidated or integrated units
 - (d) Of special value or need to claimant countries, and

(2) The

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- (2) The legitimate needs, as determined by the Far Eastern Commission, of Japan's peacetime economy for similar equipment having due regard for the geographical location of individual plants in reference to markets, raw materials, manpower, fuel supply, and complementary facilities; for variations in specific products as among types, sizes and other variable characteristics; and for the feasibility of repair and rehabilitation in Japan.

g. The occupation policies of dissolving large industrial and banking corporations which have exercised control over a great part of Japanese trade and industry.

d. Consistent with the provisions of paragraphs a, b, and g, the following order of preference in the selection of particular plants, machinery and equipment for removal:

- (1) Plants and equipment owned by the "Zaibatsu" concerns and other big industrial and financial concerns and companies
- (2) Plants and equipment owned by other Japanese nationals, the Japanese Government, and by nationals and Governments of the countries which were allies of Japan
- (3) Plants and equipment owned by nationals and Governments of the neutral countries.

2. Property of nations^u of Members of the United Nations should be dealt with in accordance with FEC-226/1 (Destruction or Removal of United Nations' Property in Japan, Serial No. 76, approved 24 April 1947).

FEC-091/6

In reply refer to
NA

RESTRICTED

MEMORANDUM FOR THE SECRETARY, SWNGC

**Subject: Draft Directive Regarding the Selection of
Plants for Reparations Removals Destruction
or Retention in Japan.**

There is enclosed a draft directive prepared on the basis of policy decision approved at the fifty-eighth meeting of the Far Eastern Commission on May 22, 1947 under the provisions of paragraph II, A, 1, of its terms of reference.

It is requested that the enclosed directive be forwarded to the Joint Chiefs of Staff for transmission to General MacArthur for his guidance in accordance with paragraph III, 1, of the terms of reference of the Far Eastern Commission. It is assumed that if the Joint Chiefs of Staff have any question regarding the draft directive they will refer the matter to the State Department for clarification before transmitting a directive on this subject.

The Secretary General of the Far Eastern Commission has requested that the Joint Chiefs of Staff, in transmitting the enclosed draft directive to the Supreme Commander for the Allied Powers inform him that in adopting the policy decision regarding the selection of plants for reparations removals destruction or retention in Japan, the Commission agreed that it should be released to the press after being received by the Supreme Commander. Therefore, in accordance with normal procedure, acknowledgment of the receipt of the directive is requested.

J. B. Millring
Assistant Secretary

Enclosure:

Draft Directive.

NA:ALDunning:xe

5-23-47

FE

A-H

RESTRICTEDENCLOSUREDRAFT DIRECTIVE REGARDING THE SELECTION OF
PLANTS FOR REPARATIONS REMOVALS DESTRUCTION
OR RETENTION IN JAPAN

The following directive, prepared by the State Department to implement the policy adopted by the Far Eastern Commission on May 22, 1947, under the provisions of paragraph II, A, 1, of its terms of reference has been received from the State, War and Navy Departments for transmission to you for your guidance in accordance with paragraph III, 1 of those terms of reference:

1. Within those amounts of industrial capacity determined by the Far Eastern Commission for retention in Japan, for destruction or for removal as reparations, you will, in selecting specific plants, machinery, equipment, and other facilities, give consideration to the following:

a. Security and industrial disarmament requirements: facilities which have been employed in primary and secondary war industries and facilities in war-supporting industries, the operation of which was directly and closely related to war industries, should be removed in preference to those not so employed.

b. The achievement of a fair balance between:

- (1) The general preferences of reparations claimants for plants, machinery, equipment and other facilities
 - (a) Of modern and efficient design and manufacture
 - (b) In good working condition and capable of being removed from Japan with minimum loss of value and efficiency
 - (c) In consolidated or integrated units
 - (d) Of special value or need to claimant countries, and

(2) The

-2-

- (2) The legitimate needs, as determined by the Far Eastern Commission, of Japan's peacetime economy for similar equipment having due regard for the geographical location of individual plants in reference to markets, raw materials, manpower, fuel supply, and complementary facilities; for variations in specific products as among types, sizes and other variable characteristics; and for the feasibility of repair and rehabilitation in Japan.

c. The occupation policies of dissolving large industrial and banking corporations which have exercised control over a great part of Japanese trade and industry.

d. Consistent with the provisions of paragraphs a, b, and c, the following order of preference in the selection of particular plants, machinery and equipment for removal:

- (1) Plants and equipment owned by the "Zaibatsu" concerns and other big industrial and financial concerns and companies
- (2) Plants and equipment owned by other Japanese nationals, the Japanese Government, and by nationals and Governments of the countries which were allies of Japan
- (3) Plants and equipment owned by nationals and Governments of the neutral countries.

2. Property of nations^u of Members of the United Nations should be dealt with in accordance with FEC-226/1 (Destruction or Removal of United Nations' Property in Japan, Serial No. 76, approved 24 April 1947).

FEC-091/6

MAY 23 1947

In reply refer to
DRF

Dear Jerry:

At your request we are sending you the enclosed copy of
Foreign Economic Administration report, JS-28, Chemical Industries
of Japan, April 1945.

Sincerely yours,

Warren S. Hunsberger
Chief, Japan Branch
Division of Research for Far East

894.60/5-2347

CS/JRC

Enclosure:

FEA report, JS-28.

Mr. Jerome B. Cohen,
Apartment 81,
231 East 76th Street,
New York 21, New York.

MAY 23 1947

DRF:JWLydman (ASustrick)as

5/22/47

894.60/5-2347

Form DS-302
(7-2-46)

DIVISION OF
COMMUNICATIONS AND RECORDS
TELEGRAPH BRANCH

DEPARTMENT OF STATE
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Rec'd May 24, 1947



FROM: Moscow

TO : Secretary of State

NO : 1879, Twenty-fourth

IZVESTIA May 23 on international themes by observer "Anthony Eden's Lancashire Interests" states Eden opposition to restoration of Japanese industries prompted by desire to protect profits of Lancashire textile manufacturers from Japanese competition.

Department please repeat Tokyo.

DURBROW

WMB:ERA

NOTE: (Relayed to Tokyo 6:00 a.m. 5-24-47 CWO NPL)

5-24-47
DEPARTMENT OF STATE
LIAISON OFFICE
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MAY 28 1947

PLAIN

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RESTRICTED

THE STATE-WAR-NAVY COORDINATING COMMITTEE

WASHINGTON, D. C.
DIVISION OF
NORTHEAST ASIAN AFFAIRS

JUN - 9 1947

DEPARTMENT OF STATE

SWN-5456
6 June 1947

*Reply drafted 6/9/47
at LRB
file*

W

DEIR

MEMORANDUM FOR THE SECRETARY OF STATE:
(Attention: Mr. J. K. Penfield, FE)

JUN 12 1947

Subject: Directive Transmitted to SCAP by
the Joint Chiefs of Staff

Enclosed are three copies of Directive, Serial No. 80, transmitted to SCAP by the Joint Chiefs of Staff. Copy No. 1 is for transmittal to the Far Eastern Commission and Copies 2 and 3 are for the files of the State Department.

*XR
740,000/19 PW*

For the State-War-Navy Coordinating Committee:

DEPARTMENT OF STATE
DIVISION OF
NORTHEAST ASIAN AFFAIRS
JUN 9 1947

*for JEC
6/9/47
file*

H. W. Moseley
H. W. MOSELEY
Secretary

Enclosures:
Copies Nos. 1, 2 and 3,
Serial No. 80

JUN 12 1947

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THIS DOCUMENT IS DECLASSIFIED
WHEN ATTACHMENT IS REMOVED

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894.60/6-647

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In reply refer to
NA 894.60/6-647

JUN 12 1947

RESTRICTED

MEMORANDUM FOR THE SECRETARY GENERAL
FAR EASTERN COMMISSION

In accordance with a memorandum of June 6, 1947,
from the State-War-Navy Coordinating Committee, there
is enclosed a certified copy of Directive, Serial No. 80,
to the Supreme Commander for the Allied Powers regard-
ing The Selection of Plants for Reparations Removals
Destruction or Retention in Japan, to be filed with
the Far Eastern Commission under the provisions of
paragraph III, 4, of its Terms of Reference.

894.60/6-647

aw

Ernest A. Jones

for J. H. Hildring
Assistant Secretary

CS/A

at
copy
Enclosure:
Copy No. 1 (certified)
of Directive to SCAP,
Serial No. 80.

894.60/6-647

JUN 10 1947 P.M.

NA: *Al Dunning*
6/9/47

RESTRICTED

FE
[Signature]

A true copy of
the original
incl *507*

RESTRICTEDCOPY NO. 2Serial No. 80

3 June 1947

DIRECTIVE TO THE SUPREME COMMANDER FOR THE ALLIED POWERSTHE SELECTION OF PLANTS FOR REPARATIONS
REMOVALS DESTRUCTION OR RETENTION IN JAPAN

The following directive, serial number 80, prepared by the State Department to implement the policy adopted by the Far Eastern Commission on May 22, 1947, under the provisions of paragraph II, A, 1, of its terms of reference has been received from the State, War and Navy Departments for transmission to you for your guidance in accordance with paragraph III, 1 of those terms of reference:

"1. Within those amounts of industrial capacity determined by the Far Eastern Commission for retention in Japan, for destruction or for removal as reparations, you will, in selecting specific plants, machinery, equipment, and other facilities, give consideration to the following:

"a. Security and industrial disarmament requirements: Facilities which have been employed in primary and secondary war industries and facilities in war-supporting industries, the operation of which was directly and closely related to war industries, should be removed in preference to those not so employed.

944.00/6-647

RESTRICTED

"b. The achievement of a fair balance between:

"(1) The general preferences of reparations claimants for plants, machinery, equipment and other facilities.

"(a) Of modern and efficient design and manufacture

"(b) In good working condition and capable of being removed from Japan with minimum loss of value and efficiency

"(c) In consolidated or integrated units

"(d) Of special value or need to claimant countries, and

"(2) The legitimate needs, as determined by the Far Eastern Commission, of Japan's peacetime economy for similar equipment having due regard for the geographical location of individual plants in reference to markets, raw materials, manpower, fuel supply, and complementary facilities; for variations in specific products as among types, sizes and other variable characteristics; and for the feasibility of repair and rehabilitation in Japan.

"c. The occupation policies of dissolving large industrial and banking corporations which have exercised control over a great part of Japanese trade and industry.

