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ASSISTANT SECRETARY OF STATE

WASHINGTON

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,

/s/ JOHN H. HILLDRING
Assistant SecretaryThe Honorable
Howard C. Petersen,
Assistant Secretary of War.

COPY

24 July 1947

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

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.

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. 894.609-947

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
The Assistant Secretary of War

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From: SCAP Tokyo Japan

To: Dept of Army Wash DC for CSCAD ECON

Nr: C-60510

8 May 1948

*For Tab B see
attached
standoff*

Reurad WAR 80732, 1st May 1948, subject: Comments on reparations section of Johnston Committee report.

There is no disagreement with the general program. Reiterate the vital necessity for prompt action to establish final industrial levels as one of the most vital contributions to economic recovery.

External assets formerly owned by Japan should be formally released to the countries holding jurisdiction over the territories in which these assets are located, except assets in neutral countries. External assets in neutral countries should be treated in accordance with provisions of SANACC 236/55; external assets in all other countries should be applied to meet reparations claims and all other governmental, corporate and private claims against Japan, except restitution claims.

With reference to shipbuilding capacity the 162,000 gross tons listed for removal is being utilized for the programming of exports to the value of approximately \$15,000,000 per year. It is recommended that this capacity be retained at least for duration of the occupation.

For your information approximately 20% of the arsenals in the category or primary war facilities, to include 30 to 40% of former Navy shipyards, is being used for the Japanese domestic economy or for occupation purposes and is not included in the 560,000,000 yen evaluation.

It is assumed that further reference will be made to SCAP in case of increase in your proposed removals because of political considerations.

End.

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(9 May 48)

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10 May 1948

6. Reparations

The U. S. Government should immediately rescind the Interim Directive to SCAP on Advance Transfers of Japanese Reparations. The U. S. Government should adopt the position outlined below with respect to reparations from Japan. This position should be announced publicly and submitted to the FEC with the information that the U. S. will not agree to any policy decision on Japanese reparations incompatible therewith. Prior to public announcement and submission to the FEC, the U. S. position should be appropriately brought to the attention of other member governments of the Far Eastern Commission by the Department of State. The U. S. reparations position in the FEC should be as follows:

a. Title to Japanese external assets located in territories of Allied Nations at the time of the Japanese surrender, should be transferred to the governments of the respective nations.

b. SCAP should be directed to determine, announce and make available for reparations claims the categories and quantities of industrial facilities and equipment which are not needed for the economic recovery of a peaceful Japan and which are not in excess of the quantities which the Overseas Consultants, Inc., or the Johnston Committee, recommended be made available. Appropriate substitutions may be made as SCAP may determine. The U. S. Government has requested SCAP to announce publicly, within 30 days after submission of this position to the FEC, the facilities and equipment which would be made available for reparations claims upon adoption of this policy.

c. SCAP should be directed to receive reparations claims from the FEC countries for a period of 90 days subsequent to adoption by the FEC of a final reparations decision.

d. Allocation of available and claimed reparations should be made by SCAP in accordance with national percentage shares determined by the Far Eastern Commission. Consideration should be given by SCAP in such allocations to items already delivered pursuant to the U. S. Advance Transfers Directive.

e. Actual allocations and deliveries should be made by SCAP as soon as possible after adoption of a final FEC reparations decision in order that recipient nations may have the benefit of the facilities and equipment as soon as possible, and in order that reparations deliveries may be completed within a year of the date of adoption of the policy by the FEC.

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DISCUSSION OF PROPOSED REPARATIONS
DECISION IN NSC PAPER

The Potsdam Declaration of 26 July 1945, which was accepted by the Japanese in the terms of their surrender, and which has been agreed to by all members of the FEC, provided that "Japan shall be permitted to maintain such industries as will sustain her economy and permit the exaction of just reparations in kind, but not those which would enable her to rearm for war." This provision of the Declaration was an assurance to the defeated Japanese that sufficient industrial capacity would be left to Japan to sustain a peaceful self-supporting Japanese economy, while simultaneously reserving to the victorious allies the right to receive as reparations in kind all capital plant and equipment excess to the requirements of a self-sustaining Japanese economy. This has formed the basis for all existing FEC agreements affecting reparations and levels of industry. Soon after the beginning of the occupation of Japan it became apparent that the interests of countries entitled to Japanese reparations, of the Japanese economy itself and of the United States, which has been supporting the prostrate Japanese economy, would be best served by an early determination of the amount and character of reparations deliveries from Japan.

The need for this determination has grown progressively more acute with the passage of two and one-half years. The Far Eastern Commission has been unable to reach any final reparations agreement, although the following FEC decisions have been made:

a. "Interim Reparations Removals". These decisions required SCAP to designate, as available for reparations claims, appropriate facilities in excess of specified capacities in certain Japanese war potential industries. The decisions did not provide for removal or transfer of designated facilities because the FEC had not determined the various national percentage shares of available facilities and the procedures for applying these shares. It was the understanding of all concerned that these interim decisions, based on an initial survey by Ambassador Pauley, involved industrial capacity "obviously excess" to that required to maintain a self-sustaining Japanese economy. (The U. S. Government, in the absence of further agreement in the FEC, directed SCAP to begin "advance transfers" of thirty percent of the capacity determined to be available under these decisions to the nations most devastated by the war in the Far East; China, the Philippine Commonwealth, the Netherlands East Indies and British areas of South East Asia. Delivery has begun on some 19,000 machine tools from government arsenals which SCAP declared available pursuant to this directive.)

b. "Delivery of Reparations Goods". This decision provided that all the expenses of removing allocated reparations items, including loading aboard ship at designated Japanese ports, would be borne by the Japanese Government.

c. "Determination of the Peaceful Needs of Japan". This decision defined the peaceful needs of the Japanese people as being substantially the standard of living prevailing in Japan during the period 1930-1934.

d. "Reduction of Japanese Industrial War Potential". This decision provided that industrial facilities in excess of that required for the peaceful needs of Japan should be made available for reparations claims. It also provided that the levels determined by such removals would remain fixed until October 1949.

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The need for an early reparations decision, so apparent two years ago, has become cumulatively more urgent with the passage of time. Since the initial survey by Ambassador Pauley there have been subsequent and more exhaustive studies of the Japanese economy with a view to a more exact determination of reparations availabilities. These studies and the continuing deficit of the Japanese economy indicate clearly that the above enumerated FEC decisions are mutually conflicting. While providing for a self-supporting Japan on a 1930-34 basis, these decisions set levels of industry making achievement of this objective impossible. The amount of capital plant and equipment actually in existence and available for reparations from Japan will be comparatively small in Japan is to retain sufficient industrial capacity to provide a self-sustaining economy on the 1930-1934 basis.

Because the U. S. is committed to the terms of the Potsdam Declaration, because the U. S. alone is paying the costs of relief in Japan, and because a final decision by the FEC apparently cannot be obtained, it is necessary that the U. S. resolve this problem at once on a basis which gives reasonable assurance that reparations removals do not eliminate equipment which is needed for the economic recovery of a peaceful, self-supporting Japan. This criterion was applied in the recent studies by the Overseas Consultants, Inc. and by the Johnston Committee. SCAP has recommended that reparations deliveries not exceed the quantities indicated as available by either of these groups of consultants, has stated that in certain instances equipment listed by them for reparations could actually be used to contribute to economic recovery, and has pointed out that much of the equipment would have comparatively little value to the recipient countries.

The United States could take unilateral action to solve the reparations problem along the lines discussed in the preceding paragraph. Such unilateral action could undoubtedly be explained to the American people, and to many of the nations of the FEC, as being fully consistent with well-known U. S. objectives and with the Potsdam Declaration, but it would be interpreted by certain FEC nations as contrary to the letter of existing U. S. commitments in the FEC. The Moscow Agreement allows unilateral U. S. action only on matters on which the FEC has not already formulated a decision. As indicated above, the FEC decisions affecting reparations are mutually conflicting, and a satisfactory reparations solution cannot be achieved without infringement of the "Interim Reparations Removals" decisions. Unilateral U. S. action could thus be considered to constitute a breach of the Moscow Agreement and could have grave political consequences.

The United States, on the other hand, could continue its attempts to obtain FEC agreement to a satisfactory solution to the reparations problem. It is realized that no final agreement has been possible in the past, but this has been harmful to U. S. interests in Japan primarily because of the adverse effects on economic recovery of the continuing uncertainty in Japan. This uncertainty would disappear if the U. S. Government were to (a) announce publicly that it would agree only with a policy decision fully consonant with the Potsdam Declaration, (b) publish the provisions of a U. S. reparations position which is fully consonant with the Potsdam Declaration, and (c) announce further that the U. S. will not agree to a policy decision incompatible with the U. S. position. Such a course of action would be legally justifiable, even in the

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light of past FEC decisions since, there being no reparations agreement capable of implementation, the United States may at any time submit new proposals for FEC approval. The firm position and intent of the United States having been made public, however, uncertainty in Japan would be relieved and it would mean that, for all intents and purposes, the final decision respecting reparations would have been made. It would, of course, be necessary to rescind simultaneously the U. S. Interim Directive on Advance Transfers of Japanese Reparations inasmuch as its provisions are contrary to the present U. S. position.

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JUN 10 1948

Dear Colonel Cheseldine:

The twenty-three reports which you kindly made available to the Department of State from the files of Overseas Consultants Incorporated have been transmitted to our EP Division which originally requested them. You may be assured that the "Secret" classification on these reports will be protected by the Department. We have noted however that, in addition to expressions of the views of the OCI, the reports contain considerable amounts of basic data from unclassified sources not previously available in Washington.

EP has received requests from the Secretariat of the Far Eastern Commission for amplification of a few statements contained in the OCI report. EP's review of the OCI file material reveals that three of these questions can be answered from data of an intrinsically non-classified nature contained in the OCI file material. Attached is a list of the questions together with the replies which EP proposes to make. We should appreciate your concurrence in our proposal to submit this material to the FEC Secretariat.

1. Question: OCI states that ESS has estimated Japanese civilian requirements of nitric acid for the year 1950 as 28,900 m.t. What is the estimated breakdown by categories of use?

Answer: 1950 level of nitric acid production required for the minimum balanced economy as stated by the Economic and Scientific Section, Chemical Industry Branch, SCAP.

<u>Use</u>	<u>Nitric acid</u> (as tons of 100% acid)
Explosives (10,000 tons of Ammonium Nitrate needed beside Nitric acid)	3,800
Nitrocellulose	2,900
	Celluloid

est
Colonel R. M. Cheseldine, GSC
Representative of Secretary
of Army on OCI Contract



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<u>Use</u>	<u>Nitric acid</u> (as tons of 100% acid)
Celluloid	6,600
Dyestuffs	7,000
Medicines and Drug intermediates	2,700
Electrical manufacture	1,650
Metal and rubber consumer goods	150
Metal refining	670
Organic chemicals	400
Insecticides	1,000
Inorganic chemicals and miscellaneous	<u>2,030</u>
Total	28,980

2. Question: OCI states that, according to estimates made by the Textile Division of ESS, domestic use of textiles for clothing purposes in the period 1930 to 1934 averaged about 8.93 pounds and industrial uses about 2.32 pounds per capita per year. How was this use broken down by types of textile fibers?

Answer: Data accumulated by the Japanese Economic Stabilization Board, which were corroborated by data from ESS, show the following figures for average annual per capita use in 1930-34 for clothing and industrial applications:

Cotton yarn	7.158
Rayon staple	0.042
Worsted and woolen	1.376
Raw silk yarn	0.33
Spun silk	0.132
Rayon yarn	0.584
Hard fiber	<u>1.63</u>
Total	11.252

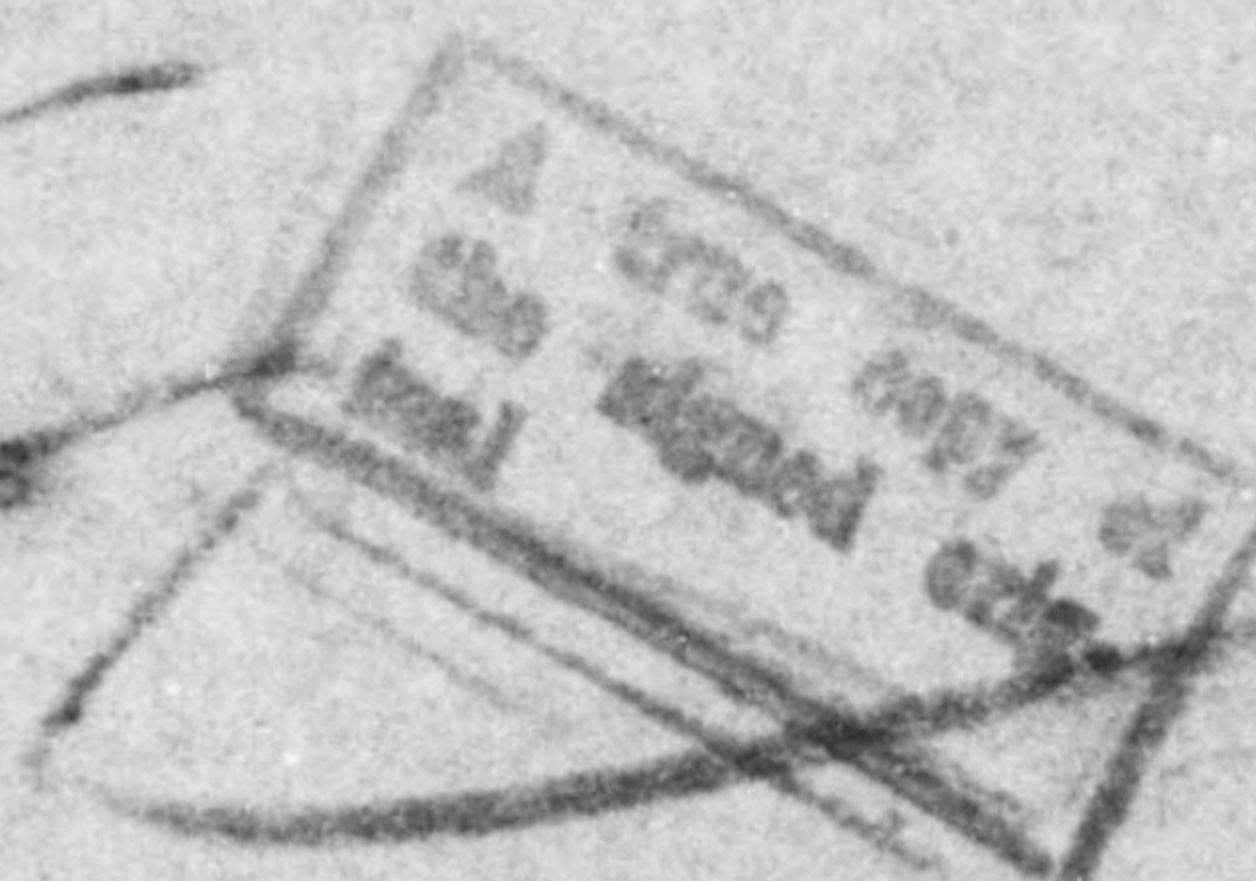
3. Question: OCI states that in 1953, the population of Japan is estimated at 85.8 million, or approximately 131% of 1930-34. What is the source of this estimate?

Answer: This estimate, stated to be preliminary, was made by the Population and Employment Branch, Research and Statistics Division, Economic and Scientific Section, SCAP, in October 1947.

Sincerely yours,

Charles E. Saltzman
Assistant Secretary

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NO. 553

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AMERICAN CONSULATE GENERAL
Shanghai, China, June 4, 1948

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SUBJECT: Message for President Truman and Secretary
of State Marshall from Presidents and Professors
of Shanghai Universities

THE HONORABLE
THE SECRETARY OF STATE,
WASHINGTON.