"d. Consistent with the provisions of subparagraphs a, b, and c, the following order of preference in the selection of particular plants, machinery and equipment for removal:

"(1) Plants and equipment owned by the 'Zaibatsu' concerns and other big industrial and financial concerns and companies

"(2) Plants and equipment owned by other Japanese nationals, the Japanese Government, and by nationals

RESTRICTED

and governments of the countries which were Allies of Japan

"(3) Plants and equipment owned by nationals and governments of the neutral countries.

"2. Property of nationals of members of the United Nations should be dealt with in accordance with FEC-226/1 (destruction or removal of United Nations' property in Japan, serial number 76, approved 24 April 1947)."

SECRET

MEMORANDUM

To: JUL 15 1947

To: Howard C. Petersen
Assistant Secretary of War

From: J. H. Hilldring
Assistant Secretary of State

Subject: Program of Strike Corporation in Japan

On 19 June you sent a message to SCAP on this subject which contained the following paragraph:

"Part 5. WD intends to make every effort to secure full US govtal auth to proceed with final reparations program on same unilateral basis as advance delivery directive. Matter to be discussed with Secy State tomorrow. Consider independent certified report on Japanese industry is needed to provide maximum unbiased factual support for US unilateral action respecting not only Japanese reparations and economic recovery programs but also for peace treaty provisions favorable to our avowed intention to assist in world economic stabilization and prevention of political unrest. State Dept fully shares this view."

It is not clear to me what is meant by the statement that the report of the Strike Corporation will provide additional factual support for a Japanese economic recovery program and for the Japanese peace treaty provisions. It had been the understanding of the Department that the Strike Corporation was authorized to check the specific plant selections made by SCAP within the framework of FEC policy decisions with specific regard to the reparations program and the retention of essential facilities in Japan. It would be appreciated if you would clarify what further functions the Strike Corporation report is expected to serve. I understand, of course, that a clear definition of reparations

894.60/6-1947

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Rev. *[Signature]*

Col. *[Signature]*

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SECRET

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894.60/6-1947

SECRET

removals will facilitate Japanese economic recovery and the determination of the United States policy in the formulation of a peace treaty with Japan. Nevertheless, I should like to know whether you envision the Strike Corporation report as extending to any subject other than reparations removals and permanent plant re-tentions. The State Department, of course, feels that we should not wait for the Strike Corporation to report before proceeding forthwith with both the Japanese recovery program and the preparation of the United States position on a peace treaty.

I am, thus, disturbed by the concluding sentence of the above-quoted portion of your message to SCAP indicating full State Department endorsement of the program outlined by you.

The Department could make no such commitment until it more fully understands the implications of the language used.

The message in question further implies that the State Department would support unilateral action by the United States on (1) Japanese reparations, (2) Japanese economic recovery, and (3) peace treaty provisions. Such a position is obviously inconsistent with our engagements to participate fully in the operations of the Far Eastern Commission. The State Department does not, in any sense, contemplate unilateral action by this Government in these broad fields.

I would strongly suggest that SCAP be informed that the State Department had not seen or approved this program. As a preferable alternative, I would urge that you and I meet to discuss this matter and agree on a more precise description of the assignment of the Strike Engineering Corporation for communication to General MacArthur as a corrected version of Part 5 of your message. Such an amended version could then bear, without qualification, the endorsements of both the State and War Departments.

In the meantime, it would be appreciated if you would send me, at your earliest convenience, a copy of the contract with the Strike Engineering Corporation so that we might be informed as to its specific terms.

J. H. Hildring
Assistant Secretary

-2-

A true copy of
the signed copy
is.

ESP:EMMARTIN:bfo
JCCDELSTEIN:dbMcC

SECRET

JUL 15 1947
OR NIX ✓

STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

TO : A-H General Hilldring

FROM : NA Mr. Allison

SUBJECT:



DATE: June 30, 1947

FW 894.60/6-1947

In sending forward Mr. Martin's memorandum attached hereto concerning Mr. Peterson's message to General MacArthur regarding reparations and future U.S. policy, I should like to call attention to another aspect of the matter not mentioned by Mr. Martin. In the paragraph quoted in the attached memorandum it is stated that the U.S. Government should proceed with the final reparations program "on same unilateral basis as advance delivery directive."

In the "Survey of the Attitudes of the States Composing the Far Eastern Commission" forwarded by General McCoy in his letter of June 20, 1947, the statement is made:

"In the future, if the U.S. should attempt to settle by interim directives all the remaining reparations problems as well as the economic levels of Japanese industry, it would probably be resented by all of the other states on the Commission even, perhaps, to the extent of causing the break-up of the Far Eastern Commission."

It is believed that in addition to the considerations raised by Mr. Martin serious thought should be given by the officers of the Department to the effect on our international relations particularly in FEC and in making preparations for the Japanese peace conference of any action along the lines advocated by Mr. Peterson.

JMA

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FW 894.60/6-1947
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STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

TO : A-H General Hilldring

FROM : ESP Mr. Martin

SUBJECT: Peterson-MacArthur Message of 19 June on Strike Engineering Corporation.

DATE: June 30, 1947

FW 894.60/6-1947

This message contains the following paragraph:

"Part 5. WD intends to make every effort to secure full US govtal auth to proceed with final reparations program on same unilateral basis as advance delivery directive. Matter to be discussed with Secy State tomorrow. Consider independent certified report on Japanese industry is needed to provide maximum unbiased factual support for US unilateral action respecting not only Japanese reparations and economic recovery programs but also for peace treaty provisions favorable to our avowed intention to assist in world economic stabilization and prevention of political unrest. State Dept fully shares this view."

It is not clear from this paragraph or from other provisions of this document what material would be contained in the "independent certified report on Japanese industry" which would be essential for the Japanese economic recovery programs or for peace treaty provisions with respect to the Japanese economy. The language could be interpreted to mean that peace treaty provisions could not be drawn up until the mission's work has been completed, which is expected to be in about six months. It is not clear whether the sentence with respect to the State Department views is intended to be an endorsement of unilateral action with respect to Japanese reparations and also Japanese economic recovery.

Mr. Gross tells me that this radio was not seen by anyone in the State Department and that this paragraph could not be considered to have been approved by the State Department. I am sure that these possibly significant statements with respect to an economic recovery program in Japan and the economic provisions of the peace treaty have been neither discussed nor cleared with anyone on the economic side of the Department.

In these circumstances I urge that you discuss with Mr. Peterson what he considers the paragraph to mean and what he considers to be the State Department commitment with respect to this paragraph. I do not think the State Department should accept any commitment to the paragraph as it now reads. I think it important that this matter be fully clarified before the mission departs, which may make it a matter of some urgency.

CS/V

SECRET

FW 894.60/6-1947
NO plan for about July 20, 1947

NAMA

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON 25, D. C.

DEPARTMENT OF STATE
WASHINGTON



MEMORANDUM

To: Howard C. Peterson^g
Assistant Secretary *of War*
~~War Department~~

From: J. Hilldring
Assistant Secretary *of State*
~~in Charge of Occupied Areas~~
~~Department of State~~

Subject: Program of Strike Corporation in Japan.

On 19 June you sent a message to SCAP on this subject which contained the following paragraph:

"Part 5. WD intends to make every effort to secure full US govtal auth to proceed with final reparations program on same unilateral basis as advance delivery directive. Matter to be discussed with Secy State tomorrow. Consider independent certified report on Japanese industry is needed to provide maximum unbiased factual support for US unilateral action respecting not only Japanese reparations and economic recovery programs but also for peace treaty provisions favorable to our avowed intention to assist in world economic stabilization and prevention of political unrest. State Dept fully shares this view."

I do not know what assignment you propose for the Strike Corporation which would provide additional factual support for the Japanese reparations program, for a Japanese economic recovery program, or for Japanese peace treaty provisions. I had not understood that the purpose of their trip to Japan was related to any of these matters. Rather, I had assumed that they were to check the specific plant selections made by SCAP within the framework of FEC policy decisions with respect to reparations removals and with respect to the retention of facilities in Japan.

- 2 -

I am concerned about the implication that the work of the Corporation is essential to an economic recovery program and to the peace treaty. I do not like the idea of having to hold up either of them for the six months their job is supposed to take.

I am, therefore, disturbed by the concluding sentence indicating full State Department endorsement of this program.

I am even more disturbed by the implication that the State Department has endorsed unilateral action by the United States with respect to the settlement of the Japanese reparations problem and with respect to a Japanese economic recovery program. As you know, this is not the case.

I urge that, at the minimum, SCAP be informed that the State Department had not seen or approved this paragraph. It would be better still if you and I could agree on a more precise statement of the assignment of the Strike Engineering Corporation which could be communicated to General MacArthur as a corrected version of this paragraph, endorsed without reservation by State and War.

J. H. Hilldring
Assistant Secretary

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Form DS-302 (7-2-46)

DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

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FROM: Rangoon

TO : Secretary of State

NO : 534, June 26, 10 a.m.

File copy Rep'd June 27, 1947
 DIVISION OF JAPANESE AND KOREAN
 ECONOMIC AFFAIRS
 DEPARTMENT OF STATE
 8:15 a.m.
 1/5/47 JK SGK

JUN 27 1947

894.60/6-2647

Department Foreign Affairs would appreciate our assistance obtaining as reparations from Japan for benefit Kachins cane sugar factory machinery for use former sugar factory at Samaw, Mogaung subdivision Myitkyina district. GOB is telegraphing today to U Tun Ohn (MYTEL 15th May 393 to Department, 1 to Tokyo) now Tokyo, purpose selecting reparation items.

I recommend favorable action if feasible.

Please relay SCAP as 2, with any comment Department may care to make.

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JUL 28 1947

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FORM DS-322
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RANGOON (BURMA)

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Reparations from Japan for Burma being handled in FEC as part of British claim. Reurad 534, Jun 26, Burmese should approach British on any matters concerning reparations from Japan.

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JUL 19 1947

UNITED STATES POLITICAL ADVISER
FOR JAPAN

Tokyo, July 10, 1947

DIVISION OF
NORTHEAST ASIAN AFFAIRS

RESTRICTED

No. 1163

SEP 16 1947

DEPARTMENT OF STATE

SUBJECT: Directive to the Japanese Government Concerning
Dissolution of the Mitsubishi Trading Company
and the Mitsui Trading Company.

The United States Political Adviser has the honor to
enclose copy of a memorandum to the Japanese Government
(SCAPIN 1741) subject: "Dissolution of Trading Companies",
issued by this Headquarters on July 3, 1947. This direct-
ive, providing specific instructions for the dissolution
of the Mitsubishi and Mitsui Trading Companies by the
Japanese Holding Company Liquidation Commission, is an
addition to directives dated November 6, 1945 (SCAPIN 244)
and July 23, 1946 (SCAPIN 1079) respectively, dealing with
the dissolution of large holding companies in Japan.

In conversation with an officer of this Mission, the
Chief of the Anti-trust and Cartels Division, Economic and
Scientific Section of this Headquarters, has stated that,
with the exception of the two large trading companies
mentioned above and a very few others which are not essen-
tial to the Japanese economy and which produce no goods,
it is intended that individual components of restricted
companies (so-called "Zaibatsu" concerns) will be re-
organized rather than dissolved. However, he believes
that the directive of July 3 will impress the Japanese
business world with the possibility of prompt and effect-
ive dissolution, and will spur other restricted concerns
to submit plans for reorganization as requested by this
Headquarters. In addition, he feels that permitting firms
such as the Mitsubishi and Mitsui Trading Companies to
enter into foreign trade with the advantage of their
foreign contacts and previous informal cartels might re-
sult in such trade being directed to former subsidiary
companies in Japan, leaving new businesses and small
manufacturers in a disadvantageous position.

894.602/7-1047

CS/A

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Enclosure: *Att* 55

Memorandum to the Japanese Government,
July 3, 1947, "Dissolution of Trading
Companies", (SCAPIN 1741).

Original and valid to Department

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894.602/7-1047

Enclosure to Despatch No. 1163 dated July 10, 1947 from The United States Political Adviser for Japan, Tokyo, on the subject "Directive to the Japanese Government Concerning Dissolution of the Mitsubishi Trading Company and the Mitsui Trading Company".

COPY

GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS

AG 004 (3 Jul 47) ESS/AC
(SCAPIN 1741)

APD 500
3 July 1947

MEMORANDUM FOR: JAPANESE GOVERNMENT

THROUGH: Central Liaison Office, Tokyo

SUBJECT: Dissolution of Trading Companies

1. References are:

a. Memorandum to the Japanese Government from General Headquarters, Supreme Commander for the Allied Powers, AG 091.3 (23 Jul 46) ESS/AC, (SCAPIN 1079), dated 23 July 1946, subject: Ordinances and Regulations Affecting the Holding Company Liquidation Commission.

b. Memorandum to the Japanese Government from General Headquarters, Supreme Commander for the Allied Powers, AG 091.3 (23 Jul 46) ESS/AC, (SCAPIN 1079), dated 23 July 1946, subject: Ordinances and Regulations Affecting the Holding Company Liquidation Commission.

c. Ordinance No. 233 of 1946.

d. Letter of Designation from the Prime Minister, dated 28 December 1946, Cabinet A 449.

2. In implementation of reference Memoranda and Ordinance, the following action will be taken.

a. Immediate commencement of dissolution and liquidation of the Mitsubishi Trading Company and the Mitsui Trading Company.

b. Prohibit the conduct of any business transactions or the transfer of any assets by said companies without the permission of the Holding Company Liquidation Commission, or such other agencies as may be designated, on and after the date of this memorandum.

c. Prohibit any persons who have been officers, directors, advisors, branch managers of foreign or domestic branches, or department or section heads of said companies, during a period of ten (10) years prior to the date of this memorandum, from associating together to form a new company, or more than two (2) being employed by or advising any one (1) existing company or company hereafter formed.

d. Prohibit

Enclosure to
Tokyo's No. 1163,
July 10, 1947.

- 2 -

d. Prohibit any groups of employees in addition to those specified in paragraph c, above, exceeding one hundred (100) in number, from organizing a new company, being employed by any one (1) existing company, or any company hereafter formed, without permission of the Holding Company Liquidation Commission or such other agencies as may be designated. The Holding Company Liquidation Commission or such other agencies shall grant such permission if it shall conclusively appear that a possibility of recreation of the dissolved companies or other monopolistic combinations shall not result.

e. Prohibit any trading company in which any officers or employees of both said companies shall be employed from occupying any office now used or formerly used by either of said companies as a business office, and further prohibit any company from using the firm name Mitsubishi Trading Company or Mitsui Trading Company, or any resemblance thereof.

f. Require said companies to immediately prepare, in detail, inventories of all assets, showing location, and submit same to the Holding Company Liquidation Commission.

g. Require the maintenance of all existing books and records of said companies.

3. In carrying out the provisions of the memorandum:

a. All assets of said companies shall be disposed of in accordance with existing legislation and ordinances, by open market sale, or in such other manner as may be fair and equitable.

b. The Holding Company Liquidation Commission may remove any officers of said companies or appoint officers to act as liquidators.

c. The Holding Company Liquidation Commission may require the companies to furnish reports and information or inspect any books or records.

4. The Japanese Government shall immediately furnish to the Supreme Commander for the Allied Powers a report of action taken in compliance with this memorandum.

FOR THE SUPREME COMMANDER:

s/ R. M. LEVY
Colonel, AGD,
Adjutant General.

WAR DEPARTMENT
 OFFICE OF THE ASSISTANT SECRETARY
 WASHINGTON, D. C.

ASSISTANT SECRETARY
 A-H
 JUL 22 1947
 GENERAL HILDRING
 DEPARTMENT OF STATE

22 July 1947

Honorable John H. Hildring
 The Assistant Secretary of State
 The Department of State
 Washington 25, D. C.

894.60/7-2247

X R
 740,00119 PW

Dear General Hildring:

In acknowledgment of your memorandum of 15 July 1947, on the above subject, I am forced to express surprise at some of the questions you raise. From our previous conversations on this subject, I was under the impression that we had reached substantial agreement as to what we both desire to have accomplished and the reasons therefor.

Since your memorandum reopens matters I had considered closed, I feel it necessary to refer in some detail to previous discussions and matters of record. You will recall, I am sure, our agreement that we should comply with General MacArthur's request that an "audit" be made of the plant selections his headquarters has made for reparations purposes and agree to his suggestion that he make no statement of "assured capacity levels" for Japan until the audit of plant selections had been completed, since the former is so closely related to the decisions regarding plant removals.

Accordingly, since Mr. Clifford S. Strike had headed a mission to Japan in January of this year, I asked him to consult with me about the possibility of obtaining the services of competent engineers to go to Japan to perform the services requested.

In discussion with the Secretary of War and myself, Mr. Strike and Colonel Cheseldine, CAD, pointed out the fact that no "audit" of plant selections already made could be certified by independent engineers unless and until the engineers were satisfied with the basis upon which the selections had been made. This, accordingly, would require a review of the industrial surveys made by SCAP and the Japanese technicians plus such independent surveys as the engineers might deem necessary to enable them to render independent opinions. Obviously, such review and survey must go to the basic questions of the level of industry to remain in Japan under policies of the U.S. government. The Secretary of War agreed to the value of independent analysis to support any action taken by the United States. He further stated his belief that independent conclusions should be of value to U.S. representatives at a peace

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conference. He then requested Mr. Strike and Colonel Cheseldine to discuss the matter with you before proceeding further.

Mr. Strike and Colonel Cheseldine did confer with you and I am informed they discussed in some detail the method of procedure advocated by Mr. Strike. The question of possible unilateral action in the interest of prompt results and decisions was explored and, I am told, you agreed that there were occasions when such action was necessary pointing to the proposed whaling expedition as an example.

Mr. Strike reported to me your agreement with the War Department's desire to secure as much independent factual data as possible both for the purpose of expediting the reparations program and to strengthen the position of the U. S. delegation to the peace conference.

Acting upon the assumption that you were thoroughly acquainted with what was proposed, a contract was signed with Overseas Consultants, Inc., copies of which have been furnished your office, and the cable mentioned in your memorandum was sent to General MacArthur.

I am somewhat surprised that you read into that cable the need for the alarm mentioned in your memorandum and that you take exception to its statements. I have been under the impression that you have agreed that, unless prompt action was taken by FEC upon the State-War agreed paper on the final level of industry for Japan, the United States would issue a unilateral directive to General MacArthur to proceed to carry out its provisions. We had agreed to a twenty-one day FEC consultation period (see my letter to you dated 12 May 1947) and on 29 May 1947 you wrote to me that "when a decision had been reached on these proposals (amendments to the paper on "Reparations Removals from Japan") an instruction will be given General McCoy to seek action on the original paper, as amended by the instructions, within twenty-one days. At the conclusion of that period the question of the issuance of a unilateral directive will be decided by the Secretary of State in the light of the situation at that time." The amendments referred to were accepted by the War Department and communicated to General MacArthur in a letter from the Secretary of War dated 27 June 1947. A copy of this letter was furnished your office and receipted for by the State Department on 1 July. It has seemed to me, therefore, that you and I have been in substantial agreement on the question of unilateral action on reparations for sometime and I am therefore at a loss to account for the objection you now raise to the statement in the quoted cable that the State Department shares the War Department view. I had assumed that the twenty-one day period had begun.

It is also difficult for me to understand how you can refuse to indorse the program outlined in the quoted cable. Assuming, as I did, your approval of possible need for unilateral action on reparations following FEC failure to act, the economic recovery program would follow as a natural corollary. If these were put in motion, it would naturally follow that the United States would have begun to establish its position on these matters which it would support at the peace conference. This is the only possible construction which can be placed upon the statements in the quoted cable. I fail to see wherein such a plan is in any way "obviously inconsistent with our engagement to participate fully in the operations of the Far Eastern Commission."

The work of Overseas Consultants, Inc., under the terms of the contract is to provide factual data, conclusions and recommendations. It is obviously not a policy-making organization. Such data as it produces for the reparations and retention programs will be of value in consideration of an economic recovery program, if properly used. Such use, therefore, could be of assistance in the preparation of the United States position on a peace treaty. This is the only manner in which the corporation report could be considered "as extending to any subject other than reparations removals and permanent plant retentions." The report will be made available to the State Department. It is hoped that the State Department will find it of some value.