SIR:

I have the honor to enclose herewith a copy of
1/ a message which I have received from the President
of the National Fuh Tan University criticizing our
policy of rehabilitating Japanese peaceful industries.
2/ I also enclose a copy of my reply, from which the
Department will note that I suggested that the
message be transmitted through the Chinese Embassy
in Washington.

Respectfully yours,

John M. Cabot
John M. Cabot
American Consul General

Enclosures: *att*

1. Message for President Truman and Secretary of State Marshall
2. Copy of letter to Mr. Tsang.

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JUN 16 1948
DEPARTMENT OF STATE

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Enclosure 1, Despatch 553,
June 4, 1948, from Shanghai

NATIONAL FUH TAN UNIVERSITY
KIANGWAN, SHANGHAI
CHINA

June 1, 1948.

Mr. John M. Cabot,
American Consul General,
American Consulate General,
Shanghai.

Dear Sir:

I am asked by my colleagues to deliver to you an open letter addressed to President Truman and Secretary Marshall and signed by presidents and professors of colleges and universities in Shanghai which they wish to be forwarded to Their Excellencies through your office. I should deeply appreciate it if you would be so kind as to comply with their wishes.

Sincerely yours,

Y. Y. Tsang
President

Enc. 1, Despatch 553,
June 4, 1948, from
Shanghai

(TRANSLATION)

(Trans. CHT)

(Dated: May 31, 1948.)
(Recd.: June 3, 1948.)

Their Excellencies
President Truman and
Secretary of State Marshall
of the United States of America

Excellencies:

In view of the policies vis-a-vis Japan recently advocated by certain responsible Americans which may possibly bring about a grave error, we as your admonishing friends wish to express to you briefly our humble opinion as described below.

First of all we wish to state that the relations existing between China and the United States are very intimate, and that the friendship between the peoples of these two countries is likewise very close. Therefore, any statements made by us in regard to the policy of your country toward Japan are entirely sincere and in good faith.

The policy advocated by the United States toward Japan that due consideration should be given to essential living requirements of Japanese people so that they may not be starved, is based on humanity and is exactly in agreement with China's policy of magnanimity toward Japanese people.

However, recently your country has shown a tendency of permitting Japan to raise her industry to a standard even higher than the pre-war level and also giving Japan a huge quantity of materials and pecuniary aid. This is really not necessary. If it is intended to rebuild Japan to be an industrial center in the Far East and to make China and other Asiatic countries her raw material suppliers and her market for dumping of manufactured goods, it will thus mean that your country is accelerating revival of Japan's plans which motivated her to start war in East Asia. To oppose such plans, China was engaged in the eight long year stiff and bitter war of resistance. If such plans should revive, China's sacrifices as well as your country's losses of lives and wealth sustained during the war against Japan would be in vain.

China was the first to resist Japanese war of aggression. The duration of the war was the longest, and China suffered the heaviest losses and damages. The living conditions of Chinese people are even worse than those of Japanese people. Nevertheless, as regards your country's aid to China, after your prolonged considerations the amount is still not so generous as your country extends to Japan. When we recall that the United States and China were the allies fighting shoulder by shoulder for democracy while Japan was our enemy who employed shameless measures to strike a sudden blow on an important strategic point of your country and who murdered and wounded warriors of your country, we are really at a loss to understand why the United States is at present planning to adopt such policy of helping Japan. Taking justice into consideration, we deeply feel that the United States should shift her aid for Japan to China.

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Enc. 1, Despatch 553,
June 4, 1948, from
Shanghai

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If any persons among your people should dream that Japan after her recovery may become your country's ally and may act as a fortress for democracy and stabilizing force in East Asia, we shall be very glad to break up such fantastic idea. Post-war Japan remains the same as pre-war Japan in substance. The Japanese authorities are taking all sorts of deceptive measures to pose themselves to be submissive in order to please your country's officials stationed in Japan, but in fact they have no determination at all to carry out democracy. The hidden influences of the old-time militarists still exist in Japan. Should Japan be now permitted to keep heavy industry establishments and given a chance to re-arm herself and as soon as she is full-fledged, the Pearl Harbor incident will undoubtedly be repeated. Sometimes it is unavoidable that your country's views concerning the Far Eastern situation are not exactly correct. It is recalled that at the time of the outbreak of the Mukden incident on September 18, 1941, the people of China repeatedly appealed to your country for help but that such appeals were disregarded by your country, thereby resulting in the recent unprecedented disaster. In view of the possibility of revival of another crisis, we are constrained to offer you our honest and frank advice and sincerely hope that you will accept it.

Many far-sighted Americans share this view that in order to seek for world peace, East Asia must first be stabilized, and that in order to stabilize East Asia China must definitely be made independent and strong. This far-reaching and profound policy cannot be abandoned because of China's present difficult position. The people of China are always fond of peace. China is marching forward in the direction of democracy. A great majority of the people of China are willing to become friends of the United States. It is only China which can be the ideal stabilizing force in East Asia and also which is not contrary to the wishes of the United States.

We earnestly hope that the United States will decidedly give up the plan for helping Japan, concentrate her strength, and expedite aid to China with even larger quantity of materials, in order to enable China to achieve reconstructions at an early date. We feel confident that the foundation for everlasting world peace cannot be firmly established unless China and the United States can help each other with the utmost sincerity and can cooperate with other democratic nations in the world.

Professors of National and Private Colleges
and Universities at Shanghai, China:
(Names listed according to the order of number
of strokes of first characters)

Ting Wen-yuan	Ting Wen-piao	Ting Mien-tsai	Ting Hsieh-ho
Ting Hsing-po	Yu Tsai-ch'un	Wang Chih-cho	Wang Wen-chun
Wang Chih-hsin	Wang Yu-hsiang	Wang Ta-shih	Wang Shu-lun
Wang Hsing-wu	Wang T'ing-kuei	Wang Kuan-ch'ing	Wang Te-chun
Wang Shu-chia	Wang T'ing-ch'i	Wang Shao-t'ang	Wang Ch'ien
Wang Chu-ch'ang	Wang Yu-k'ai	Wang Wen-yuan	Wang Fu-shan
Wang Hung-wen	Wang Ch'eng-ch'un	Wang Yu-ch'i	Wang Feng-chen
Wang P'eng-wan	Wang Tse-nung	Wang Yi-san	Wang Chien-min
Fang T'ung-yuan	P'ing Hai-lan	Kan Yun-shou	Pao Tsung-kuo
Pao En-chu	Ssut'u Yin-heng	Chu Ching-nung	Chung Kuo-chang
Chu Lin-wu	Chu Heng-pi	Chu Wei-chih	Chu Wu-hua
Chu Ta-k'o	Chu Tzu-ch'ing	Chu Kuang-shih	Chu Yu-liang
Chu Chin-chiang	Chu Ch'eng	Chu Pao-yung	Chu Yu-hsien

Enc. 1, Despatch 553,
June 4, 1948, from
Shanghai

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Chu Jen-pao	Chiang Shao-ying	Chiang Jen-shou	Chiang Hung
Chiang K'o-otsung	Jen Lang	Mou Jun-sun	Wu Lu-fu
Wu Yu-wan	Chi Min-sheng	Shu Shih-chieh	Li Shou-yung
Li Kuang-hsi	Li Hsien-nuan	Li Ping-yu	Li Tzu-kao
Wu Nan-hsien	Wu Yu-chien	Wu Hao-jan	Wu Tse
Wu Tao-k'un	Wu Cheng	Wu Chien-lan	Ho Te-hao
Ho Hai-yen	Ho Chao-lin	Shen Tzu-shan	Shen Tzu-shu
Shen Ssu-chuang	Shen Lien-chih	Shen Hsiao-hung	Tu Tso-chou
Yen Hsin-che	Wang P'ei-yuan	Wang Sheng-yuan	Wang Ai-yung
Yu Jih-hsuan	Yu Nan-ch'iu	Yu Ch'un-ting	Sung Ch'eng-chih
Sung Tzu-chiang	Sund Shou-ch'ang	Sung Wu-sheng	Sung Hsing-ts'un
Wu Wei-ch'uan	Wu P'i-chi	Wu Pang-wei	Wu Chih-han
Wu Shih-yu	Ku T'ung-ch'ien	Leng Hsueh-ch'iao	Sha Huai-p'ing
Chou Ming	Chou Liang-han	Chou Tsu-hsun	Chou Chien-min
Chou Chung-ch'ien	Chou Chun-shih	Chou Pen-lien	Chou Tan
Chou Wen-wei	Chou Kuan-chun	Chou Shang	Jui Pao-kung
Chin Chao-chun	Chin Shou-li	Chin T'iao-sheng	Chin Te-chien
Chin Wen-ch'i	Lin Hai-ming	Lin Ts'ung-chou	Lin Ching-ch'eng
Lin Kuo-kao	Chi Wen-mei	Wu Ch'ung-lin	Hu Tun-fu
Hu Cho	Hu Fan-jo	Hu Hsueh-ch'in	Hu Yuan-yi
Hu Chao-ying	Hu Che-k'uei	Yao Ch'i-chun	Yao T'ieh-hsin
Yu Cheng	Ma Kuo-jung	Ma Feng-chou	Chu Chia-sheng
Ch'ai Chih-ming	Yu Feng-ch'i	Yu Shao-hua	Po Chih-wei
Hung Ch'ing	Shih Po-heng	Shih Chih-ch'ien	Miao Yu-kao
Hsu Shou-wu	Hsu Cheng	Hsu Feng	Hsu Jen
Hsu Mo-keng	Hsu Chu	Hsu Feng-tsao	Hsu Chi-ch'ang
Hsu Ho-yen	Sun Li-ch'un	Sun Chih-kung	Sun Chen-hsien
Sun Kuei-ting	Sun Ping-chang	Sun Sheng-tseng	T'ang Wen-chih
T'ang Ning-K'ang	T'ang Mao-huai	T'ang Yao-fu	T'ang Che
T'ang Ch'i-hsien	Liang Chih-yen	Liang Shu-wen	Yuan Ch'i-chen
Yuan Ang	Yuan Che	Ling Hsien-yang	Ling Shu-mo
Fan Hui-kuo	Fan Chi-p'ing	Hsi Ming-chi	Yin Ming-lu
Mo Chung-yi	Keng Tan-ju	Hsi Ying-chung	Ch'en Sung-mao
Ch'en Ching-ch'i	Ch'en Ming-en	Ch'en Ta-hsieh	Ch'en Hu
Ch'en Chi-tan	Ch'en Cheng-hsiu	Ch'en Chen	Ch'en Ying
Ch'en Wen-lin	Ch'en Wei-hsin	Ch'en Yun-sun	Ch'en Kung-ch'u
Ch'en Ch'i-yun	Ch'en Kao-yung	Ch'en Ch'uan-chang	Ch'en Chih-p'ing
Ch'en Ch'ien	Ch'en K'o-mei	Ch'en En-feng	Ch'en P'u
Ch'en Shih-t'i	Chang Ts'ang-shan	Chang Ch'ing-yuan	Chang Chu-jen
Chang Wo-ts'ai	Chang Ch'un-chiang	Chang Chien-ch'ing	Chang Po-chen
Chang Ch'iang-chun	Chang Yuan-yang	Chang Hui-sheng	Chang Shu-tsu
Chang Tsung-ch'ien	Chang Ching-hsien	Chang Hsiang-hsien	Chang Ho-ts'en
Chang Ch'ang-shao	Huang Ch'i-yuan	Huang Ch'iang-ying	Huang Lu-fang
Huang Hsi-t'ang	Huang Ching-ssu	Huang Yen-ch'i	Huang Tsung-yu
Huang Chu-p'ing	Huang Shih-ming	Huang Yun-mei	Lu Ching-sun
Lu Hsiu-ku	Lu Yu-yen	Lu T'ieh-ch'eng	Lu Chen-pang
Feng Huan-wen	Feng Yao-chia	Feng Ting-chang	Feng Pao-lin
Ts'ui Tsung-hsuan	Ts'ui Ming-ch'i	Ts'ui Hsi-chang	Chang Yi
Chang Hung-mei	Chang Yuan-ching	Ts'ao Hao-sun	Ts'ao Ching-k'ang
Kao Huai-jung	Kao Yang-chih	Kuo Chi-jen	Kuo Chin-yuan
T'ao Shao-yuan	T'ao Yu-ch'uan	Hsu Hsin-wu	Hsu Yi-ch'ao
Ch'i Tso-chun	Ch'i Ch'i-chang	Fu Hai-ch'iu	Tsou Wen-hai
T'u K'ai-yuan	Ch'eng Hsiao-kang	Ch'eng Te-hsu	Ch'eng Wen-hsin
Ch'eng Mao-yun	Ko Shou-yuan	Ko Han-hsing	Ko Chu-k'ang
Ko Sui-ch'eng	Ko Huai-ch'eng	Tseng Tso-chung	T'ung Shu-yeh
T'ung Tsu-ch'ing	Ho Liang	Wen Hsieh-chun	Yang P'eng-chi
Yang P'ei-chang	Yang Yi	Yang Chen-hua	Yang Pao-an
Yang Ch'ao-ch'ien	Yang Wen-ta	Yeh Shang-yuan	Yeh Hsueh-an
Yeh Shu-liang	Yeh Shu-ju	Yeh Yu-yen	Chan Chia-chung

Enc. 1, Despatch 553,
June 4, 1948, from
Shanghai

-4-

Ching Hsiao-ch'uan	Shen Hsiang-ta	Ch'iu Fa-tsu	Lu Shun-k'uei
Li Chao-huan (J.Usang Ly)	Li Ssu-lin	Chao Fu-tan	Chao Chieh-wen
Chao Kung-chi	Chiang T'ien-shu	Chiang T'ieh-shan	Chiang Tsai-hua
Kuan Pin-chih	Ch'i Chih-k'o	Liao Fu-chun	Liu Hai-shu
Liu Yen-ch'ing	Liu Jui	Liu Huan-wen	Liu Yu-ken
Liu Po-min	Liu Hsin-hua	Liu Yi-nung	Liu Ching-ch'i
P'an Hsu-lun	P'an Chien-ch'ing	P'an Yi-ch'iang	P'an Sung-yuan
Ou Yuan-huai	Ou Kuo-ch'ing	Lu Chi-tseng	Lu Mang
Ts'ai Wen-hsi	Ts'ai Tse	Ts'ai Chen-pang	Ch'ien Hu-t'ing
Ch'ien Pai-shui	Ch'ien Wang-cho	Ch'ien Su-chun	Ch'ien Chung-yen
Cheng Shih-ch'a	Cheng Chang-ch'eng	Cheng Hsia-fei	Cheng Ta-yuan
Lu Shih-lu	Lu Hsi-jung	Lu Yi-chen	Lu Hsiu
Teng Ching-hua	Hsueh Chin	Hsueh Chung-san	Hsueh Fen
Hsueh Te-yu	Hsieh Hai-yen	Hsieh Chao-Hsiung	Hsieh Yu-chin
Ying Ch'eng-yi	Ying Kung-chiu	Tai Ts'ui-lun	Tai Li-wen
Chung Ssu	Hsiao Hsueh-chung	Hsiao Tzu-ch'iang	Nieh Shao-ching
Han Chung-ch'i	Kuan Yu-chih	Wei Hsi	Yen Chia-hsien
Yen Chun	Yen Chu-sheng	Su Hsi-shih	Su Chih-chien
T'an Ch'i-meng	T'ang T'ung-k'un	Lo Chih-jui	Ku Wen-tsao
Ku Fo-ying	Ku Fu-ts'ao	Mu Yuan-ch'iu	Kung Ch'ing-hao
Kung Chi-tao			

(Lists of original signatures are retained for reference
at various schools concerned.)

CHT

Copied by cms

Enclosure 2, Despatch 553,
June 4, 1948, from Shanghai

JMC:ems

American Consulate General
Shanghai, China
June 4, 1948

My dear President Tsang:

I wish to acknowledge receipt of your letter of June 1, 1948, in which you were good enough to forward a letter from a group of presidents and professors of Shanghai universities to President Truman and Secretary Marshall. It would naturally be of the greatest pleasure for me to serve in any way to promote mutual understanding between our two countries, and particularly with respect to the manner in which public opinion regards our mutual problems. Nevertheless, as a matter of comity the right of decision as to what communications from Chinese may properly be sent to any officials of the Government of the United States is reserved to the Chinese Government. Under international practice the proper channel of transmission would normally be the Chinese Embassy in Washington. I venture to point out, therefore, that it would be more appropriate if you were to transmit the message through this channel.

Sincerely yours,

John M. Cabot
American Consul General

Enclosure:
Message to President Truman
and Secretary Marshall.

Mr. Y. Y. Tsang,
President, National Fuh Tan University,
Kiangwan, Shanghai, China.

A true copy of
the signed original.

C.M.S.

STANDARD FORM NO. 64

Office Memorandum - UNITED STATES GOVERNMENT

DATE: July 2, 1948

TO : NA - Mr. Allison

FROM : FE - Mr. Benninghoff *HB*

SUBJECT : Attached Letter from Congressman Anderson

Mr. Butterworth suggests that a reply to Mr. Anderson be prepared indicating that the importation of iron ore into Japan is a matter now being handled by SCAP, and if desired we would be glad to transmit to SCAP any request Mr. Ingersoll might have.

Dick Ely tells me that the enterprisingⁱⁿ question is highly reputable. The letter should contain, I think, the statement that the company itself would have to ascertain the attitude of the Philippine Government toward exports to Japan.

EW 894.60/7-1-48

FE:HMBenninghoff:abs

JACK Z. ANDERSON
8TH DISTRICT CALIFORNIA

Congress of the United States
House of Representatives
Washington, D. C.

July 1, 1948

Office of
FAR EASTERN AFFAIRS
JUL - 2 1948
DIRECTOR
Department of State

B

DIVISION OF
NORTHEAST ASIAN AFFAIRS

JUL 6 - 1948

DEPARTMENT OF STATE

Mr. W. Walton Butterworth, Director
Far Eastern Affairs
Department of State
Washington, D. C.

Dear Mr. Butterworth:

The enclosed newspaper clipping and letter
from Frank B. Ingersoll of Burlingame, California,
are self-explanatory.

I have taken the matter up with the Ambassador
of the Philippines and am advised that it will be
up to the United States Government or the Far
Eastern Commission to decide whether or not the
steel industries of Japan will be restored. Any
information you can furnish me which I can trans-
mit to Mr. Ingersoll will be appreciated.

With best wishes, I am

Sincerely yours,

Jack Anderson

JZA:LH
Enc. 2

894.60/7-148

CS/V

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896.6511

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Anal.	<i>WR</i>
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Gen.	<i>WR</i>
Enc.	

JUL 23 1948

FILED

894.60/7-148

COSGRIFF, CARR, McCLELLAN & INGERSOLL
Attorneys At Law
329 Primrose Road
Burlingame, California

April 7, 1948

COPY

Honorable Jack Anderson
Congressman Eighth California District
House Office Building
Washington, D. C.

Dear Jack:

Prior to my father's death in 1944 I believe he wrote to you a number of times about interests which he held in the Philippine Islands. These interests have remained in his estate and will eventually be distributed to my mother. Among the property in the estate is a sizable group of shares in the Philippine Iron Mines. In addition to the shares held by the estate, my mother and I own considerable number of shares in this Iron Mining Corporation. This Iron Mine was developed largely through the efforts of my father, and I would say that our family now controls approximately 1/3 of the stock in the Company. The Company, however, has not operated since July of 1940 at which time it was closed down by United States Government Order.

The only market for Philippine Iron ore has been Japan, and unless coking furnaces are built in China or the Philippines, Japan would continue to be the only market for this iron ore, as freight rates are prohibitive to exportation to any other market.

We and the other persons interested in this Iron Mine have attempted to do nothing with the mine since the United States Government Order in 1940. The War has not only stopped the operation of the mine, but due to the elements and the Japanese picking up such equipment as they desired, there is really very little left in the way of operating equipment at the mine; however, because of the relatively small expense involved in extracting the ore and loading it on to ships it would be a relatively simple matter to place this property in operation again if the market for the ore could be secured.

Honorable Jack Anderson
Congressman Eighth California District

-2-

4/7/48

In this morning's Chronicle I have noted an article which would indicate that the United States is ready to help restore industry in Japan to its postwar level. If this is done it will be necessary for Japan to start importing iron ore, and we would be very interested in being able to negotiate some kind of a contract for the Philippine Iron Mines.

Knowing that you have taken a very active interest in the problems of the Far East and Military Defense, I thought that perhaps you might be in a position to advise me what is actually going on behind the scenes in this regard. It is my feeling that if possible, the United States should try to help those Americans who spent practically their whole lives in the Philippines developing the resources and industries of that country, and who, by reason of the War, have been in a great many cases practically wiped out. I would appreciate hearing your attitude in regards to presenting a bill which might either be a part of the Japanese Aid Bill or a Companion Bill which would make it possible to help interests in the Philippines at the same time that we are revitalizing Japan.

With best personal regards, I am

Yours very sincerely,

(Signed)

FRANK B. INGERSOLL, JR.

FBI:HK

JUL 9 1948

In reply refer to
NA

894.60/7-148

My dear Mr. Anderson:

I have your letter of July 1, 1948, to Mr. W. Walton Butterworth, Director of the Office of Far Eastern Affairs, enclosing a letter with attached newspaper clipping from Mr. Frank B. Ingersoll of Burlingame, California, in which Mr. Ingersoll inquires regarding plans for the revival of Japanese industry and the possibility which these plans might offer for the reopening of a Philippines iron mine in which he is interested to furnish iron ore to Japan.

HR
896.6511

As you know, it is United States policy that Japan should regain a self-supporting status at the earliest possible time. To this end the 80th Congress on the recommendation of the President appropriated funds for the express purpose of assisting the rehabilitation of Japanese industry. Arrangements for the purchase of raw materials by Japan with these and other funds, however, are made by General MacArthur's Headquarters and the Japanese Government directly with the governments and business enterprises of supplying countries, and are not made in Washington. In some Far Eastern countries trade with Japan is permitted or encouraged, but in others, among them the Philippines, obstacles are still being placed in the way of this trade by the governments of those countries. This attitude generally results from the inability of the population to understand that the revival of peaceful industrial activity in Japan is essential for the Japanese people's peaceful reorientation, and that such revival is in no sense inconsistent with this Government's and our Allies' determination that Japan shall not again be permitted to menace the peace of the world.

CS/V

My recommendation, therefore, would be that you suggest to Mr. Ingersoll that he or some other representative of the Philippine Iron Mines ascertain from the Philippine Government what its attitude would be on a proposal that

the company

The Honorable
Jack Z. Anderson,
U.S. House of Representatives.

Encl.	
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[Handwritten signature]

894.60/7-148

- 2 -

the company resume production to sell iron ore to Japan. If the proposal is acceptable to the Philippine Government it is suggested that Mr. Ingersoll write directly to Mr. Frank Pickelle, Chief of the Foreign Trade Division of the Headquarters of the Supreme Commander for the Allied Powers in Japan, to ascertain the Headquarters' view on the proposal. All information available here indicates that the Supreme Commander would be greatly interested in a proposal for the sale of Philippine iron ore to Japan on reasonable terms.

Mr. Ingersoll's letter is returned herewith, a copy having been made for the files of the Department. I hope that the above information and suggestions may be of help to you and Mr. Ingersoll.

Sincerely yours,

Charles E. Bohlen
Counselor

Enclosure:

✓ From Mr. Ingersoll,
April 7, 1948

[Handwritten signature]

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7/6/48

FE 4613

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(Cleared with
Mr. Bowman)
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[Signature]*

JUL 8 1948



THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

UNITED STATES POLITICAL ADVISER
FOR JAPAN

June 10, 1948

No. 343

UNCLASSIFIED

Subject: Reports Concerning Certain Industries in Kyushu.

*No action required
File
SGK
10/1/48*

The Acting Political Adviser has the honor to refer to this Mission's despatch No. 321 of June 4, 1948 concerning economic matters in Kyushu and to enclose one copy each of the following reports presented by individual companies to an officer of this Mission during a trip to that area:

1. "Outline of Yawata Works of the Japan Iron and Steel Co., Ltd."
2. "Outline of Kurosaki Factory of the Mitsubishi Chemical Industries Ltd."
3. "Outline of Sasebo Ship Industry Co., Ltd."
4. "Report of the Works - Nagasaki Precision Machine Works, Mitsubishi Heavy Industries Co., Ltd."
5. "General Description - Nagasaki Shipyard and Engine Works, Mitsubishi Heavy Industries Ltd."

In despatch No. 321, comments have already been made regarding various aspects of these companies. The Department's attention is particularly invited to the list of products (in addition to ships) being manufactured or repaired by the Nagasaki Shipyard and Engine Works (report no. 5), such as coal cars, locomotives, and steam turbines. The yard for building ships is by no means operating at a high level of its capacity, so that additional work would be welcomed.

The Nagasaki Precision Machine Works (report no. 4) has been described in despatch No. 321 of June 4, 1948 as one of the companies designated for reparations, but now producing useful equipment. The Military Government Team in Nagasaki has recommended that at least the 680 machines mentioned in the report as in use be exempted from reparations.

Enclosures:

As stated above.

Original and ozalid to Department.

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WHLawrence, Jr.:mhp

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DIVISION OF OCCUPIED AREAS
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RAYMOND C. BENNER, PH. D. ✓
460 COLLEGE AVE.
NIAGARA FALLS, N. Y.

August 2, 1948

DIVISION OF FINANCIAL AFFAIRS
To DE fraction
AUG 12 1948
SS
DEPARTMENT OF STATE

Dr. Willis Armstrong
Division of Commercial Policy
Room 590, Old State Bldg.
Washington, D.C.

Dear Sir:

I have been asked by a number of Japanese firms to act as their technical representative in the U.S. for the purpose of obtaining assistance for them in modernizing their plants. The only thing that stands in the way is the difficulty of placing dollars to my credit in the United States for the various expenses involved. Could you tell me how this may be done?

I thank you.

Sincerely,

R.C. Benner

R.C. Benner

RCB/mb
cc/file

894.60/8-248

SEP 10 1948

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CS/A

Its to Benner
DIVISION OF OCCUPIED AREAS
ECONOMIC AFFAIRS
AUG 17 1948
8/20/48
DEPARTMENT OF STATE

DIVISION OF COMMERCIAL AFFAIRS
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aug 11 1948
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894.60/8-248

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AUG 30 1948

In reply refer to
OE

My dear Dr. Benner:

Reference is made to your letter of August 2, 1948, in which you state that a number of Japanese firms have asked you to act as their technical representative in the United States for the purpose of obtaining assistance for them in modernizing their plants. You inquire as to how dollars may be placed to your credit in the United States to cover the various expenses involved.

The foreign exchange regulations presently in effect in Japan preclude the allocation of dollars or other foreign currencies available to Japan for purposes other than to meet the cost of Japan's essential import requirements or the procurement of services deemed contributory to the economic rehabilitation of Japan. These regulations are at present administered by the Supreme Commander for the Allied Powers, Tokyo, Japan.

It is possible that the services which you have been asked by your Japanese correspondents to render may be of such a nature as to warrant the allocation of dollars for their procurement. It is suggested, therefore, that you may wish to request your Japanese correspondents to communicate with General Headquarters, Supreme Commander for the Allied Powers, Tokyo, Japan, with respect thereto. It is further suggested that you may also wish to communicate directly with General Headquarters in Tokyo, submitting in detail an outline of the services in question together with an estimate of their cost. This would be of assistance to the Supreme Commander in determining the contribution which such services would make toward the economic rehabilitation of Japan and whether the allocation of dollars therefor would be warranted under the circumstances.

Sincerely yours,

DOB, IEP Unit

Anal. *[Signature]*

Rev. *[Signature]*

Aug 25 1948 P.M.

Aug 30 1948

Raymond C. Benner, Ph.D.
460 College Avenue,
Niagara Falls, New York.

OFD:OE:RBP:ms 8/20/48

Roswell H. Whitman
Acting Chief
Division of Occupied Areas
Economic Affairs

[Signatures]
NA
O HK.

894.60/8-248

CSA

894.60/8-248

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Form 1'S-302
(7-2-45)

DIVISION OF
COMMUNICATIONS AND RECORDS
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DEPARTMENT OF STATE

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Control 8402

Rec'd August 25, 1948
6:09 a.m.

FROM: Shanghai
TO: Secretary of State
NO: 1885, August 25

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Office of
FAR EASTERN AFFAIRS
AUG 26 1948
DIRECTOR
Department of State

no action
AUG 26 1948
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Following Central News Agency item datelined August 24, "Japan's industrial productive capacity which at the surrender time was down to 10 per cent of the 1934-1936 level now is about half of the level according to the magazine DIAMOND. The number of existing factories and workers is said to have reached an all peace time high-about 110,000 plants and 3,600,000 workers. However, after an extensive survey the authoritative economic magazine reached a paradoxical conclusion that production has not increased in proportion as the number of factories and workers arose. Such a paradoxical situation was attributed to sagging operational efficiency, shortage of proper equipment and funds, and increased amount of red tape resulting from controlled economy.

Another interesting point made by the magazine is the postwar tendency towards an even distribution of factories. The industrial center is said shifted from Osaka to Tokyo. The significant drop in the number of factories is noticeable in localities which were regarded as industrial areas in the prewar time, and plants have mushroomed in places where few existed before.

The magazine said especially noteworthy is the rate of increase of such secondary production plants as the lumber and woodwork industry and the printing and bookbinding industry. The number of factories almost doubled since the end of the war. The breakdown of last years plants was as follows:

metal 10,167

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SEP 10 1948

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DEPARTMENT OF STATE
AUG 26 1948
PC/L
LIAISON OFFICE

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PLAIN

-2-#1885, August 25, from Shanghai

metal 10,167, machinery implements 23,747, chemical 8,127, gas and electric 925, ceramics 5,680, spinning 15,699, lumber and wood work 22,412, foodstuffs 13,363, printing and bookbinding 2314, and others 6454.

The total in industrial production last year was estimated at about 300 billion yen.

The magazine further pointed out factories with less than 50 employees constitute almost 89 per cent of the total number of factories. But large-scale factories which occupy only about 11 per cent of the total number of plants employ about 63 per cent of the entire factory hands in Japan".

Sent Tokyo 168, repeated Department 1885.