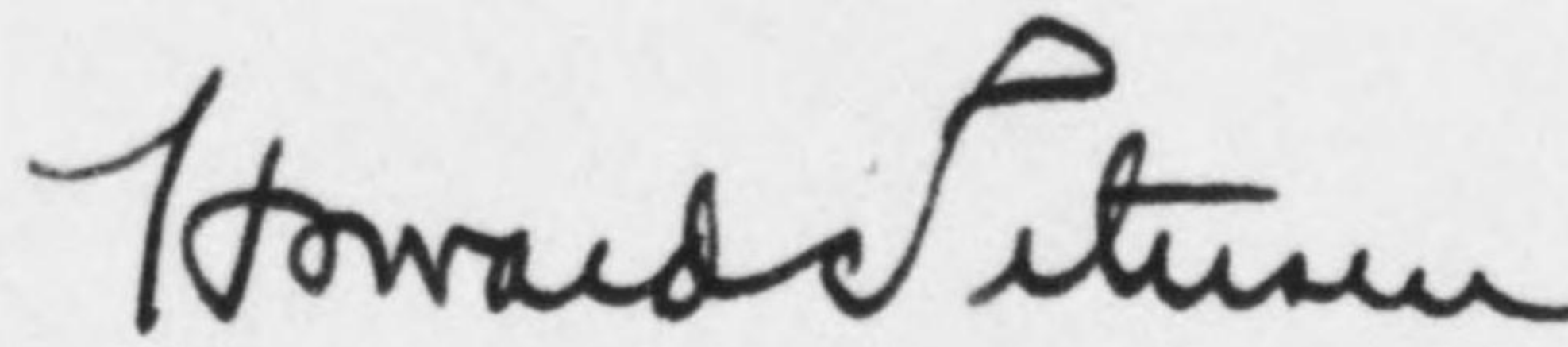
The War Department does not recommend that the State Department should wait for the Corporation's report before proceeding with a recovery program and preparation of a position on a peace treaty. We do feel, however, that the report will supply data to assist in those activities. It had been hoped that much of the data to be supplied could be available before final conclusions are reached and, since the State Department has indicated a desire to convene a preliminary conference in August, every effort will be made to expedite the flow of information from Japan for whatever use may be made of it. Since the War Department still has the obligation of implementation in Japan of any policies established by either the FEC or the United States government, it has a deep interest in any proposals for an economic recovery program as well as the reparations program and, consequently, hopes by the use of this independent engineering group to be able to make vital contribution to such joint studies and conclusions as may be undertaken by the State and War Departments.

In addition to the reasons for this contract as stated in the introduction thereto, I am attaching a copy of a press release relating to the contract.

I have gone into considerable detail herein to explain the War Department's position in this matter in anticipation of the conference you proposed in your memorandum. I will be most happy to discuss these questions at any time which suits your convenience.

In this connection, an early conference is believed important because I have already received inquiries about the possible effect of the proposed peace conference upon the completion of our contract. The publicity already given to your retirement and mine, the retirement of Judge Patterson, and the sudden impact of the proposal for a peace conference have caused some people to assume that there may be a change in policies and decisions. So acute has this matter become that member firms of Overseas Consultants, Inc., are speculating as to the possibility of cancellation of their contract. I desire to assure them at the earliest possible date that such action is not contemplated either now or in the future.

Sincerely yours,



Howard C. Petersen
The Assistant Secretary of War

Encl.

Copy Press Release dtd 5 Jul 47
"Repairs Appraisers Extend
Japanese Survey"

| DOP - IFF Unit | |
|----------------|--------------------|
| Anal. | <i>SS</i> |
| Rev. | <i>epo</i> |
| Dist. | <i>[Signature]</i> |



WAR DEPARTMENT
Public Information Division
PRESS SECTION
Tel. RE 6700
Brs. 2528 and 4860

FUTURE

RELEASE

FOR RELEASE SATURDAY A.M., JULY 5, 1947

REPARATIONS APPRAISERS
EXTEND JAPANESE SURVEY

It was announced today by The Assistant Secretary of War Howard C. Petersen that the War Department has engaged Overseas Consultants, Incorporated, of New York City to survey the industrial potential of Japan, the industrial requirements for Japanese economic recovery and stabilization and the availability of Japanese industrial assets for reparations removals.

Overseas Consultants, Incorporated, is an organization formed by leading U. S. industrial engineering and appraisal firms for the purpose of assisting the War and State Departments to obtain independent analyses of industrial conditions in overseas areas occupied by U. S. forces.

The participating members of Overseas Consultants, Incorporated, are: Standard Research Consultants, Incorporated; Jackson & Moreland; The American Appraisal Company; F. H. McGraw & Company; Coverdale & Colpitts; Ford, Bacon and Davis, Incorporated; Sanderson & Porter; Stone & Webster Engineering Corporation; The J. G. White Engineering Corporation; Ebasco Services, Incorporated, and Madigan & Hyland.

Mr. Clifford S. Strike, President of F. H. McGraw and Company, is President of Overseas Consultants, Incorporated. He was formerly Deputy for Reparations with the Office of Military Government, U. S., in Germany, and also headed a five-man group of industrial consultants who visited Japan last January as representatives of the Secretary of War to make a preliminary survey of Japanese industry.

Assistant Secretary of War Petersen stated that General MacArthur recently had requested the return of the Strike Mission to perform an independent audit of Japanese industrial potential.

"The contract will permit General MacArthur again to avail himself of the advice and experience of outstanding American industrial experts in connection with one of the most difficult Far Eastern economic problems," Mr. Petersen stated. Overseas Consultants, Incorporated, is located at 51 East 42nd Street, New York City.

END

DISTRIBUTION: Aa, Af, B, Da, Dd, Dm, N.
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10:00 A.M.

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JUL 28 1947

Dear Pete:

Your letter of 24 July in conjunction with our oral discussions of the Strike Corporation Mission to Japan is a satisfactory settlement of the differences which had apparently existed between the viewpoints of the Departments on this matter. I am very happy that the misapprehensions have been disposed of and that the necessary modifications in the contract arrangements will be made in the manner that you suggest in your letter.

If the instructions outlined in your letter are given to Overseas Consultants, Inc., the State Department will be wholly satisfied on these points. I, personally, am most gratified by this resolution of the apparent differences.

You suggested in one of your communications to me that the interim reports of the Corporation will be made available to the War and State Departments in order to facilitate our consideration of the level of industry and allied matters in the period prior to the submission of the final report of the Corporation. The State Department is most anxious that these reports be made available on the same basis as they are made available to SCAP, and as regularly as possible, in order to assist in the formation of our official position in FEC and for the guidance of our general consideration of Japanese economic matters including reparations.

Sincerely yours,

J. H. HILLDRING

JOHN H. HILLDRING
Assistant Secretary

The Honorable
Howard C. Petersen,
Assistant Secretary of War.

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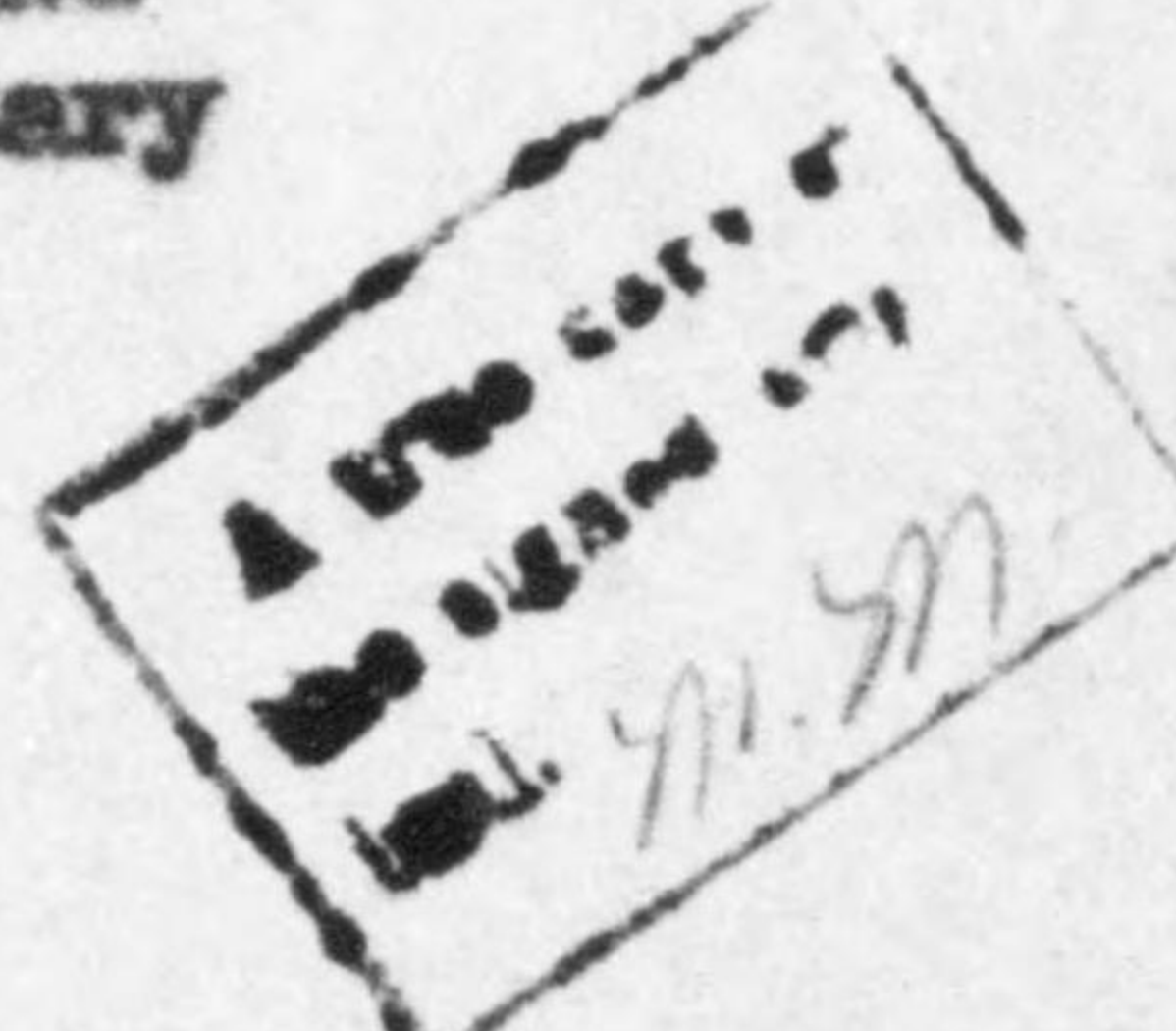
ESP Unit

Recd. [Signature] [Signature] (signed)

Rev. [Signature]

Col. [Signature]

Dir. [Signature]