CABOT

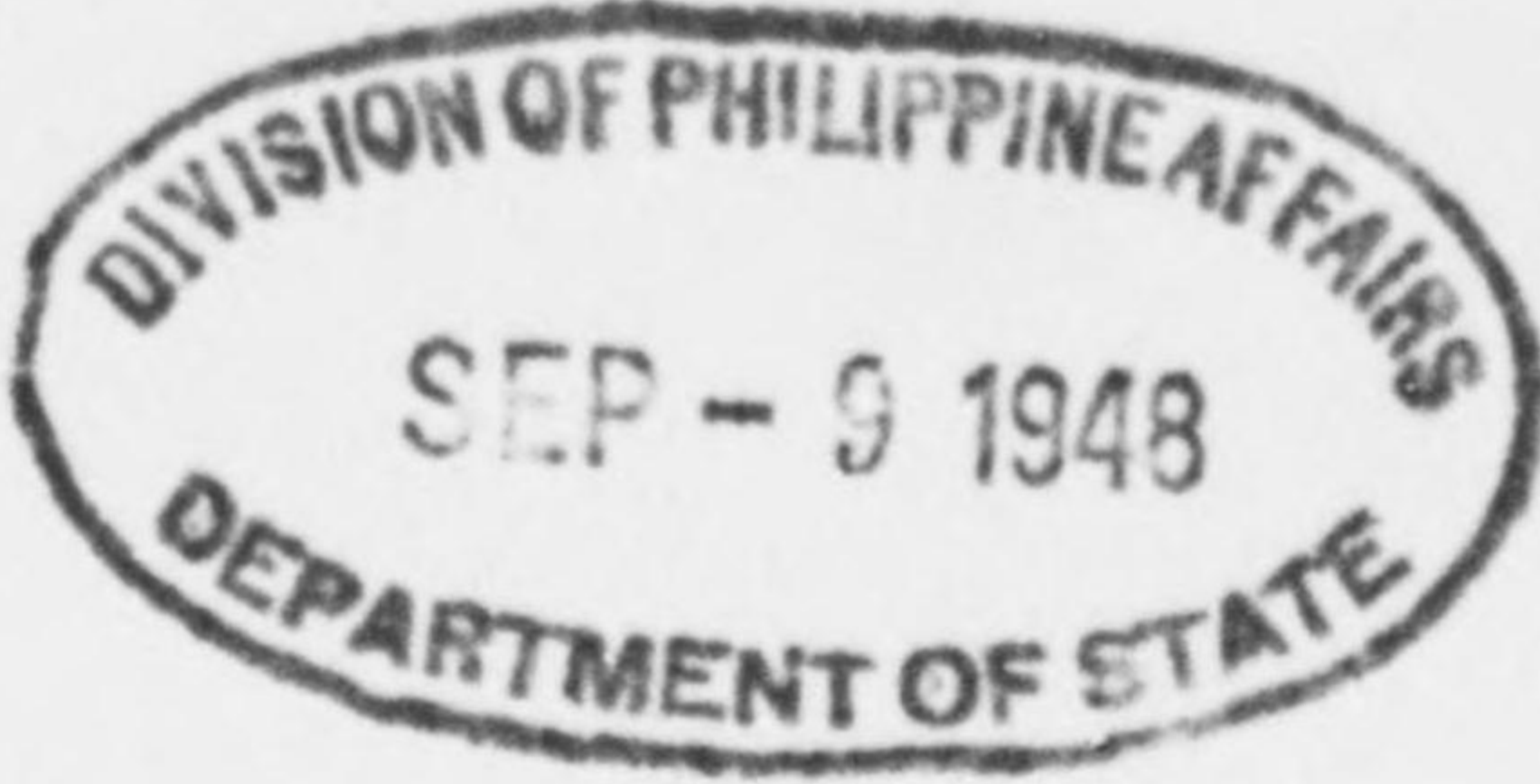
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September 7, 1948

Excellency:

DIR

Upon instructions from my Government,
 I have the honor to refer to the Interim Repara-
 tions Removals Program adopted by the Far East-
 ern Commission in 1946 in the matter of advance
 reparations from Japan and the interim directive
 of the United States Government dated April 4,
 1947 regarding advance transfers of Japanese re-
 parations and reparations allocations procedures
 for industrial facilities in Japan.

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894.60/9-748

Your Excellency will recall in this con-
 nection that the Far Eastern Commission, in the
 program referred to, provides that Japan's indus-
 trial facilities and equipment considered basic to
 her war economy are declared available for repa-
 rations claims, although the power to designate
 which of them should be made available is left to
 the Supreme

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1948 SEP 8 AM 9 46

His Excellency

George C. Marshall

Secretary of State

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Dist. _____

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- 2 -

the Supreme Commander for the Allied Powers. Likewise it should be recalled that the United States Government, realizing the urgent need of recipient countries including the Philippines for said industrial facilities and equipment, issued the aforesaid interim directive providing, among other things, for the immediate delivery of such assets falling within categories of Japanese facilities and equipment which have been properly declared as available for reparations transfers by the Far Eastern Commission and designated for removal by the Supreme Commander for the Allied Powers.

To date the Philippines has been allocated and has received machine tools, laboratory and electrical equipment, which were taken from among the pooled items in the Army and Navy arsenals in Japan. I am pleased to inform Your Excellency that the greater part of the tools now form the basis for the reactivation of Government shops and vocational schools while the rest is being distributed to

- 3 -

buted to private parties who will utilize them for manufacturing and repair jobs.

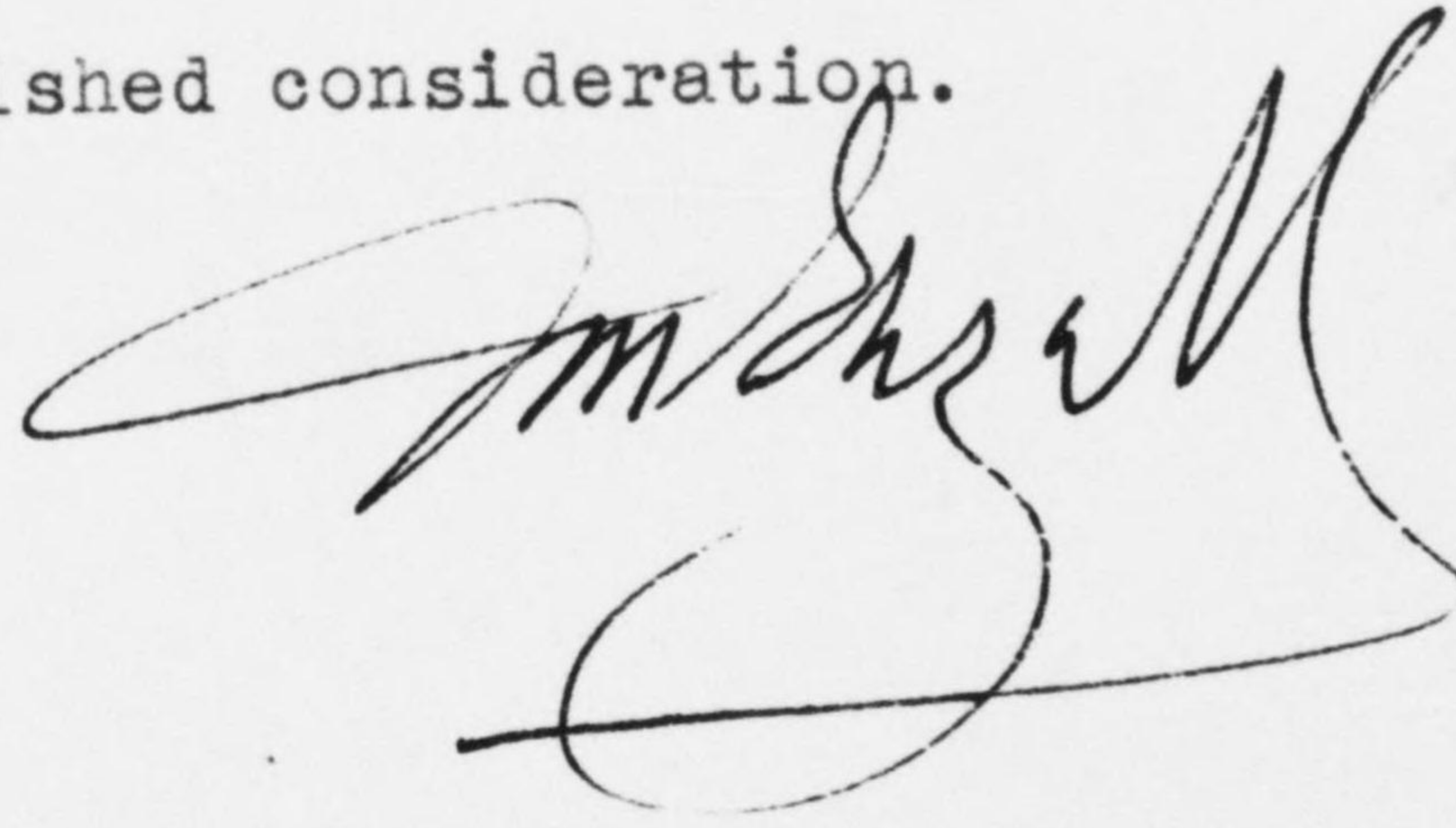
To accelerate the rehabilitation of Philippine economy, my Government has inaugurated an industrialization program, for the orderly and speedy effectuation of which the facilities and equipment coming under all the categories declared by the Far Eastern Commission as available for reparations transfers are urgently needed. While on the one hand my Government realizes the attendant and onerous difficulties incident to their immediate delivery, it is hoped on the other hand that Your Excellency's Government will not fail to understand that these facilities and equipment are needed for the success of the said program.

My Government would therefore deeply appreciate it if some feasible way could be considered by Your Excellency's Government to make possible the immediate removal and transfer to the Philippines of

- 4 -

lippines of such of Japan's industrial facilities and equipment falling within all categories declared as available for reparations transfers under the Interim Reparations Removals Program and made available for immediate delivery pursuant to the interim directive of the United States Government.

Accept, Excellency, the renewed assurances of my most distinguished consideration.



Handwritten initials and date:
75
EP
10/17/48

OCT 11 1948

Excellency:

I have the honor to acknowledge the receipt of your note of September 7, 1948 requesting this Government's aid in expediting the further transfer of industrial reparations facilities from Japan to the Republic of the Philippines.

894.60/9-748

It is most gratifying to note that the reparations facilities thus far received by the Philippines from Japan have been of assistance in the rehabilitation of Philippine economy.

This Government is giving the most careful consideration to the points raised in your note and a reply will be provided as soon as the views of this Government have been formulated.

CS/V

Accept, Excellency, the renewed assurances of my highest consideration.

894.60/9-748

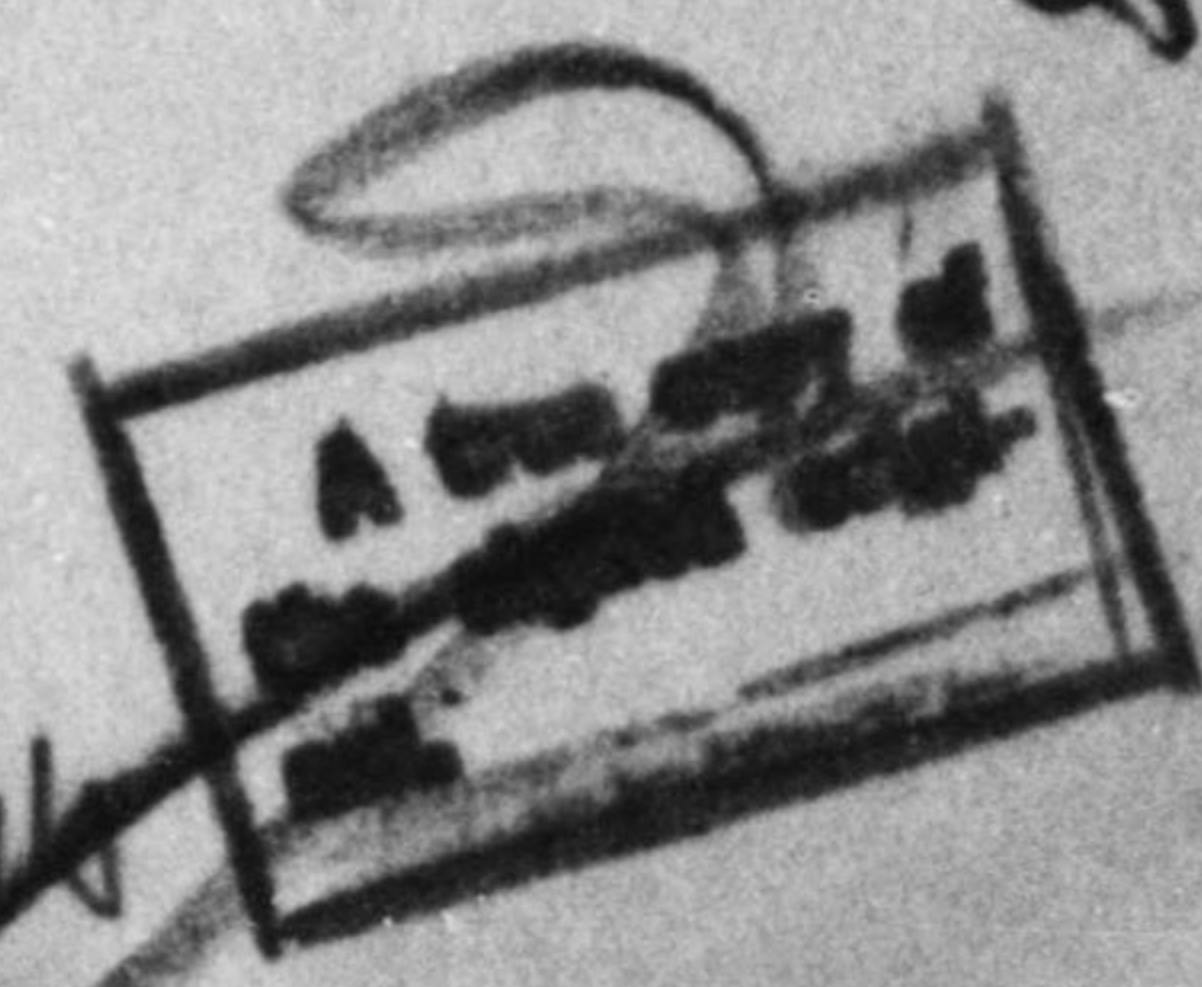
For the Acting Secretary of State:

His Excellency
Joaquin M. Elizalde,
Ambassador of the Philippines.

CHARLES E. SALTZMAN

OFD:EP:SGKallis:mcm 9-30-48
FE:NA:RAFearey:fhh 10-5-48

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894.60/9-748

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OCT 27 1948

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PROM: Shanghai
TO: Secretary of State
NO: 2012, September 14.

Rec'd September 14, 1948
2:20 p.m.

FINANCIAL & DEVELOPMENT POLICY
OFFICE OF
TOOKI SEP 15 1948
DEPARTMENT OF STATE

INTERNATIONAL RESOURCES DIVISION

No action necessary HHS
SEP 15 1948 9-16-48

DEPARTMENT OF STATE

894.60/9-1448

Following Central News agency datelined Tokyo September 11 "the new and liberal interpretation of the economic deconcentration law offered by SCAP Deconcentration Review Board today indicates a further relaxation of the controversial law purported to break up Japan's concentrated businesses and allows SCAP a great latitude in the application of the law.

The Japanese firms which were previously designated for deconcentration will be automatically removed from the designation unless they show by concrete evidence that they "restrict competition or impair opportunity for others to engage in business independently".

See Com...

DEPARTMENT OF STATE
SEP 28 1948
DCAL
LIAISON OFFICE

Originally Japanese firms which conducted more than 20 percent of business in any field automatically fell under the deconcentration law. The showing of evidence that they restrict competition of other firms was not required then.

The new interpretation also ruled out the original provision that the possession of non-related lines of business is considered as excessive business concentration.

The Deconcentration Review Board which had the first meeting with the Japanese Holding Company Liquidation Commission today also stipulated the submission of voluntary reorganization plan for approval for the reorganization of the firm. The new ruling is tantamount to effect to prevent unjustifiable deconcentration.

Lately

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SEP 22 1948

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PLAIN

-2- 2012, September 14, from Shanghai

Lately some firms voluntarily applied for deconcentration with the purposes of mass discharge of workers of financial retrenchment. While latitude is provided in the application of the law the SCAP Deconcentration Review Board emphasized "there is no change in the basic policy of the deconcentration of Japan".

Sent Tokyo 179, repeated Dept 2012.

CABOT

CSB:MEK

PLAIN

Form DS-302
(7-2-48)

DIVISION OF
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*to JWS of OCCUPIED AREAS
ECONOMIC AFFAIRS
SEP 17 1948*

Control 5244

Rec'd September 16, 1948
9:46 a.m.

DEPARTMENT OF STATE

OFFICE OF
FINANCIAL & DEVELOPMENT POLICY

FROM: Shanghai

TO: Secretary of State

2040

NO: ~~2970~~, September 16

TO EPY
SEP 17 1948
DEPARTMENT OF STATE

INTERNATIONAL RESOURCES DIVISION
SEP 17 1948
DEPARTMENT OF STATE

Following Central News Agency item datelined Tokyo
September 14:

"The new and liberal interpretation offered by SCAP
of economic deconcentration law will shortly bring
about a wholesale removal of 275 big Japanese industrial
firms from designation for deconstruction. *deconcentration.*

*NR
894.50*

Reliable sources told Central News today that it is
generally believed no firm will be broken up completely,
in strict accordance with the original spirit of the
law, after the SCAP seven-man review board offered its
new interpretation.

*NR
894.602*

These sources said there will be only some 10 firms
ordered to undergo a moderate reorganization in
the long run under the law which was originally
designed to set a new basis for Japan's democratic
economic reconstruction through the breaking up of
excessive economic concentrations.

SCAP's new interpretation of the law, which was
announced last Saturday, allowed Japanese firms to
pursue non-related lines of business and conduct business
to any extent as long as they do not restrict
competition of other firms.

Though SCAP

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DIVISION
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DEPARTMENT OF STATE

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cards corrected

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NOTATION OF ACTION TAKEN.

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PLAIN

-2-#2940, September 16, from Shanghai

Though SCAP emphasized the basic policy of the law is not changed, the new interpretation runs counter to the original provisions of the law, which defined that possession of non-related business in an excessive concentration.

The original provisions of the law stipulated that any firms conducting more than 20 percent of business in any field should automatically fall under the deconcentration law.

Interviewed by Central News this morning Todayo Sasayama, chairman of the Holding Company Liquidation Commission, revealed an order will shortly be issued to remove practically all firms from the designation list.

He added the Nihon Soda and three other firms, which had already been ordered to break up, will also be retroactively removed from the designation.

He revealed that application of the law may be confined to some 10 firms including the Nihatsu and Dentsu which would undergo moderate reorganization.

Sasayama claimed strict application of the law in the present stage which is "about (*) and may unstabalize Japanese industry and hinder Japanese industrial recovery.

He said anti-monopoly law alone is good enough to prevent the resurgence of the Japanese Zaibatsu. Asked whether a new Zaibatsu will be created in Japan if economic concentration is allowed to a certain degree Sasayama said new "capitalists" will be born eventually.

He added they will be different from the old Zaibatsu who dominated business with Feudalistic influence.

Sasayama said

PLAIN

PLAIN

-3-#2940, September 16, from Shanghai

Sasayman said originally there were 325 firms designated for deconcentration. Fifty of them were removed by a SCAP directive about two months ago.

Big Zaibatsu firms such as the Mitsui Mitsubishi and Sumitomo had already been dissolved or in the progress of dissolution under the "Zaibatsu dissolution law" and therefore are not affected by the deconcentration law. He added, however, many firms which were previously designated for deconcentration are firms closely affiliated with the old Zaibatsu.

CABOT

NOTE: (*) apparent omission verification upon request.

JMS:FAE

PLAIN

Form DS-302
(7-2-46)

DIVISION OF
COMMUNICATIONS AND RECORDS
TELEGRAPH BRANCH

DEPARTMENT OF STATE

ACTION COPY

15

INCOMING TELEGRAM

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Control 8747

Info:

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Rec'd Sept. 25, 1948
2:25 p.m.

[Handwritten signatures]

FROM : Moscow
TO : Secretary of State
NO : 2125, September 25

Soviet press September 25 prominently displays one-column "Panyushkin's statement at PEC setting forth Soviet position on question level industrial development Japan."

Sent Department 2125, Department pass Tokyo 32.

KOHLER

LMS:KC

NOTE: Relayed to Tokyo 9/25/48 2:47 p.m. (NEF)

894.60/9-2548

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DEPARTMENT OF STATE
File
Jand

OFFICE OF
EUROPEAN AFFAIRS
MESSAGE CENTER
SEP 29 1948
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Form DS-302
(7-2-46)
DIVISION OF
COMMUNICATIONS AND RECORDS
TELEGRAPH BRANCH

DEPARTMENT OF STATE
INCOMING TELEGRAM

Smith
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No action required
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Action: OFD
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OFFICE OF FINANCIAL AND
DEVELOPMENT POLICY Control 9335

SEP 28 1948 Rec'd September 27, 1948
10:13 p.m.
DEPARTMENT OF STATE

FROM: Manila
TO: Secretary of State
NO: 1875, September 28

DIVISION OF OCCUPIED AREAS
E.L.O. OMIC AFFAIRS
SEP 28 1948
DEPARTMENT OF STATE

27
896.60
740.00119PW

Office of President released September 22 summary indicating utilization of reparations machine tools. 3,000 units received to date from Japan, comprising Philippine share of 30 percent advance allocation. 400 have been allocated to government agencies (including Manila Railroad and National Development Company) and public (*) institutions. Over 200 being allocated to private machine shops and private schools. Remaining 2,000 units earmarked for National Machinery Corporation. Nucleus of Namcor is engineer island shops recently reactivated with 150 of these units and now engaged in repairing government machinery and equipment.

LOCKETT

John
Tom
SP
DEPARTMENT OF STATE
OCT 18 1948
TELEGRAPH BRANCH OFFICE

Verified on request.

HD:GB

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HI

De/R

TOP SECRET

Through : The Under Secretary
: S/S
O - Charles E. Saltzman

Sept. 29, 1948

Comments on Attached Additional Recommendations of Army Department Regarding NSC 13/1.

*X2
740.00119 Pw*

The attached statement makes explicit the great extent to which the Army Department amendments to the section on Reparations differs from the Department of State's proposal. The Army proposes that flexibility in the bilateral negotiations be obtained by splitting the difference between the State Department's proposed levels for initiating negotiations and the Army Department's original proposals. The general reasons why we feel negotiations should not be commenced with levels higher than those proposed by State have been set out in my earlier memorandum. There are, however, specific reasons making this proposal particularly unacceptable in regard to the category of primary war industries:

(1) There is an existing FEC paper agreed to by the U.S., stipulating that all primary war facilities must be removed as reparations or destroyed. A violation of this FEC policy would be objectionable on legal grounds;

(2) Many FEC countries have expressed deep concern regarding the importance of insuring that these facilities are removed or destroyed. To approach them on another basis would arouse immediate antagonism to our entire proposal.

894.60/9-26-48

Attachment
Army Additional
Recommendations

3258
Rt for Defense 893.50 Rec/9-12-48 (attachment)
to ref. 893.50 Rec/9-12-48

TOP SECRET FILE

A/ERH
894.60/9-29-48

O:PPClaxton:br	
DOR - IEP Unit	
Anal.	<i>epk</i>
Ev.	<i>epk</i>
Col.	<i>Class Sec</i>
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TOP SECRET

3168

INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS

TELEGRAPH BRANCH
FAR EASTERN AFFAIRS
OCT 19 1948
DIRECTOR
Department of State

DIVISION OF
NORTHEAST ASIAN AFFAIRS

OCT 19 1948

FROM London 2612
DEPARTMENT OF STATE
DATED OCTOBER 7, 1948
RECD

Oct 15, 1948 1:52 p.m.

OFFICE OF
EUROPEAN AFFAIRS
MESSAGE CENTER

OCT 18 11 12 AM 1948

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Secretary of State,

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Reference Soviet statement FEC September 23 re revival Japanese industry subject only to security considerations. Dening of PONOFF stated Soviets had apparently learned, possibly through speech by Powles at FEC meeting, of UK attitude arrived at after talks at Canberra conference of last May. Soviets have copied UK policy re Japanese industry and are using it in attempt to appear to Japanese that USSR is reasonable and that US is holding Japan down while USSR wishes to revive Japanese economy. Also may be attempt to create friction between US and UK. Fact that Panyushkin called press conference after FEC meeting at which he outlined Soviet stand indicates clearly that move was for propaganda purposes.

Dening also said that much depends upon sort of control in post-treaty period envisaged by Soviet proposal. Cannot have Japan swamped by horde of Soviet spies. Also referred to phrase in Soviet statement "lighten dependence of the national economy on external factors which were alien to her interests." This obviously referred to dependence upon US. But US also wishes to lighten burden of Japanese dependence. Strange that Soviets should try to help US in this matter. Must be nigger in woodpile.

HOLMES

BRDickover/wg

PERMANENT RECORD COPY.—This copy must be returned to DC/R central files with notation of action taken.

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894.60/10-748

NOV 23 1948

Stamp: FILED

EX-101

AC/R

DEPARTMENT OF STATE

Memorandum of Conversation

DATE: October 28, 1948

SUBJECT: Deconcentration Program in Japan

PARTICIPANTS: O - Mr. Saltzman
 Mr. Claxton
 Mr. Rudlin
 FE - Mr. Butterworth
 NA - Mr. Allison
 Mr. Fearey

Dr. Reid, Department of the Army
 Mr. Pollard, Department of the Army
 OFD - Mr. Barnett
 IR - Mr. Vernon

COPIES TO: O - Mr. Saltzman
 Mr. Claxton
 Mr. Rudlin

FE - Mr. Butterworth
 NA - Mr. Allison
 Mr. Fearey

OFD - Mr. Barnett
 IR - Mr. Vernon
 ? - Army

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894.60/10-2848

Dr. Reid, of Mr. Draper's office, has recently spent six weeks in Japan and met with the above officers of the Department to discuss the deconcentration program.

He began by summarizing recent developments in the program and thought it was possible that, of the 131 firms remaining on the designated list, perhaps some 20 to 40 might be dealt with as excessive concentrations. After spending four months surveying the situation and becoming acquainted with the problems, the Board recently handed down a decision on the Nippon Soda case which reversed the order of the HCIC to deconcentrate this firm. This decision apparently left the Japanese uncertain as to our basic policy. Mr. Saltzman enquired what the basis was for the reversal of the Commission's findings. Did it turn on all or some of the four new principles for implementation of the law recently laid down by the Board?

Mr. Butterworth enquired how long the Deconcentration Review Board proposed to remain in Japan and whether it would stay until whatever number of firms are decided upon have been in effect broken up and until approval has been given to specific plans for reorganization. Dr. Reid replied that it was the opinion of the Anti-Trust and Cartel Divisions of SCAP that the Board could, if necessary, pass upon reorganization cases at the rate of one a week. The Board's own present thinking is that it may stay at least until the winter.

Mr. Butterworth pointed out that it may be necessary to present the FEC with a statement of our attitude, including a review of the work of the Deconcentration Review Board. The question therefore arises whether the Board will have completed its work in time for its findings to be used in such a statement. The question was also raised at this point, and at subsequent stages in

the discussion

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- 2 -

the discussion as to what form these findings will take. If they are not to have the appearance of a rule of men rather than of laws, then it would be desirable to have a complete record of their decisions and the reasons therefore. Dr. Reid was not sure what the Board's plans were in this respect but felt there was nothing in the size of its clerical staff to indicate great concern with record keeping. However, the Holding Company Liquidation Commission and the Anti-Trust and Cartel Division presumably have their own files which will carry cases up to the point of review by the Board.

Dr. Reid agreed with Mr. Vernon that the Board's activities in reviewing deconcentration plans are a small part of the general activity coming under the heading of the deconcentration program, there being many other matters, such as sales of securities, anti-trust and fair trade activities and the issuance of ordinances under existing legislation. However, the significant date will be that when the HCIC completes its work which should be some time in 1949 after which the main continuing activity will be that of the Fair Trade Commission operating under the Anti-Trust and Monopoly Law.

Mr. Butterworth raised the question which we have so far been unsuccessful in posing to SCAP namely, what are the terms of reference of the Deconcentration Review Board? What authority does it have to change or reinterpret previous laws or rules on the subject? If the Board's function is to make recommendations to General MacArthur, does this mean that SCAP in approving, for example, the Nippon Soda Case approves the four principles for the implementation of the law which the Board laid down for the guidance of HCIC. Dr. Reid thought this was so, and agreed with Mr. Butterworth that it was, therefore, important to know just what the terms of reference were, especially since the HCIC regarded the new principles as a considerable departure from those under which it had been previously operating and which had been conveyed to it by the Anti-Trust and Cartel Division.

Dr. Reid stated that the Board has not so far discussed changes in the deconcentration law itself, but has discussed the possibility of changing the Anti-Trust Law. The Board is currently of the opinion that such provisions as that requiring a corporation to divest itself of interests in other corporations might be changed. Apparently General MacArthur was not aware that the Japanese Anti-Trust Law goes beyond US law and has recently suggested that the Japanese law be made to conform. The Board is of the opinion also that Japanese banks should not be considered as excessive concentrations, and that whatever changes need to be made can be accomplished through forth coming financial legislation is aimed primarily at other aspects of the financial system.

Mr. Saltzman raised the question of what should be done about sales by the Government of vested Zaibatsu securities. Dr. Reid stated that working levels in SCAP believe that the way is now clear to organize stock exchanges but the Supreme Commander is not convinced. Foreign investment may absorb some stocks. Dr. Reid had heard the suggestion that purgees should turn over to the Government their holdings in the corporations from which they have been purged, in order to widen their disassociation from their former companies.

This

-3-

This would increase the Government's stock-disposal problems. This suggestion was a new and strange one to those present at the meeting. It was never any part of the recommendations of the Edward's Mission or subsequent papers on the subject.

Mr. Barnett felt it would be important for purposes of making a statement in the FEC regarding our attitude toward FEC-230, to have more information on the activities and findings of the HCLC and the interpretations or re-interpretations made by the Board both of Japanese legislation and of the HCLC's findings. If such information could be presented to FEC as an indication of the extent to which deconcentration had already been accomplished in Japan, the reaction from the FEC would not be unfavorable. Mr. Butterworth referred to the question of whether the Board intends to stay within the law or to recommend changes therein. Mr. Vernon and Mr. Barnett felt that the only law which might be changed would be the Anti-Trust Law, inasmuch as the Review Board has the authority to recommend changes in the deconcentration law and inasmuch as the law is general in its terms and interpretation is necessary in any specific case.

Dr. Ried saw no reason why Mr. Draper should not again be asked to request SCAP (a) to inform us when the Deconcentration Review Board believes its work will be finished, (b) to inform us what its terms of reference are, and (c) that the Board maintain adequate records of a kind which will enable us to report on and defend its actions before the FEC and enable businessmen, both here and in Japan, to regard the activities of the Board as based on clear and ascertainable principles.