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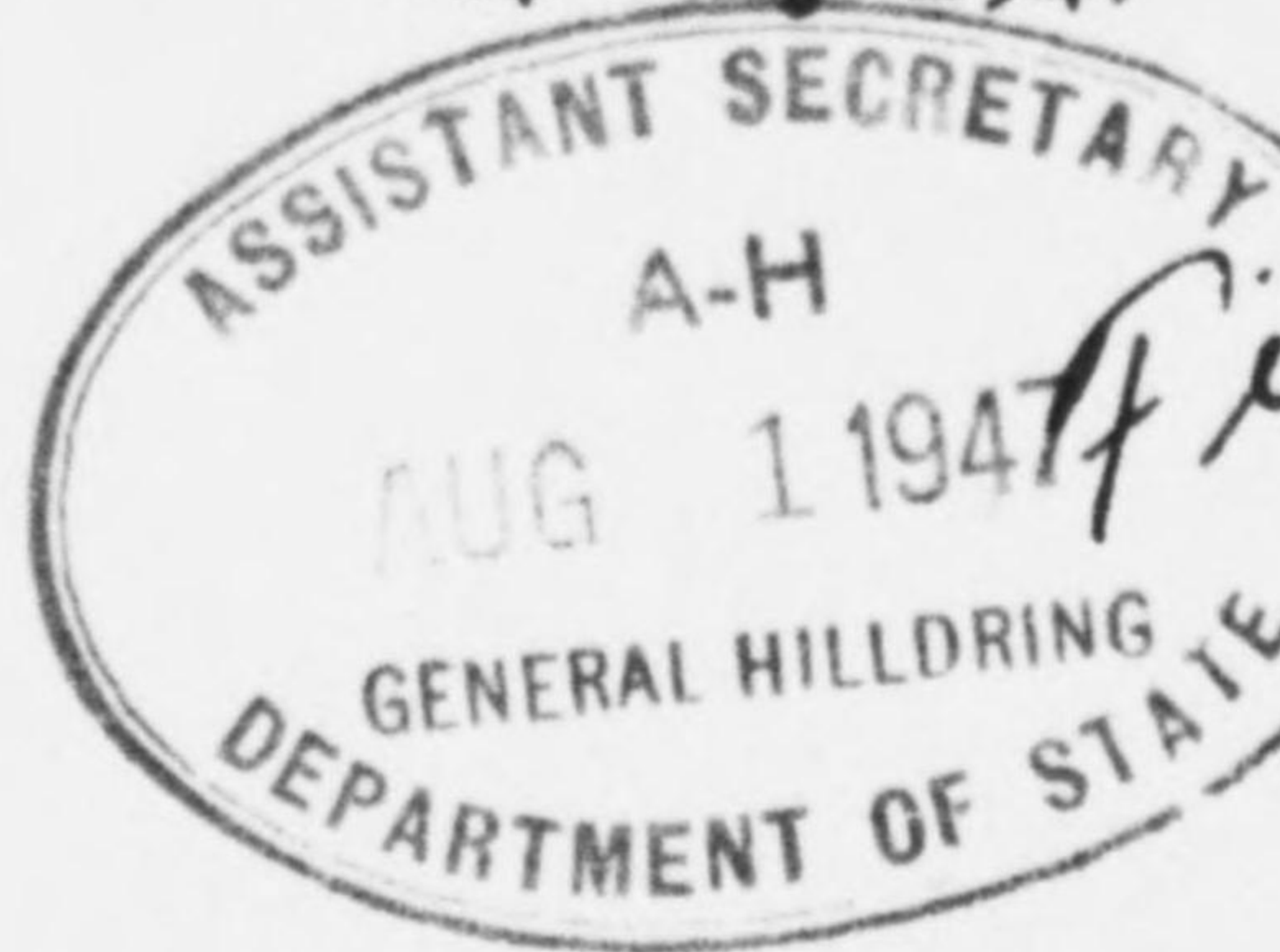
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WAR DEPARTMENT
OFFICE OF THE ASSISTANT SECRETARY
WASHINGTON, D. C.

24 July 1947

Honorable John H. Hilldring
The Assistant Secretary of State
The Department of State
Washington 25, D. C.



File
Reply sent 7/25/47.
WMC

Dear John:

In connection with our discussion of the scope of activity of Overseas Consultants, Inc., under the terms of the contract with the War Department, Article 1 e of that contract requires the personnel of Overseas Consultants, Inc., to operate under instructions of the Secretary of War or his authorized representative.

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Because of the difficulties attendant upon a formal amendment of the existing contract, the War Department will include the following in the instructions to be given to Overseas Consultants, Inc., by the Secretary of War:

A. Article 1 a (2) and the last clause of (4). Overseas Consultants, Inc., is not engaged to set up or question the level of industry in Japan as contained in SWNCC 236/43 but, if during the course of the work done in Japan by the Overseas Consultants, Inc., they determine that a specific level of industry as contained in SWNCC 236/43, in their opinion is in error, they should include that opinion in their report.

B. Article 1 b (c). SWNCC 236/43 is specifically mentioned in this Article of the contract and Overseas Consultants, Inc., will be instructed to be guided by that document.

C. Article 1 e. Overseas Consultants, Inc., will be guided by pertinent approved U. S. or FEC policy decisions.

If you agree to the above, a copy of this letter will be officially furnished the President of Overseas Consultants, Inc., as part of his instructions under para 1 e of the contract, and copies will be supplied to General MacArthur for his information.

I anticipate an early reply from you to the effect that the State Department is in full agreement with the purpose and the terms of the contract between the War Department and the Overseas Consultants, Inc., as further amplified by the above agreed instructions.

Sincerely yours,

Howard C. Petersen

Howard C. Petersen
The Assistant Secretary of War

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[Signature]

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24 July 1947

Honorable John H. Hilldring
The Assistant Secretary of State
The Department of State
Washington 25, D. C.

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I anticipate an early reply from you to the effect that the State Department is in full agreement with the purpose and the terms of the contract between the War Department and the Overseas Consultants, Inc., as further amplified by the above agreed instructions.

Sincerely yours,

Howard C. Petersen
The Assistant Secretary of War

DC/R

FAR EASTERN COMMISSION
2516 MASSACHUSETTS AVENUE, N. W.
WASHINGTON 8, D. C.

RESTRICTED

14 August 1947

The Honorable Robert A. Lovett
Acting Secretary of State
Washington, D. C.

MUNITIONS DIVISION
DEC 2 1949
DEPARTMENT OF STATE

My dear Mr. Secretary:

The Terms of Reference of the Far Eastern Commission provide that one of the functions of the Commission should be to "formulate the policies, principles and standards in conformity with which the fulfillment by Japan of its obligations under the Terms of Surrender may be accomplished."

It is further provided that when such decisions are made by the Far Eastern Commission, "The United States Government shall prepare directives in accordance with the policy decisions of the Commission and shall transmit them to the Supreme Commander through the appropriate United States Government agency."

At the seventieth meeting of the Far Eastern Commission held at 2516 Massachusetts Avenue, Northwest, Washington, D. C., on 14 August 1947, the enclosed policy decision relative to Reduction of Japanese Industrial War Potential was unanimously approved.

As Acting Secretary General of the Far Eastern Commission, I have been instructed to forward this decision to you on behalf of the Commission, in order that the appropriate directives may be prepared and transmitted to the Supreme Commander in accordance with the Terms of Reference.

The Chinese Representative, in approving the enclosed policy, made for the record a statement of his Government's understanding of certain portions of the text. I am enclosing a copy of the Chinese statement, with a request of the Commission that this be transmitted to the Supreme Commander for his information along with the policy decision itself.

In adopting the enclosed policy decision the Commission agreed that it should be released to the press after being received by the Supreme Commander. In accordance with our normal procedure I would appreciate it if you could make arrangements to notify me when the enclosed policy decision has been received in Tokyo.

Sincerely yours,

Samuel S. Stratton
Samuel S. Stratton
Acting Secretary General

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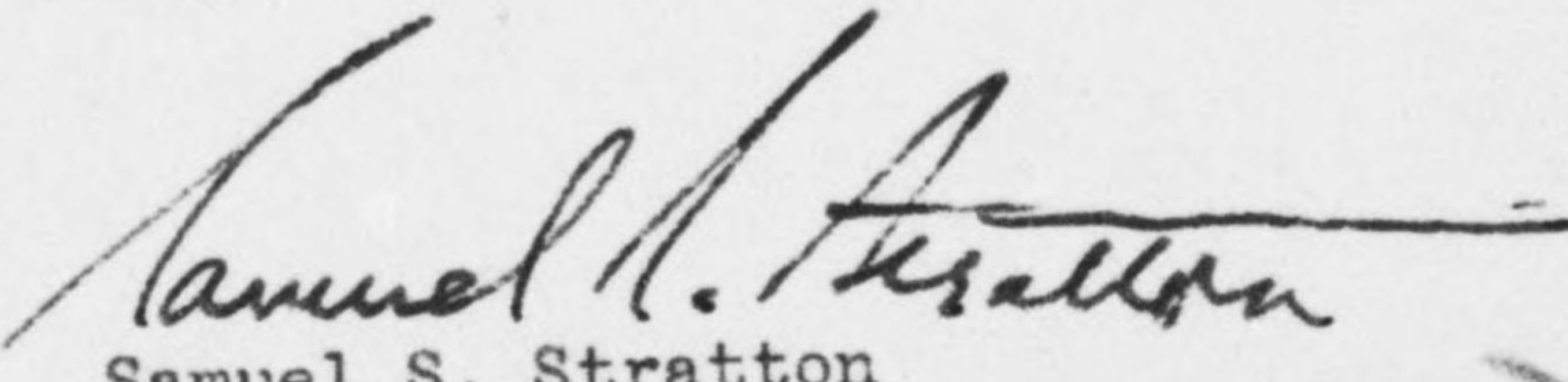
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FILED
EP-9 1947

FAR EASTERN COMMISSION
2516 MASSACHUSETTS AVENUE, N. W.
WASHINGTON 8, D. C.

The attached copy of a document unanimously adopted at the 70th meeting of the Far Eastern Commission, held at 2516 Massachusetts Avenue, Northwest, Washington, D. C. on 14 August 1947, has been compared with the original text and is hereby certified to be correct.


Samuel S. Stratton
Acting Secretary General

Washington, D. C.
14 August 1947

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RESTRICTEDENCLOSUREREDUCTION OF JAPANESE INDUSTRIAL WAR POTENTIAL1. SUMMARY

Subject to the provisions stated in paragraph 10, the following actions, as detailed in paragraphs 2-9, should be taken during the period of the occupation, in order to reduce Japanese industrial war potential:

a. All special purpose industrial machinery and equipment functionally limited to use in connection with combat equipment end-products, should be destroyed.

b. All other industrial machinery and equipment in primary war industries, and such other industrial facilities in secondary war industries and war-supporting industries as may be in excess of the peaceful needs of the Japanese economy should be made available for claim as reparations.

c. During the period of the occupation, a prohibition should be maintained against the re-establishment of primary war industries; and specified war-supporting industries should be limited to the productive capacity levels remaining after completion of the reduction program outlined above, except as modifications in these levels may be authorized by the Far Eastern Commission.