O:WARudland:smc

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Document must be returned to the State Control File

RESTRICTED

DEPARTMENT OF STATE

ASSISTANT SECRETARY

November 8, 1948

- O - ~~Mr. Hulick~~ *WJK*
- OFD - Mr. Smith
- IR - Mr. Vernon
- NA - Mr. Fearey

Subject: Deconcentration Review Board

About two weeks ago Dr. Reid, of Mr. Draper's office, told us he saw no reason why SCAP should not be asked for the terms of reference of the Deconcentration Review Board, for reports on the Board's activities and the principles on which those activities were based, and for some indication as to when the Board expected to complete its work. We are now informed that shortly after the meeting with Dr. Reid, Mr. Draper sent a cable to SCAP regarding the Board. As far as is known, this cable was not cleared or seen by anyone in the State Department. A request is being made for the text of this cable in order that we may know precisely what information was requested. In the meantime, a reply has been received from SCAP and a copy is attached. It does not give the Board's terms of reference or any indication as to when it expects to complete its business; nor does it indicate what considerations led the Board to make the decisions in the various cases listed.

894.60/11-848

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CSAK

W. A. Rudlin *WR*

Enclosure

Cable from SCAP

REC'D
Serial <u>19</u>
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Cat <u> </u>

W:WARudlin:mwc

RESTRICTED

894.60/11-848
39

O Files

November 4, 1948

TO: Mr. Saltzman
Mr. Wilds
Mr. Rudlin

Subject: Report of Deconcentration Review Board
in Japan.

Dr. Reed of Mr. Draper's office just called me to say that following the discussion in your office which Dr. Reed attended he requested Mr. Draper to send a cable to General MacArthur in the sense of the request made by the State Department people for information concerning the activities of the Deconcentration Review Board. Dr. Reed says that Mr. Draper did send a personal cable to General MacArthur, asking for a report on the activities of the Board to date and that he make certain that the Board keep adequate records for all purposes. Dr. Reed says that Mr. Draper was not willing to make an inquiry as to how long it would take the Board to complete its work for fear that this would result in giving the impression that we were anxious for the Board to hasten its work!

Dr. Reed says that a four-page cable report has just been received regarding the first four months of activity of the Deconcentration Review Board. He will have copies reproduced and send to us by tomorrow.

I had not known that Mr. Draper was sending a cable of this kind. If we have not received a copy of it I believe we should ask for it to make sure that it has made all the points that we feel should be made to General MacArthur now.

P. P. Claxton, Jr.

O:PPClaxton:br

FW 894660/11-848
3627

STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

file

TO : O - Mr. Saltzman *seen*

DATE: 11/12/48

FROM : O - P. P. Claxton

SUBJECT: Cable from Mr. Draper to General MacArthur regarding the Deconcentration Review Board.

FW 894.60/11-848

CSAK

Use Document only by reference to the FM/R Control

As I believe I have informed you following the meeting in your office attended by Dr. Reed at which the Deconcentration Review Board was discussed, Dr. Reed, pursuant to his understanding that the State Department wanted certain information concerning the terms of reference and activities of the Deconcentration Review Board, proposed a cable from Draper to MacArthur. Dr. Reed informs me that Draper sent only a portion of that cable and as a result the Review Board sent a brief summary of its activities which has been made available to us by Army.

As you will recall, State drafted a letter to Army, asking that a cable be sent to obtain all of the information we desired. We suspended action on this matter pending an effort to get a copy of the cable which Draper had sent MacArthur. Mr. Hulick has endeavored to get a copy from Col. Lynch and I have tried to get a copy from Major Miller and Dr. Reed, the latter two telling me that the matter is very hush, hush, that no copies were made of the outgoing cable and that they could not provide me with a copy. I have asked them to inquire of Mr. Draper if he will or will not make a copy available and inform me. Since he was out of town Dr. Reed inquired of Col. Lincoln who said a copy could not be made available. I think there is nothing more I can do on this and recommend that you take the matter up with Mr. Draper.

Since this is not the first occasion on which Army has treated this and other matters as subject for private discussion with SCAP, it might be desirable to take the opportunity to have a complete understanding that matters of this kind are of interest to the Government and not just the Army. If you need citations of examples I am sure we can accumulate a number.

cc--Mr. Hulick

O:PPClaxton:br

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1948
CAI

FW 894.60/11-848

DEPARTMENT OF STATE

ASSISTANT SECRETARY

12/22

Mr. Hutchins -

As you will see
from my memo to CES,
I couldn't get this from
Arapis, Jim + have
asked CES to approach
Arapis.

VZ

FW 894,60 / 11-8481

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44 Files.

Nov. 26, 1948

MEMORANDUM FOR: The Honorable Charles Sawyer
Secretary of Commerce

Subject: Disposition of U. S. Share of Japanese Reparations

With reference to our recent conversation, I find upon checking that the Department of Commerce was consulted fully in the decision not to offer Japanese reparations equipment to the U. S. public.

Between November 1946, and March 1947, consultations were had with the staff of Mr. Blaisdell, in particular with Mr. Tollin, regarding the disposition of the U. S. share. The Department of Commerce indicated that in view of the probable categories and condition of Japanese industrial facilities which might become available as reparations, and of the relatively small amount of interest being shown by private industry in German industrial facilities, it was unwise to institute a procedure in the Department of Commerce such as exists for Germany for publicizing available facilities to the U. S. public so that claims might be made. The Department of Commerce was of the opinion that the cost of administering and publicizing Japanese industrial facilities to the public would be greater than any return that could be expected through sale to private concerns.

With this background, it was recommended to Under Secretary Clayton that the U. S. waive claim to Japanese industrial assets which might be otherwise available for disposition to U. S. private interest retaining only an agreed minimum for governmental agencies having specific needs, provided that the waiver of claims should not be made in advance of acceptance of the percentage shares for distribution among all countries claiming Japanese reparations. This recommendation was approved by Mr. Clayton on April 4, 1947, and has remained the basis of State Department policy in this matter.

So far as I know, the possibility that Japanese industrial equipment made available as reparation might be offered in the U. S. as scrap has not been discussed. As you may know, this possibility did arise in connection with the distribution of German industrial equipment as reparations. We have recently decided, notwithstanding the strong interest in scrap in the U. S., that we cannot defend a policy of acquiring as scrap industrial equipment dismantled and removed from Germany, and are doing our best to stop any other countries from engaging in the practice. We think the same considerations apply in Japan, and that any facilities which cannot be put to productive use after removal should remain in Japan.

866-2/8509

894.60/11-2448

A true copy of the signed original.
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As contemplated in Mr. Clayton's decision of April 1947, the redistribution of a substantial part of the share which the U. S. might be entitled to is an important factor in our efforts to obtain international agreement on the percentage shares for industrial equipment to be distributed as reparations from Japan. A U. S. proposal on this was made some months ago, and present indications are that with the contemplated redistribution of a portion of the U. S. share substantial agreement could now be reached. We expect to seek such agreement soon in putting forth a new and definitive proposal for the resolution of the entire reparations question. This proposal will be accepted only with great reluctance by many of the interested countries, because the amount of equipment realized under it is considerably less than previously envisaged. The proposed redistribution of a portion of the U. S. share is believed to be a necessary element if the total U. S. position is to have substantial international acceptance.

Charles E. Saltzman
Assistant Secretary

UK
O:NHemmendinger/ikb
11/24/48

EP
Smith

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DEPARTMENT OF STATE

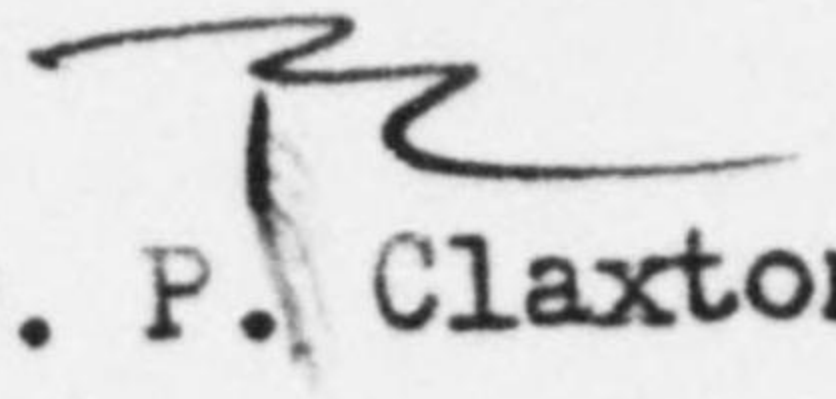
ASSISTANT SECRETARY

November 23, 1948

O - Mr. Saltzman

Subject: Your request for information on clearance with Dept. of Commerce regarding proposal to give U. S. percentage points to other FEC countries receiving reparations.

This is an interim report. A full memorandum on this matter has been prepared in E but has not yet cleared through Nitze's office. I have been informed orally that the matter was fully discussed by our economics people with the appropriate officers of the Department of Commerce, including Mr. Blaisdell. These Commerce officers have a very clear recollection of the discussions and will brief Mr. Sawyer. I am told that Mr. Blaisdell feels even more strongly now than he did previously that our policy is the correct one.


P. P. Claxton

cc: Mr. Hulick

STANDARD FORM NO. 64

CONFIDENTIAL

Office Memorandum • UNITED STATES GOVERNMENT

TO : *Saltzman*
② - Mr. Nitze

DATE: November 22, 1948

FROM : EP - R. B. Smith *RBS*SUBJECT: Disposition of U.S. Share of Japanese Reparations.

The attached memorandum and excerpts from correspondence with the Department of Commerce summarizes discussions between the Department of State and the Department of Commerce regarding disposition of U.S. share of Japanese reparations. I understand that Mr. Sawyer raised the question of this clearance with ~~you~~ and Mr. Saltzman at a recent meeting on Japanese shipping and ship building.

DEPARTMENT OF STATE

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ASSISTANT SECRETARY
FOR OCCUPIED AREAS*you*
OFD:EP:RBSmith:mck
11/22/48

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STANDARD FORM NO. 64

CONFIDENTIAL

Office Memorandum • UNITED STATES GOVERNMENT

TO : Mr. Nitze - E.

DATE: 11/19/48

FROM : R. B. Smith - EP *RB*SUBJECT: Disposition of U.S. Share of Japanese Reparations

Between November 1946 and March 1947 the Department of State consulted with the staff of Mr. Blaisdell, particularly Mr. Tollin, regarding the disposition of the United States share of Japanese reparations. The Department of State queried the Department of Commerce on the expected desire of private American industrial interests for Japanese industrial equipment which might become available as reparations and as to the desirability of establishing in the Department of Commerce a procedure for publicizing available industrial facilities to the general public for subsequent claim. The Department of State was advised by the Department of Commerce that, in view of the probable categories and condition of Japanese industrial facilities which it was expected might become available as reparations, and further, in view of the relatively small amount of interest being shown by private industries in German industrial facilities, it was unwise to consider instituting a similar procedure for Japanese reparations. It was the opinion of the Department of Commerce that the cost of administering and publicizing Japanese industrial facilities to the public would be greater than any return that could be expected through sale to private concerns.

On the basis of this advice, the Department of State recommended to Mr. Clayton that no claims for Japanese reparations from industrial facilities should be considered from private American sources. Mr. Clayton approved this recommendation as indicated on the attached memorandum.

18855

E- Mr. Thorp
Assistant Secretary
for Economic Affairs

NOV 19 1948

Department of State

Attachments:

~~XXXXXXXXXX~~ Memo, Martin to Thorp, Feb. 26, 1947.
Excerpt from letter, Blaisdell to Thorp, June 21, 1947.

CONFIDENTIAL

268-
OFD:EP:RBSmith:mcm
11/19/48

RB
OFD

RM
EP
Martin

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STANDARD FORM NO. 64

C O P Y C O N F I D E N T I A L

Office Memorandum • UNITED STATES GOVERNMENT

TO : A-T - Mr. Thorp

DATE: February 26, 1947

FROM : ESP - Mr. Martin, Acting Director

SUBJECT: Waiver of U.S. Share in German and Japanese Industrial Assets Available as Reparations.

The attached study requested by Mr. Clayton is submitted for your approval. If you approve, it is our intention to discuss the recommendations, particularly those in regard to Japan, with other affected government agencies. We hope to get from the Department of Commerce some expression of the possible reaction by American businessmen to the proposal that no Japanese industrial assets be made available for disposition to private U.S. nationals.

The following recommendations are made:

German Industrial Assets. Recommended that no action be taken at this time formally to reduce or renounce the U.S. quota for Category B. assets. Recommended that a formal statement of present U.S. policy be prepared and issued indicating that the U.S. will not claim Category B assets except in specific categories.

Japanese Industrial Assets. Recommended that the U.S. waive its claim to Japanese industrial assets otherwise available for disposition to U.S. private nationals (other than an agreed minimum for government agencies having specific needs) provided control is exercised over the disposition of the released claims and provided that the U.S. makes no advance waiver of claim prior to securing agreement to acceptance of the percentage distribution among claimants of Japanese industrial reparations assets, as recommended by the U.S.

Approval on the above recommendations has been obtained from GA, JK, JA, ESP and A-H.

(Initialed by W.L. Clayton)

OK - W.L.C.

4/4/47

JK:RHFisher:el

C O N F I D E N T I A L

STANDARD FORM NO. 64

0 - Files
Office Memorandum • UNITED STATES GOVERNMENT

TO : O - Mr. Scherer

DATE: Nov 23, 1948

FROM : EP - W. K. Miller *WKM*

SUBJECT: Discrepancy Regarding ACA plant No. 1602

Reference is made regarding paragraph 5 of telegram no. 4938 of November 19, 1948 from London in which it is stated that the UK is interested in ACA plant no. 1602. In this connection you might wish to point out to ECA that ACA plants nos. 1602 and 1488 are parts of plant B/S 63. Plant no. 1488 is a part plant comprising four electric arc furnaces, and plant no. 1602 is a part plant comprising one arc plate mill. Both plants have the same location as listed on page 3 of the ECA Reparations List.

ASSISTANT SECRETARY
FOR OCCUPIED AREAS
NOV 24 AM 10 09
DEPARTMENT OF STATE

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No action required
WKM

OFD:EP:WRGilchrist:hw

CONFIDENTIAL

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STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENTSECRET

TO : NA - Mr. Allison

DATE: August 6, 1948

FROM : NA - R. Fearey *RF*

SUBJECT: Comment on Attached Draft Cable

You will note that SCAP proposes in his wire (Part I, para C) that if two or more nations offer to purchase an item which is of divisible nature (e.g. a lot of unidentified ivory), sale should be made on the basis of the schedule of reparations shares proposed by the US last November. EP considers, correctly I think, that this would require amendment of the statement in the recent FEC policy decision on restitution that the seven nations should be permitted to purchase "up to but not exceeding their recognized national percentage shares." EP then suggests that conflicting offers be referred to the Restitution Advisory Committee "with expectation that discussion will result in agreement on percentage priority to be applied only to specific property under consideration."

While this would probably be a better procedure than attempting to revise the FEC decision on restitution, it seems subject to two possible disadvantages: (1) nations might be unwilling to agree on the respective shares because of fear by each that if it accepted a share smaller than that which it has been attempting to get in the FEC on reparations it might prejudice its position on the shares issue in the FEC; and (2) it might turn out to be a time consuming method.

As you know FE, at least, hopes, through governmental discussions and/or an interim directive, to arrive at a solution of the reparations shares issue and other aspects of the reparations problem during the coming month. In view of that fact it would seem wisest to advise SCAP to go ahead and dispose of the types of cases described in paragraphs "A" and "B" of his wire in the manner he proposes, but in view of the hoped for discussion on *decision* the reparations shares issue to defer allocation of the class of items described in his paragraph "C". If EP should not agree that a solution of the shares issue is as near as we hope, we might defer answering SCAP until we know better, possibly during the coming week.

Please detach FEC-011/51 from the file before sending it on, as it is from our files. - *returned to NA - 9/3/48*

SECRET

NA:RAFearey/pm

1364

copy

February 12, 1948

To: A-S - Mr. Saltzman

From: A-S - Mr. Wasner

Subject: German Reparation and Dismantling.

In briefing the Secretary for the Cabinet meeting of Friday February 13, it is believed that you should request him to make a final effort to obtain Cabinet decision generally in accordance with the recommendations which he submitted to the Cabinet on January 15 (see copy annexed).

The first recommendation of the list should be developed at the Cabinet meeting to obtain Cabinet approval for the Secretary to make an effort (through the State Department representatives who will attend the forthcoming London meeting) to obtain British and French agreement to the suspension of uncompensated deliveries to the Soviet Union; and that failing such agreement the entire matter be reviewed again with the Cabinet and Congressional leaders. In the interim the situation would remain as at present, viz. no new allocations are being made and the only deliveries which are being made to the USSR (and Poland) are the remnants of the three plants delivery of which is almost completed.

Also attached is a memorandum, copies of which have been delivered to the President and the other ^{Cabinet} members (along with a copy of the Secretary's letter to Senator Vandenberg of February 4, and the memorandum which it enclosed). The purpose of this memorandum is to make clear the gravity of unilateral action on the part of the US and the danger of action on our part which would place upon the British and French the onus for failure to achieve tripartite agreement on deliveries.

004/3289

January 29, 1948

U - Mr. Lovett

Subject: Reparations and Dismantling Program.

Referring to our conversation of yesterday, we have had a conversation with Mr. Francis Wilcox concerning the further requirements of Senator Vandenberg and the Foreign Relations Committee for statements or information with regard to the reparations and dismantling program in Germany. Mr. Wilcox has stated that the record covering the presentation of the Administration's case on ERP has been sent to the printers, and that he believes Senator Vandenberg has no intention of requesting any further specific statements or information from us in connection with this phase of the hearings. Mr. Wilcox further stated that if we feel it desirable to make a further statement on the subject of reparations or dismantling, there will no doubt be an opportunity for us to do so during the course of executive sessions in the near future. Moreover, the general subject of reparations and dismantling is certain to receive a considerable amount of attention during the coming debate on the floor of the Senate, and it would therefore be desirable for us to present to Senator Vandenberg any further material which we might wish to make available to him and which he and other favorably disposed Senators might make use of to buttress their arguments.

In the light of the foregoing, I am having prepared a memorandum which would be suitable for use by any State Department witness who may be called upon to testify during the executive sessions. I am also having prepared a memorandum which would be suitable for use by Senator Vandenberg or others in the coming Senate debate. Within the next two days this latter memorandum will be completed, and I shall submit to you a letter of transmittal to Senator Vandenberg for the Secretary's signature. In this letter of transmittal, reference will be made to the fact that copies of the State-Army replies to the questions in the Case Resolution have

been

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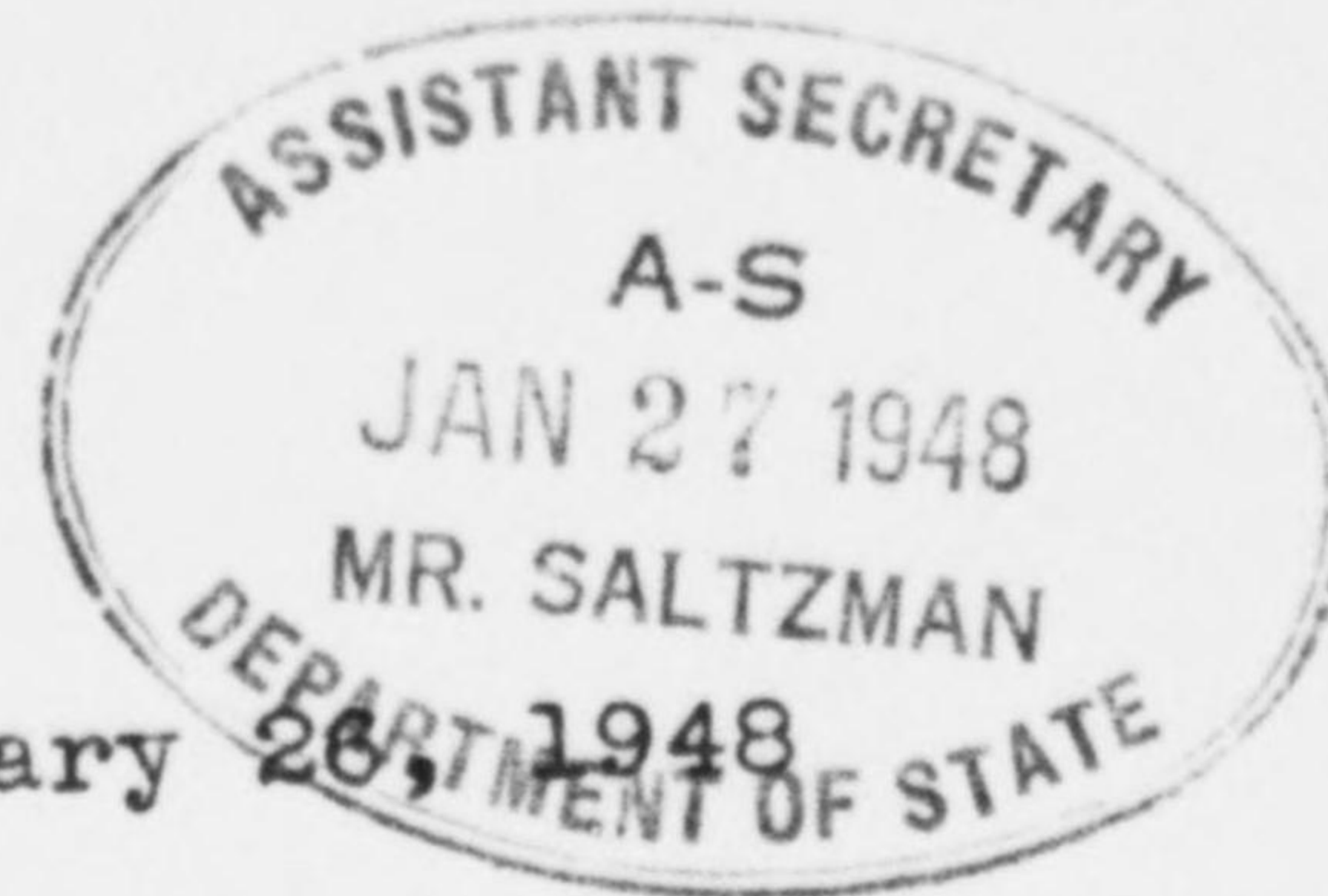
-2-

been furnished to Senator Vandenberg, and that we are still expecting additional information from the British regarding the status of the dismantling program in their portion of the bi-zonal area. I should like to have your views as to whether copies of this memorandum should also be sent to the Chairmen of the Senate Appropriations Committee and the House Foreign Affairs and Appropriations Committees. All of these committees have heretofore evidenced keen interest in the reparations and dismantling program, and General Clay testified extensively before them when he was here most recently.

Charles E. Saltzman

A-S:FGWisner:asm
1/29/48

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THE UNDER SECRETARY

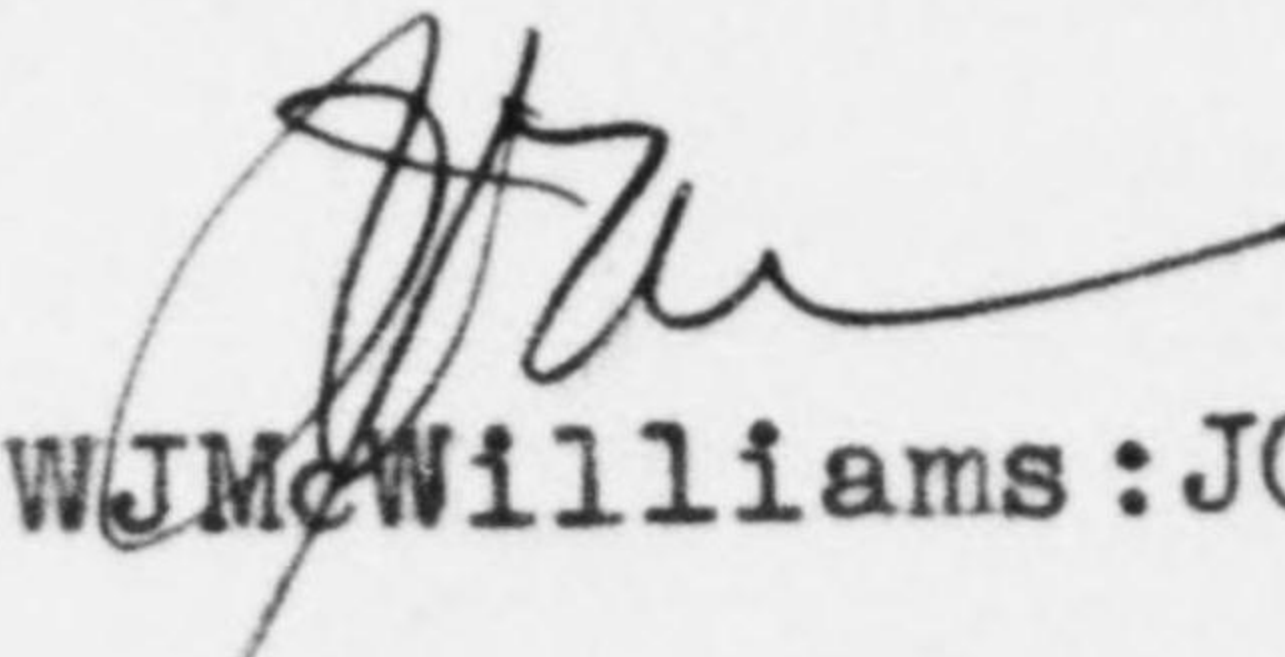


January 26, 1948

A-S - Mr. Saltzman

The following excerpt from the Acting Secretary's notes on the Cabinet meeting on Friday, January 23, is quoted for your information:

I referred again to the matter of dismantling of the plants for reparations, which was not completed at the previous meeting. Secretary Royall and I recommended the approval of the general outline for procedure covered in the memorandum of January 15. Secretaries Harriman and Krug opposed any dismantling whatsoever on grounds that appeared to be almost identical with those expressed in the Congressional questioning of Secretary Royall and which contained numerous inaccuracies in information. Secretary Royall carried the brunt of the discussion, which was thrown over to next week because of the shortage of time. I emphasized particularly that the matter should be taken up promptly with the Senate Foreign Relations Committee and there was general agreement that this should be done.


S/S:WJMcWilliams:JGC

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INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

DIVISION OF
NORTHEAST ASIAN AFFAIRS

DEC 27 1948

DEPARTMENT OF STATE

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SEA	<i>/</i>
AFRICA	<i>/</i>
EUROPE	<i>/</i>
AMERICA	<i>/</i>
UNASSIGNED	<i>/</i>

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AIRGRAM

4569

From: Moscow
 Date: December 13, 1948
 Disp: December 15, 1948
 Rcvd: Dec. 24, 1948 10:03a.m

DC/R Central Files

894.60/12-1348

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The Secretary of State
Washington, D. C.

A-1237, dated December 13, 1948.

The Soviet press on December 11, 1948 carried a quarter column Washington TASS despatch reviewing the debates in the Far Eastern Commission during the past two months concerning the Soviet proposal on the level of Japanese industry and reporting the adverse vote against this proposal at the Commission's meeting on December 9. The despatch then quoted Soviet Ambassador Panyushkin's speech in which he stated that world opinion would know how to evaluate properly the position taken by the powers voting against the Soviet proposal, which was made in the interests of all peace-loving peoples and was in accordance with the national requirements of Japan.

S. ITH

..HStressel:mcs

To Department in hectograph.
Copy to Tokyo

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PERMANENT RECORD COPY.—This copy must be returned to DC/R central files with notation of action taken.

De/R

RESTRICTED

January 26, 1949

MEMORANDUM FOR THE UNITED STATES MEMBER, FAR EASTERN COMMISSION

Subject: Statement regarding Level of Economic Life
In Japan Policy Toward Japanese Industry,
FEC-242 Series.

You are authorized to make a statement on this subject
substantially as follows at the next meeting of the Far Eastern
Commission:

In compliance with the request of the United
Kingdom representative that I convey to my Government
the expression of anxiety that the views of the United
States Government should be placed before the Commis-
sion in a reasonably short time, I have called to the
attention of my Government the statement of the UK
representative as set forth in the verbatim minutes of
the 137 meeting of the FEC and the fact that a number
of representatives of other member governments associated
themselves with the views he expressed.

My Government has asked me to state that the views of
these members of the Commission have been noted by my
Government, and that this matter continues to receive its
most urgent attention. I am confident that my Government's
views will be presented at the earliest possible moment,
but it may be some additional time before this can be done.

894.60/1-2649

CS/E

*Cleared in telephone by
Remondinger with Barnett - OFD
and by Claxton with Bishop - Ha
Informed Reid, OUSA*

(Agd)
Charles E. Saltzman
Assistant Secretary

DCR, ITP Unit

RESTRICTED *AB*

Anal. _____ *SH*

Adv. _____ *ms*

Dist. _____

0: PP Claxton: *dr*

A true copy of
the signed orig-
inal. *Br*

894.60/1-2649
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INCOMING AIRGRAM

DEPARTMENT OF STATE

DIVISION OF COMMUNICATIONS AND RECORDS

TELEGRAPH BRANCH

INTERNATIONAL RESOURCES DIVISION
POLICY

MAR 7 - 1949

945

UNCLASSIFIED

1949 MAR

DEPARTMENT OF STATE

FROM LONDON

DATE MARCH 2, 1949

REC'D March 5, 1949 2:35

pm

Date of Mailing: unknown

Secretary of State
Washington

MESSAGE CENTER

401

Subject: Japanese Competition

FOR STATE, COMMERCE, AGRICULTURE, TREASURY & IRL

There are quoted below a question and written answer in the House of Commons as reported in Hansard of February 22, 1949:

"Mr. Erroll (Conservative) asked the President of the Board of Trade if he will now make a statement on the growth of Japanese competition and the steps being taken to meet it.

"Mr. J. Edwards (Parliamentary Secretary, Board of Trade): We are fully aware of the seriousness of Japanese competition as a long-term problem, and, as my right hon. Friend has stated in answer to recent questions on this subject, the whole matter is at present being examined and consultation with industries has begun. The threat is potential rather than actual, since overall Japanese production is still only about half pre-war and exports are only just over a quarter. We shall take every possible step, by representations to the Occupation Authorities and otherwise, to prevent a recurrence of the sort of unfair practice familiar before the war, and wherever possible we shall support measures to raise the standard of living of the Japanese workers and thus avoid low price competition based on cheap labor."

894.60/3-249

3/7/49
DEPARTMENT OF STATE
LIAISON OFFICE

DIVISION OF COMMERCIAL POLICY
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MAR 9 1949
DEPARTMENT OF STATE

DOUGLAS

FPBartlett/naw

cc: Tokyo

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MAR 21 1949

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As far as the textile machinery prices were concerned, Mr. McCornick had no specific price information, but he recited SCAP's policy against underselling in world markets, and of placing "floor prices" below which Japanese private dealers were not permitted to sell. It was recalled that a representative of the industry had gone to Japan to make textile machinery price schedules known to SCAP, and Mr. McCornick felt that the results of that visit would soon become evident in SCAP's pricing of competitive machinery. Concerning Mr. Pickelle's accompanying the trade mission to South America, Mr. McCornick expressed surprise that the industry resented the presence of an American. If it was felt that the Japanese had a tendency to undersell, it would be far safer to have a responsible member of SCAP on hand to see that SCAP's pricing policies were strictly observed. It was a misconception to feel that Pickelle's presence would give U.S. Government sponsorship to "underselling". Mr. Mason did not give the impression that he would press for removal of Mr. Pickelle from the mission. He did not mention his source, but he stated that he had been indirectly assured by Mr. Pickelle that no textile machinery would be offered for sale on the mission. Mr. McCornick said he could not understand such an assurance unless no machinery was available, and that he did not know what commodities SCAP would have to sell to South America.