2. Primary War Facilitiesa. Definitions:

(1) Primary War Facilities are defined as plants and establishments primarily engaged in the development, manufacture, assembly, testing, repair, maintenance, or storage of combat equipment end-products and civil aircraft, and plants and establishments building merchant vessels above a size to be determined by the Far Eastern Commission.

(2) Combat Equipment End-Products are defined as weapons, ammunition, missiles and explosives used for military purposes; chemical or bacterial warfare agents; ultra-shortwave radio equipment (radar); naval combatant vessels; armored vehicles; or aircraft (including air frames and aircraft engines).

RESTRICTED**b. Disposition:**

(1) All firms and organizations, whether publicly or privately owned and operated, whose activities have related primarily to the operation of primary war facilities and whose continued existence is deemed by the Supreme Commander for the Allied Powers to be undesirable from a security standpoint, should be dissolved by the Supreme Commander, who should at the same time seize their records and register all their key executive, managerial, research and engineering personnel.

(2) All plants and establishments identified by the Supreme Commander as primary war facilities should be impounded, and their machinery and equipment made available for reparations, subject to the following limitation: All buildings, machinery, and equipment in primary war facilities which, by virtue of initial design, construction, or major structural change, are, as individual items, special purpose in nature and functionally limited to use in connection with combat equipment end-products should be destroyed.

3. Secondary War Facilities**a. Definition:**

Secondary War Facilities are defined as plants and establishments primarily engaged in manufacturing, repairing or maintaining major fabricated component parts, sub-assemblies, accessories, or equipment especially designed for use in the products of primary war facilities.

b. Disposition:

(1) In plants and establishments identified by the Supreme Commander as being originally organized or completely reequipped to operate as secondary war facilities, as defined in subparagraph a above, all machinery and equipment, except as noted under (3) below, should be made available for reparations.

(2) In plants and establishments other than those covered in (1) above, all machinery and equipment, except as noted under (3) below, should be disposed of under the recommendations in paragraph 5 covering the industry with which, in the opinion of the Supreme Commander, they were associated prior to their conversion or diversion to war production.

RESTRICTED

(3) All buildings, machinery, and equipment in secondary war facilities which by virtue of initial design, construction, or major structural change are as individual items special purpose in nature and functionally limited to use in connection with combat equipment end-products should be destroyed.

4. Dispersed Machinery and Equipment from Primary and Secondary War Facilities

All special purpose machinery and equipment, as defined under 2 b(2) and 3 b(3) above, should be sought out in locations to which they may have been removed from primary and secondary war facilities, and should be destroyed wherever found. Other machinery and equipment which was formerly used in primary and secondary war facilities but subsequently dispersed, need not be sought out and identified under the provisions of this paragraph but should be treated under paragraph 5, as a part of the industry with which it is associated.

5. War-Supporting Industries

a. Over-All Policy

As a supplementary measure designed further to reduce Japan's industrial war potential, that portion of existing capacity in selected war-supporting industries which is in excess of that necessary to meet the peaceful needs of the Japanese people, as defined by the Far Eastern Commission, should be made available for removal as reparations.

b. Application

(1) The following specific industries are considered as being "war-supporting," for purposes of the industrial removals provided for in paragraph 5 a:

(a) The iron and steel industry, producing pig iron, steel ingots and basic shapes

(b) The coal carbonization industry

(c) The non-ferrous metals industry, producing pig, ingot and basic shapes

(d) The light metals industry, producing alumina, primary aluminum and magnesium, rolled, drawn or extruded shapes

RESTRICTED

(e) The metal-working machinery industry, producing machine tools, cutting tools and secondary metal working machinery

(f) The ball and roller bearing industry

(g) That part of the chemical industry producing industrial explosives, sulfuric acid, soda ash, caustic soda, chlorine, chemical nitrogen and calcium carbide (In the case of industrial explosives "capacity which is in excess of that necessary to meet the peaceful needs of the Japanese people" is defined as capacity which is in excess of that necessary to meet Japanese domestic requirements)

(h) The railway equipment industry

(i) The automotive industry

(j) The electric power industry

(k) The cement and abrasives industries

(l) The steel merchant shipbuilding and repair industry (residual after removals effected under paragraph 2)

(m) The merchant marine, fishing, whaling and cannery fleets, including publicly and privately owned steel vessels of 100 tons or over (this shall not be interpreted to prevent vessels of less than 100 tons being considered for reparations)

(n) The oil refining and synthetic fuel industry and storage

(o) The synthetic rubber industry

(p) The heavy electrical equipment industry

(2) In addition to reduction in capacity in the specific industries listed above, a further reduction in the total inventory of metal-working machinery in Japan should be effected in so far as this may be required to eliminate metal-working capacity in excess of the peaceful needs of the Japanese people as defined by the Far Eastern Commission.

RESTRICTED

6. Residual Capacity

After the Supreme Commander for the Allied Powers has completed the selection for delivery to claimant countries of industrial plants or facilities within the categories of industry approved for removal as reparations by the Far Eastern Commission, and, after the destruction of special purpose machinery, as defined in paragraphs 2 and 3, residual productive capacity in the industries designated in this paper which is in excess of Japan's peaceful needs, as defined by the Far Eastern Commission, should be appraised from the standpoint of the individual and collective war potential represented by this capacity, and a decision made by the Far Eastern Commission as to its disposition.

7. Property of Nationals of Members of the United Nations

The property of nationals of members of the United Nations should be dealt with in accordance with FEC-226/1 (Destruction or Removal of United Nations Property in Japan, approved 24 April 1947 and transmitted to the Supreme Commander for the Allied Powers as Directive Serial No. 76 on 2 May 1947).

8. Reparations

Removal or destruction of industrial capacity for security purposes under the terms of this policy should not be limited in order to compensate for the effects of industrial removals for reparations.

9. Post-Removal Restrictions on Japanese Industrial Capacity

Throughout the period of the occupation the following limitations of Japanese industrial capacity should be maintained.

a. Primary War Facilities:

Within the framework of the definitions given in paragraphs 2 and 3:

(1) The following should be prohibited in Japan: The establishment, possession or operation of any facilities for the development, manufacture or assembly of combat equipment end-products; the development, manufacture, assembly, importation or possession of any special purpose machinery and equipment as defined under paragraphs 2 b(2) and 3 b(3); the development, manufacture or assembly of any combat equipment end-products, or their possession except as authorized by the Supreme Commander, after consultation with the Allied Council for Japan in accordance with the

RESTRICTED

Terms of Reference of the Allied Council for Japan, for the purposes of the occupation; the building of merchant vessels above a size to be determined by the Far Eastern Commission; the development, manufacture or assembly of civil aircraft; and the participation by the Japanese Government or Japanese nationals in the ownership or air-borne operation of civil aircraft.

(2) Japan should be directed to prohibit any of its nationals from taking part in the ownership or operation of primary war facilities outside of Japan.

b. War-Supporting Industries

The capacity levels remaining in the iron and steel, light metals, metal-working machinery, shipbuilding, oil refining and storage, synthetic oil and synthetic rubber industries, after the completion of the industrial removals proposed in this paper and after the disposition of remaining "excess" facilities as provided for under paragraph 6, should constitute the permissible maxima in these industries until the end of the present phase of the occupation of Japan or until 1 October 1949, whichever is the earlier, pending a decision as to the long-term disarmament controls. These maxima should be subject to review by the Far Eastern Commission, and, if the Commission expects still to be charged on 1 October 1949 with responsibility for post-surrender policies respecting Japan, the Commission should assess the situation before that date with a view to the adoption of an appropriate policy to be put into effect on 1 October 1949, on which date the provisions herein specified regarding productive capacity maxima in these industries will lapse. If, at any time during the occupation, the Supreme Commander considers an adjustment in these levels necessary, he should, after consultation with the Allied Council for Japan in accordance with the Terms of Reference of the Allied Council for Japan, recommend such an adjustment and submit to the Far Eastern Commission appropriate supporting data. Changes in the established levels can be made after adoption by the Far Eastern Commission of a policy decision authorizing such a change.

10. Occupation Needs

The Supreme Commander should be authorized to except temporarily from the provisions of this paper particular primary war facilities,

RESTRICTED

secondary war facilities and facilities in war-supporting industries, in so far as such facilities are required to meet the needs of the occupation. In such cases the Supreme Commander will after consultation with the Allied Council for Japan in accordance with the Terms of Reference of the Allied Council for Japan provide an explanation of reasons for retention and an estimated date of removal or destruction.

11. Records of Property Removals and Destruction

The Supreme Commander should keep records of all property removed from Japan or destroyed in the execution of the policies in this paper.

12. The provisions of this policy decision will apply until an appropriate decision on this question by the Peace Conference.

FEC-084/19
P - 45

EXCERPT FROM THE DRAFT MINUTES OF 70TH MEETING
OF THE FAR EASTERN COMMISSION
AUGUST 14, 1947

ITEM 2 - REDUCTION OF JAPANESE INDUSTRIAL WAR POTENTIAL (FEC-084/19)

* * * *

Chinese Statement

I wish to record the understanding of the Chinese Government that the expression "present phase of occupation," as used in paragraph 9 b of this paper, is identical in meaning with the existing regime of control as provided for in the Terms of Reference of the Far Eastern Commission and the Allied Council for Japan.

It is also the understanding of the Chinese Government that in the event that reparations removals do not proceed as rapidly as expected or if agreement on long-term disarmament control or decisions of the FEC on the disposal of residual capacity cannot be reached before October 1, 1949, the implementation of the aforementioned paragraph should be effected in such a manner as will not reduce the reparations pool to be distributed among the recipient countries or affect adversely the reparations share or shares of such country or countries.

The Chinese Delegation has already recorded its understanding of paragraph 5 b (2) of this paper, which understanding appears in the cover page thereof as follows: "The meaning of paragraph 5 b (2) would include equipment for manufacturing heavy prime movers, cranes, mining equipment and chemical equipment."

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August 21, 1947

RESTRICTED

In reply refer to
NA

MEMORANDUM FOR THE SECRETARY, SWNGC

Subject: Draft Directive Regarding Reduction of Japanese Industrial War Potential

There is enclosed a draft directive prepared on the basis of a policy decision approved at the seventieth meeting of the Far Eastern Commission on August 14, 1947, under the provisions of paragraph II, A, 1, of its terms of reference.

It is requested that the enclosed directive be forwarded to the Joint Chiefs of Staff for transmission to General MacArthur for his guidance in accordance with paragraph III, 1, of the terms of reference of the Far Eastern Commission. It is assumed that if the Joint Chiefs of Staff have any question regarding the draft directive they will refer the matter to the State Department for clarification before transmitting a directive on the subject.

It is also requested that the Supreme Commander for the Allied Powers be informed that in approving the policy decision on which the enclosed draft directive is based the Chinese representative made for the record a statement of his Government's understanding of certain portions of the text, and that this statement as recorded in the draft minutes of the Commission's seventieth meeting be transmitted to the Supreme Commander for his information.

The Acting Secretary-General of the Far Eastern Commission has requested that the Joint Chiefs of Staff, in transmitting the enclosed draft directive to the Supreme Commander for the Allied Powers, inform him that in adopting the policy decision regarding Reduction of Japanese Industrial War Potential the Commission agreed that it should be released to the press after being received by the Supreme Commander. Therefore, in accordance with normal procedure, acknowledgment of the receipt of the directive is requested.

CHARLES E. SALTZMAN

Charles E. Saltzman
Special Assistant to the Secretary

Enclosures:

- 1. Draft Directive
- 2. Excerpt from Minutes

NA:ALDunning/pm
8/15/47

A true copy of the signed original.
CR/ZK

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**THE STATE-WAR-NAVY COORDINATING COMMITTEE
WASHINGTON, D. C.**

FC
CE

SWN-5667
28 August 1947

DCR

MEMORANDUM FOR THE SECRETARY OF STATE:
(Attention: Mr. J. K. Penfield, FE)

memo drafted 8/28/47
DIVISION OF
NORTHEAST ASIAN AFFAIRS

Subject: Directive Transmitted to SCAP by the Joint Chiefs of Staff
AUG 28 1947

DEPARTMENT OF STATE

Enclosed are three copies of Directive, Serial No. 87, transmitted to SCAP by the Joint Chiefs of Staff. Copy No. 1 is for transmittal to the Far Eastern Commission, and Copies Nos. 2 and 3 are for the files of the State Department.

For the State-War-Navy Coordinating Committee:

H. W. Moseley
H. W. MOSELEY,
Secretary

894.60/8-2847

Enclosures:
Copies Nos 1, 2 & 3
Serial No. 87

SEP - 9 1947

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Serial No. 87.

23 August 1947

DIRECTIVE TO THE SUPREME COMMANDER FOR THE ALLIED POWERSREDUCTION OF JAPANESE INDUSTRIAL WAR POTENTIAL

The following Directive, Serial Number 87, prepared by the State Department to implement the policy adopted by the Far Eastern Commission on August 14, 1947, under the provisions of paragraph II, a, 1, of its terms of reference has been received from the State, War and Navy Departments for transmission to you for your guidance in accordance with paragraph III, 1, of those terms of reference:

"1. Summary

Subject to the provisions stated in paragraph 10, the following actions, as detailed in paragraphs 2-9, should be taken during the period of the occupation, in order to reduce Japanese industrial war potential:

a. All special purpose industrial machinery and equipment functionally limited to use in connection with combat equipment end-products, should be destroyed.

b. All other industrial machinery and equipment in primary war industries, and such other industrial facilities in secondary war industries and war-supporting industries as may be in excess of the peaceful needs of the Japanese economy should be made available for claim as reparations.

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c. During the period of the occupation, a prohibition should be maintained against the re-establishment of primary war industries; and specified war-supporting industries should be limited to the productive capacity levels remaining after completion of the reduction program outlined above, except as modifications in these levels may be authorized by the Far Eastern Commission.

"2. Primary war facilities

a. Definitions:

(1). Primary war facilities are defined as plants and establishments primarily engaged in the development, manufacture, assembly, testing, repair, maintenance, or storage of combat equipment end-products and civil aircraft, and plants and establishments building merchant vessels above a size to be determined by the Far Eastern Commission.

(2). Combat equipment end-products are defined as weapons, ammunitions, missiles and explosives used for military purposes; chemical or bacterial warfare agents; ultra-shortwave radio equipment (radar); naval combat vessels; armored vehicles; or aircraft (including air frames and aircraft engines).

b. Disposition:

(1). All firms and organizations, whether publicly or privately owned and operated, whose activities have related primarily to the operation of primary war facilities and whose continued existence is deemed by the Supreme Commander for the Allied Powers to be undesirable from a security standpoint, should be dissolved by the Supreme Commander, who should at the same time seize their records and register all their key executive, managerial, research and engineering personnel.

(2). All plants and establishments identified by the Supreme Commander as primary war facilities should be impounded, and their machinery and equipment made

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available for reparations, subject to the following limitation: All buildings, machinery, and equipment in primary war facilities which, by virtue of initial design, construction, or major structural change, are, as individual items, special purpose in nature and functionally limited to use in connection with combat equipment end-products should be destroyed.

"3. Secondary war facilities

a. Definition:

Secondary war facilities are defined as plants and establishments primarily engaged in manufacturing, repairing or maintaining major fabricated component parts, sub-assemblies, accessories, or equipment especially designed for use in the products or primary war facilities.

b. Disposition:

(1). In plants and establishments identified by the Supreme Commander as being originally organized or completely reequipped to operate as secondary war facilities, as defined in subparagraph a above, all machinery and equipment, except as noted under (3) below, should be made available for reparations.

(2). In plants and establishments other than those covered in (1) above, all machinery and equipment, except as noted under (3) below, should be disposed of under the recommendations in paragraph 5 covering the industry with which, in the opinion of the Supreme Commander, they were associated prior to their conversion or diversion to war production.

(3). All buildings, machinery, and equipment in secondary war facilities which by virtue of initial design, construction, or major structural change are as individual items special purpose in nature and functionally limited to use in connection with combat equipment end-products should be destroyed.

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"4. Dispersed machinery and equipment from primary and secondary war facilities.

All special purpose machinery and equipment, as defined under 2 b (2) and 3 b (3) above, should be sought out in locations to which they may have been removed from primary and secondary war facilities, and should be destroyed wherever found. Other machinery and equipment which was formerly used in primary and secondary war facilities but subsequently dispersed, need not be sought out and identified under the provision of this paragraph but should be treated under paragraph 5, as a part of the industry with which it is associated.

"5. War-supporting industries

a. Over-all policy

As a supplementary measure designed further to reduce Japan's industrial war potential, that portion of existing capacity in selected war-supporting industries which is in excess of that necessary to meet the peaceful needs of the Japanese people, as defined by the Far Eastern Commission, should be made available for removal as reparations.

b. Application

(1). The following specific industries are considered as being 'war-supporting,' for purposes of the industrial removals provided for in paragraph 5 a

(a) The iron and steel industry, producing pig iron, steel ingots and basic shapes

(b) The coal carbonization industry

(c) The non-ferrous metals industry, producing pig, ingot and basic shapes

(d) The light metals industry, producing alumina, primary aluminum and magnesium, rolled, drawn or extruded shapes

(e) The metal-working machinery industry, producing machine tools, cutting tools and secondary metal working machinery

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(f) The ball and roller bearing industry

(g) That part of the chemical industry producing industrial explosives, sulfuric acid, soda ash, caustic soda, chlorine, chemical nitrogen and calcium carbide (in the case of industrial explosives 'capacity which is in excess of that necessary to meet the peaceful needs of the Japanese people' is defined as capacity which is in excess of that necessary to meet Japanese domestic requirements)

(h) The railway equipment industry

(i) The automotive industry

(j) The electric power industry

(k) The cement and abrasives industries

(l) The steel merchant shipbuilding and repair industry (residual after removals effected under paragraph 2)

(m) The Merchant Marine, fishing, whaling and cannery fleets, including publicly and privately owned steel vessels of 100 tons or over (this shall not be interpreted to prevent vessels of less than 100 tons being considered for reparations)

(n) The oil refining and synthetic fuel industry and storage

(o) The synthetic rubber industry

(p) The heavy electrical equipment industry

(2). In addition to reduction in capacity in the specific industries listed above, a further reduction in the total inventory of metal-working machinery in Japan should be effected in so far as this may be required to eliminate metal-working capacity in excess of the peaceful needs of the Japanese people as defined by the Far Eastern Commission.

"6. Residual capacity

After the Supreme Commander for the Allied Powers has completed the selection for delivery to claimant countries of industrial plants or facilities within the categories of

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industry approved for removal as reparations by the Far Eastern Commission, and, after the destruction of special purpose machinery, as defined in paragraphs 2 and 3, residual productive capacity in the industries designated in this paper which is in excess of Japan's peaceful needs, as defined by the Far Eastern Commission, should be appraised from the standpoint of the individual and collective war potential represented by this capacity, and a decision made by the Far Eastern Commission as to its disposition.

"7. Property of Nationals of members of the United Nations

The property of Nationals of members of the United Nations should be dealt with in accordance with FEC-226/1 (destruction or removal of United Nations property in Japan, approved 24 April 1947 and transmitted to the Supreme Commander for the Allied Powers as Directive Serial Number 76 on 2 May 1947).

"8. Reparations

Removal or destruction of industrial capacity for security purposes under the terms of this policy should not be limited in order to compensate for the effects of industrial removals for reparations.

"9. Post-removal restrictions on Japanese industrial capacity

Throughout the period of the occupation the following limitations of Japanese industrial capacity should be maintained.

a. Primary war facilities:

Within the framework of the definitions given in paragraphs 2 and 3:

(1). The following should be prohibited in Japan:

The establishment, possession or operation of any facilities for the development, manufacture or assembly of combat equipment end-products; the development, manufacture, assembly, importation or possession of any special purpose machinery and equipment as defined under paragraphs 2 b (2) and 3 b (3);

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the development, manufacture or assembly of any combat equipment end-products, or their possession except as authorized by the Supreme Commander, after consultation with the Allied Council for Japan in accordance with the terms of reference of the Allied Council for Japan, for the purposes of the occupation; the building of merchant vessels above a size to be determined by the Far Eastern Commission; the development, manufacture or assembly of civil aircraft; and the participation by the Japanese Government or Japanese nationals in the ownership or airborne operation of civil aircraft.

(2) Japan should be directed to prohibit any of its nationals from taking part in the ownership or operation of primary war facilities outside of Japan.

b. War-supporting industries.

The capacity levels remaining in the iron and steel, light metals, metal-working machinery, ship-building, oil refining and storage, synthetic oil and synthetic rubber industries, after the completion of the industrial removals proposed in this paper and after the disposition of remaining 'excess' facilities as provided for under paragraph 6, should constitute the permissible maxima in these industries until the end of the present phase of the occupation of Japan or until 1 October 1949, whichever is the earlier, pending a decision as to the long-term disarmament controls. These maxima should be subject to review by the Far Eastern Commission, and, if the Commission expects still to be charged on 1 October 1949 with responsibility for post-surrender policies respecting Japan, the Commission should assess the situation before that date with a view to the adoption of an appropriate policy to be put into effect on 1 October 1949, on which date the provisions herein specified regarding productive capacity maxima in these industries will lapse. If, at any time during the occupation, the Supreme Commander considers an adjustment in these levels necessary, he should,

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after consultation with the Allied Council for Japan in accordance with the terms of reference of the Allied Council for Japan, recommend such an adjustment and submit to the Far Eastern Commission appropriate supporting data. Changes in the established levels can be made after adoption by the Far Eastern Commission on a policy decision authorizing such a change.

"10. Occupation needs

The Supreme Commander should be authorized to except temporarily from the provisions of this paper particular primary war facilities, secondary war facilities and facilities in war-supporting industries, in so far as such facilities are required to meet the needs of the occupation. In such cases the Supreme Commander will, after consultation with the Allied Council for Japan in accordance with the terms of reference of the Allied Council for Japan, provide an explanation of reasons for retention and an estimated date of removal or destruction.

"11. Records of property removals and destruction

The Supreme Commander should keep records of all property removed from Japan or destroyed in the execution of the policies in this paper.

"12. The provisions of this policy decision will apply until an appropriate decision on this question by the peace conference."

September 4, 1947

In reply refer to
NA

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MEMORANDUM FOR THE SECRETARY GENERAL
FAR EASTERN COMMISSION

In accordance with a memorandum dated August 28, 1947, from the State-War-Navy Coordinating Committee, there is enclosed a certified copy of Directive, Serial No. 87, to the Supreme Commander for the Allied Powers regarding Reduction of Japanese Industrial War Potential, to be filed with the Far Eastern Commission under the provisions of paragraph III, 4, of its Terms of Reference.

Charles E. Saltzman
~~Assistant~~ Secretary

Enclosure:

Copy No. 1 (certified)
of Directive to SCAP,
Serial No. 87.

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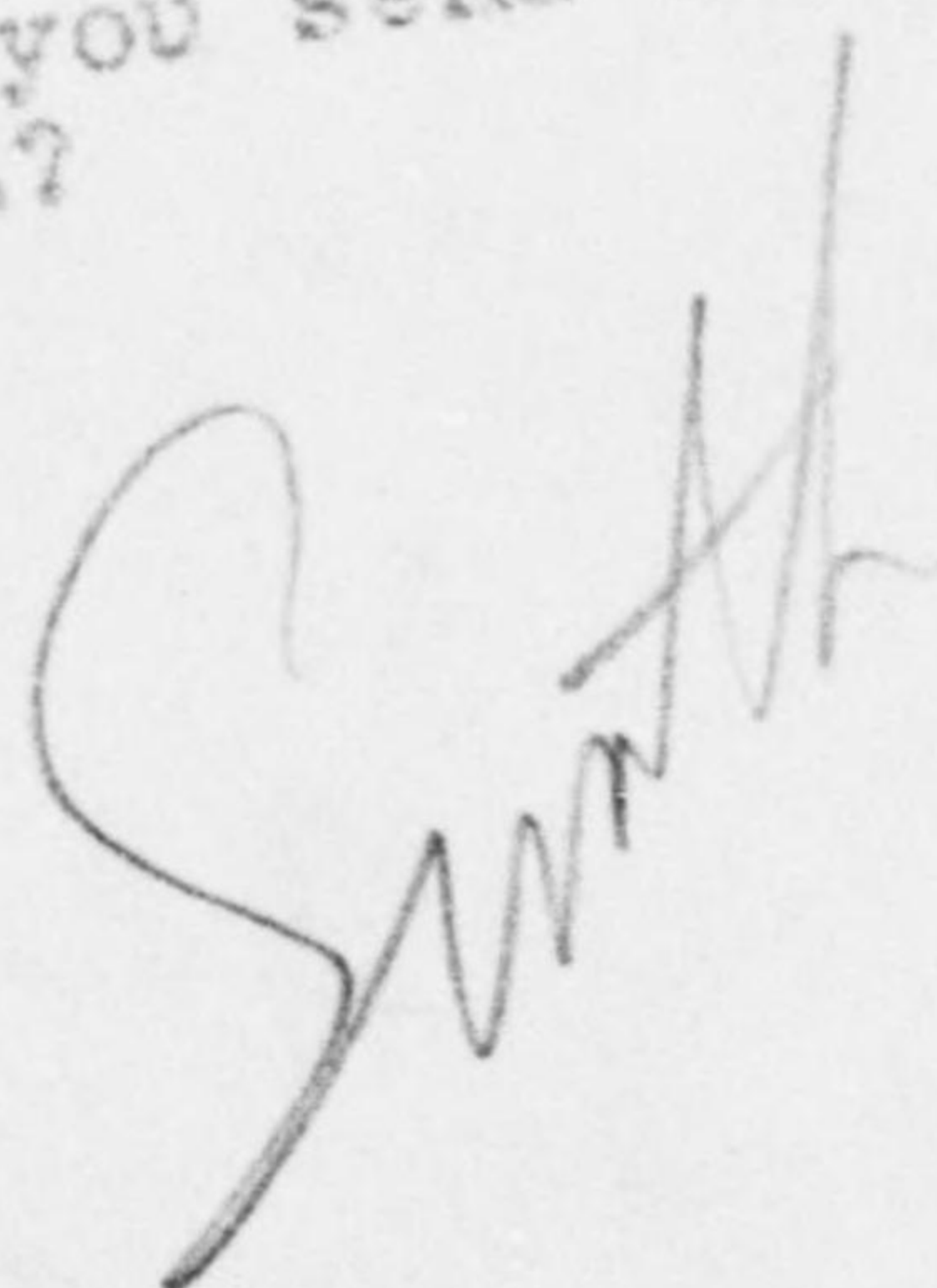
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DATE: 9-15-47

TO - OE

FROM: PL(PVK) - W. Walkinshaw

Suggestions for a reply to the attached letter would be appreciated. If it seems preferable to answer directly from your office, will you send a copy of the reply to PL?



1627 PL

DIVISION OF OCCUPIED AREAS
ECONOMIC AFFAIRS
SEP 22 1947

R. F. D., 1, Fallston, Md.,

Sept. 5, 1947 DEPARTMENT OF STATE



Secretary, Department of Far East,

U. S. State Dept.,

Washington, D. C.



Dear Sir,

I have heard over the radio, it is being considered, to destroy the machinery of Nippon, that type that can be used to make war material.

Why not give this to China, and let that nation make use of it?

Also, I heard, a few months ago, machinery for making experiments in experiments in atomic energy was destroyed, that, the press and scientists of this nation, put up a protest against such useless destruction, that, it could be applied here.

Some ships were skuttled, to dispose of them. Why not give such material to China? Let that nation get the benefit of it.

To do this, would at least be rational, not subnormal.

Respectfully,

Jesse L. Robinson.

DIVISION OF
NORTHEAST ASIAN AFFAIRS
OCT - 2 1947
DEPARTMENT OF STATE

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OCT 3 1947

In reply refer to:
OE - SK

My dear Mr. Robinson:

Receipt is acknowledged of your letter of September 5, 1947 in which you outlined your views regarding policy toward Japanese industrial facilities and equipment.

The United States Government receives many suggestions regarding such matters from private individuals and organizations. These suggestions are studied by the Department of State and other interested agencies of the Government and you may be assured that every effort is made to explore thoroughly the merits of all these contributions.

Your courtesy in forwarding an exposition of your views is greatly appreciated.

Sincerely yours,

RHW
Roswell H. Whitman
Associate Chief
Division of Occupied Areas Economic Affairs

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Mr. Jesse L. Robinson
R. F. D. No. 1
Fallston, Maryland

SGK
OE:SKallis/gp

1 October 1947

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A true copy of the signed original.

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Jap War Plants Ordered Junked

WASHINGTON, Sept. 3 — (UP) — The 11-nation far eastern commission has ordered Gen. Douglas MacArthur to give what amounts to a knock-out blow to all Japanese industry capable of being used for war purposes.

The commission ordered the destruction of all buildings, machinery and equipment which would be used only in the production of war materials.

The directive followed the general outline of previous commission policy but expanded on it and spelled out in detail the various industries involved. The order amounts to a virtual endorsement of the policy already being followed by MacArthur.

MacArthur was authorized to make such use as he deems necessary of any war-potential industrial equipment during the period of occupation. He was instructed, however, to "provide an explanation of reasons for retention and an estimated date of removal or destruction."

The commission told MacArthur to dissolve all firms and organizations, whether publicly or privately owned and operated, "whose activities have related primarily to the operation of primary war facilities and whose continued existence is deemed . . . undesirable from a security standpoint."

REP. C. R. BOARD, BOISE CITY
VICE-CHAIRMAN

OKLAHOMA



State Legislative Council

OKLAHOMA CITY

Sept. 6, 1947

J. WM. CORDELL
SECRETARY

REPRESENTATIVES:

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- E. T. DUNLAP, WILBURTON

Department of State
Washington, D. C.

Memorandum:

DIVISION OF OCCUPIED AREAS
ECONOMIC AFFAIRS

OCT 13 1947

DIVISION OF
NORTHEAST ASIAN AFFAIRS

OCT - 2 1947

Re: Junking of Jap War Plants

DEPARTMENT OF STATE

Reading of the attached news item prompts me to register a protest against what appears to me to be an ill-advised and silly procedure.

DIVISION OF
NORTHEAST ASIAN AFFAIRS

This junking of so-called "war plants," would be merely an extension of the already discredited Morgenthau Plan for depriving Germany of heavy industry to the Japanese theatre.

OCT - 9 1947

DEPARTMENT OF STATE

Within two or three years I predict American taxpayers will be called on for funds with which to sustain the Japanese by reason of their inability to sustain themselves through destruction of heavy industries in that country.

And within ten or twenty years, we shall be needing all of Japan's heavy industry, and enlisting Japanese manpower as well, for the purpose of holding Russia in check or in a fight to the finish.

The American people would have more respect for our government if those in immediate charge of its affairs evidenced an ability to look to the future rather than living in the past, and determined our foreign policy accordingly.

The views expressed herein are my own and not those of the State Legislative Council of Oklahoma.

Sincerely yours,

L. D. Melton
L. D. Melton



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