Mr. Mason presented Mr. McCornick with a letter from the president of his firm (attached) and stated that representatives of the Draper Corporation mentioned therein would soon be in Washington, and perhaps they might at that time have a talk with Mr. Martin.

WJ *44*
ITP:CP:WSMcCornick:lhj
March 23, 1949

DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

DEPARTMENT OF STATE OFFICE OF EUROPEAN AFFAIRS INCOMING TELEGRAM MESSAGE CENTER

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MAY 2 8 33 AM 1949

Code Report 11037 STATE

Rec'd April 30, 1949
9:02 a.m.

FROM: Moscow
TO: Secretary of State
NO: 1103, April 30.

Soviet press April 30 publishes Tass Peiping report attributed Sinhua accusing US perfecting plans for rehabilitation Japanese war industry. Says Hoffman mission last December presented plan whereby Japanese steel production 1955 to be much greater than wartime production. Not waiting FEC decision MacArthur unilaterally demanded dismissal Reparations Committee Japan.

Sent Department 1103, repeated Tokyo 22.

KOHLER

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MAY 12 1949

PERMANENT RECORD COPY: THIS COPY MUST BE RETURNED TO DC/R CENTRAL FILES WITH NOTATION OF ACTION TAKEN.

INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

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2739

AIRGRAM

FROM: USPOLAD, Tokyo

Date of Mailing: May 10, 1949

Date Rec'd: May 13, 1949 9:38 a.m.

UNCLASSIFIED

Secretary of State,
Washington.

A-108, May 6, 1949.

Following item entitled "Industrial Index a New High for March" issued May 5, 1949, by Public Information Office, General Headquarters, Far East Command, Tokyo:

Japan's industrial production index has reached an all-high of 68.8 percent of 1930-34 industrial levels, allowed by the Far Eastern Commission, on the basis of preliminary index reports for March released today by SCAP's Research and Programs Division.

The figure, which covers coal mining, textile manufacturing, and activities in such key industries as metals, chemicals, building materials, and foodstuffs, is up 4.1 percent over February, the previous high.

The index, after electric generation and manufactured gas are also included, is 75.4 percent, up 5.2 percent from February.

Highlighting the Economic and Scientific Section report is the 96.6 percent achieved in the various manufacturing industries, itself up 5.4 percent from the previous peak last December.

Under the manufacturing classification, gains and new peaks were recorded in ferrous metals, now at 93.9 percent, up 5.2 percent; non-ferrous metals, 118.9 percent, up to 10.8 percent; chemicals, 100.5 percent, up 12.4 percent; building materials, 137.5 percent, up 1.3 percent; Foodstuffs, 68.5 percent, up 2.1 percent; other industries, 76.9 percent, up 3.3 percent; and textiles, 27.1 percent, up .9 percent.

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Tokyo's A-108,
May 6, 1949.

- 2 -

Mining gained 14.8 percent, a new post-war peak of 123.6 percent. March coal production of 3,652,300 metric tons, the most mined in one month since the Occupation, was responsible for the increase. New postwar records for individual coal production, now 7.9 metric tons per worker and 13.9 metric tons per underground worker, also were established in March.

In textiles, a record output of raw silk, 14,604 bales in March as compared with 12,984 bales in February, and rayon fabrics were largely responsible for increasing the textile index.

The metal groups in March equaled the levels of the 1930-34 average. Notable were the record production of 106,664 metric tons of pig iron and 221,590 metric tons of crude steel. Output of crude steel during March was 148 percent of the goal for the month.

The index for the chemical group also matched the 1930-34 level, and increases were recorded for soda ash, sulphuric acid, rubber goods and rayon.

The one disharmonious note was in the machinery group, which for the first time in 16 months failed to attain a production increase. Steep drops in output of bicycles and railway rolling stock brought about the decline.

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UNCLASSIFIED

*Handed to Mr. Allison
by Mr. Straus 5-6-49
British Embassy*

file

Oral Communication

Policy regarding Japanese Industry

The Foreign Office desire the State Department to be informed once again of the concern which they feel at the lack of a statement in the Far Eastern Commission of the United States Government's policy.

It will be recalled that the proposals contained in FEC-242/32 have remained in the Commission for about a year, during which time the United States delegation has been without instructions in regard to them, and unable to participate in the discussion thereof.

On 10th September, 1948, the United States representative in the Commission, General McCoy, stated that he had been directed by the United States Government to inform the Commission that the paper on the Level of Economic Life in Japan had been receiving most intensive consideration by the United States Government and that the subject of the paper was a matter of basic importance to the successful objectives of the occupation in Japan. General McCoy stated also that the United States Government was nevertheless not prepared at that time to state its view on FEC-232/32 or on the related paper or Policy towards Japanese Shipbuilding and Shipping, but that the United States Government wished to inform its colleagues on the Commission that it would endeavour to present its views on these matters as soon as possible.

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In view of the considerable lapse of time since the statement referred to above, it is hoped that some progress can soon be made. It is felt that to keep even those countries with which the United States Government has the closest relations without information about its intentions cannot but have an undesirable effect.

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Anal.	<i>SS</i>
Rev.	6th May, 1949.
Cat.	<i>M</i>
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CONFIDENTIAL

DEPARTMENT OF STATE

Memorandum of Conversation

FE
NA
DCR
file

DATE: May 6, 1949

SUBJECT: Policy Regarding Japanese Industry

PARTICIPANTS: Mr. H. A. Graves, Counselor, British Embassy
Mr. John M. Allison, FE

COPIES TO: FE
NA
FEC - General McCoy

1-1498

While calling on me on another matter Mr. Graves brought up the long-standing subject of the level of economic life in Japan and left with me the attached oral communication from the British Government regarding its concern at the lack of a statement in the Far Eastern Commission of the United States Government's policy on the level of Japanese industry. Mr. Graves was informed that the United States Government appreciated the deep concern of the other members of the Far Eastern Commission with the problem of the future of Japanese industry and the hope was expressed that within a short time it would be possible for this Government to acquaint the British Government and other friendly Governments represented on the Far Eastern Commission with the considered viewpoint of the United States Government on matters affecting Japanese industry. It was again pointed out to Mr. Graves that in the opinion of the United States Government the problem of level of industry in Japan is closely connected with the reparations problem and that the delay in reaching a final U.S. Government position on this matter was due to the great complexities of the reparations problem. Mr. Graves expressed the hope that when the U.S. Government was in a position to discuss this problem either alone or in connection with reparations with the other FEC Governments concerned, that the various Ambassadors would be invited in person to discuss the matter.

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Rev.	<i>ls</i>
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205116

Mr. Graves

OCT 18 1949

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Mr. Graves was informed that while no final decision had yet been made, either as to substance or procedure, it was probable that because of the importance of the matter it would be the Ambassadors themselves who would be invited to come to the Department for the contemplated discussions.

JM
FE:JMallison:mls

CONFIDENTIAL

INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

AIRGRAM

2601

FROM: USPOLAD, Tokyo

Date of mailing: June 10, 1949.

Rec'd: June 15, 1949 10:45 a.m.

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ACTION: DC/L
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Secretary of State,
Washington.
A-141, June 9, 1949.

Reference made to this Mission's A-108, May 6, 1949, transmitting copy of press release issued by the Public Information Office, General Headquarters, Far East Command, Tokyo, regarding Japanese industrial production indexes for March 1949. Given herewith is copy of supplementary press release issued June 5, 1949, by the same office and entitled "April Industrial Index 71.6, a Prewar High":

Industrial production in Japan for April was 71.6 percent of the 1930-34 level, a new postwar high, according to preliminary figures reported today by the Research and Programs Division of the Economic and Scientific Section.

It was an increase of 2.8 points over the March preliminary figure of 68.8 percent which later was revised to 71.5, both of which were new postwar highs. BSS officials pointed out that final revision of the April indexes may possibly be higher also, following the March trend.

Categories in which production during April exceeded the 1930-34 mark included: Mining, 118.1 percent; coal mining, 125.5; metals, 106.8; ferrous metals 105.6; non-ferrous metals, 127; machinery, 110.7; chemicals, 109.3; and building materials, 138.7.

The overall index of manufacturing moved forward again in April to another postwar record of 64.5, a gain of 1.8 points over March, with all major manufacturing groups and industries, in general, contributing to the rise.

In the textile group slight increases in production of cotton yarn, wool yarn, wool fabrics, and rayon fabrics were recorded. However, these were offset by declines in production of raw silk, spun silk yarn, and cotton fabrics.

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TOKYO'S A-141,
June 9, 1949.

- 2 -

The metal group continued its steady advance and reached 106.8 percent of 1930-34 level, an increase of 1.3 points over the previous month. Pig iron production again advanced 4.3 points to 109.2. However, April production of steel ingot remained at about the same level as March.

Refined lead during April showed an exceptionally high rate of production, an increase of 33.1 points. Output of refined zinc was also very favorable.

Favored by availability of materials, the machinery group moved forward again and reached 110.7 percent of the 1930-34 level, an increase of 6.7 points. Increase in production of railway rolling stock was most notable.

The chemical industries, in general, recorded an increase from 102.6 percent in March to 109.3 in April. Very favorable showings in production were made in sulphuric acid, ammonium sulphate, calcium cyanamide, paper and rayon.

Postwar record production of 254,656 metric tons of cement, reflecting increasing availability of fuels, boosted the index of building materials to 138.7, up 1.3 points over March.

The food, beverage and tobacco industries lost some ground during April. The group index dropped 3.1 points to 65.4.

Mining activity in April dropped 9.6 points to 118.1 percent of 1930-34 level, due to decreased output in both coal and other mining. The coal index declined from 137.5 percent in March to 125.5 in April. Output of 3,261,000 metric tons of coal during April, however, was 99.4 percent of the planned goal for the same period.

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STANDARD FORM NO. 64

TOP SECRET

Lewis

Office Memorandum • UNITED STATES GOVERNMENT

TO : GA - Mr. Lewis
FROM : NA - Mr. Moseley *NHM*
SUBJECT: Japanese Level-of-Industry

DATE: June 14, 1949

add files

Will you please see that the attention of the appropriate people in GA is called to the material in the attached documents which set forth the Department's views with respect to Japanese level-of-industry and alsowith respect to Japanese shipping and shipbuilding.

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FE - Mr. Butterworth

June 13, 1949

NA - Mr. Bishop

Japanese Level-of-Industry

Attached at Tab A is a proposed letter from the Acting Secretary to Secretary Johnson requesting the National Military Establishment's views on the question of whether certain industries not armament industries but nevertheless of major value for war, notably the aircraft manufacturing and shipping and shipbuilding industries, should be restricted in Japan for security reasons during the post-occupation period. This information is for use in formulating the new U.S. level-of-industry proposals for the occupation period promised the FEC countries in General McCoy's statement of May 12 on Japanese reparations and level-of-industry, so that these proposals may accord with United States long-range thinking on the question. The letter has been cleared by EP, OFD, TRC and E.

Attached at Tab B is a copy of a letter from you to Mr. West setting forth this Department's views on the Conclusions and Recommendation of the initial staff study on Japanese shipping and shipbuilding forwarded with his letter to you of May 4. Mr. West's letter is attached, with your interim reply of May 19, at Tab C. The reply at Tab B has also been cleared with EP, OFD, TRC and E. NA is holding the original of the reply until the letter from the Acting Secretary to Secretary Johnson, copy of which is to be enclosed with the letter to Mr. West, has gone out, when the original will be sent forward with enclosure for your signature.

We have relied upon E and TRC to consider the relationship of this matter to similar problems in Europe, and have therefore not felt it necessary at this stage to clear with GA or EUR. We shall, however, furnish copies to GA so that they may be kept informed.

It is recommended that you initial the memorandum and letter at Tab A and return the remainder of the file to NA for resubmission after the letter to Secretary Johnson has been sent.

SECRET

FE:NA:RAFearey:db

TOP SECRET

Through : The Acting Secretary
S/S
FE - Mr. Butterworth

June 13, 1949

Japanese Level of Industry

Attached for your signature is a letter to Secretary Johnson requesting the National Military Establishment's views on the question of whether certain industries not armament industries but nevertheless of major value for war, notably the aircraft manufacturing and shipping and shipbuilding industries, should be restricted in Japan for security reasons during the post-occupation period. The information is required for use in formulating new U.S. level-of-industry proposals for the occupation period promised the FEC countries in General McCoy's statement of May 12 on Japanese reparations and level-of-industry, so that these proposals may accord with United States long-range thinking on the question.

TOP SECRET

FE:NA:RAFearey:db

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In reply refer to
SA

TOP SECRET

My dear Mr. Secretary:

You will recall that paragraph 20 of NSC 13/3, "Recommendations With Respect to U.S. Policy Toward Japan", provides that "there should be no limitation on Japan's production for peaceful purposes or on levels of Japanese productive capacity in industries devoted to peaceful purposes". This policy position was announced to the Far Eastern Commission in the statement on Japanese reparations and level of industry read by General McCoy on May 12 and released to the press. It was further announced in the last paragraph of the statement that:

"The U.S. Government plans shortly to submit to the FEC for its consideration proposals for the rescission or amendment of existing and pending FEC reparations and 'level-of-industry' policy papers so as to bring FEC policies on these matters, should the proposals be approved by the Commission, into conformity with the position which I have set forth."

Pursuant to this paragraph the Department of State is currently formulating new proposals on the Japanese level-of-industry question for submission to the FEC. While the above-quoted provision from NSC 13/3 constitutes a clear statement of general policy, it nevertheless becomes necessary to determine whether certain industries, not armament industries but of major value in war, should be restricted in Japan for security

reasons

The Honorable
Louis A. Johnson,
Secretary of Defense.

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TOP SECRET

-2-

reasons. The aircraft manufacturing and shipping and shipbuilding industries should be considered in this connection, and there may be others.

Paragraph 19b of NSC 13/3 provides that "Japan's industrial disarmament should be limited to the prohibition of the manufacture of weapons of war and civil aircraft . . ." The last formal expression of opinion by any of the defense departments on the question of restriction of the Japanese merchant shipping and shipbuilding industries was contained in SASACC 236/36, "Reparations Removals of Merchant Shipping From Japan", submitted by the Department of the Navy in March, 1948. The Navy Department stated in this paper, contrary to a position which it had previously taken, that it considered that "the retention of all merchant ships now available to Japan, regardless of tonnage or speed, would not be inimical to the security interests of the United States or any other nation." The Navy Department did not, however, recommend change in the size and speed limitations on the construction of new ships for domestic use in Japan, and on total permitted shipbuilding capacity in Japan, which it had previously approved in SASACC 236/43, "Reparations Removals of Industrial Facilities and Merchant Shipping From Japan", April 7, 1947. By the terms of FSC 084/21, "Reduction of Japanese Industrial War Potential", existing FSC limitations (calculated on the basis of the FSC Interim Reparations Removals Decision on the Shipbuilding Industry of May 23, 1946) on total permitted capacity in Japan to build, repair or maintain steel ships of over 100 gross tons will lapse on October 1, 1949. There is no FSC decision limiting the size or speed of merchant ships which Japan may own or build during the occupation, or its capacity to build ships above a given size or speed.

It would be appreciated if you would advise me whether the National Military Establishment considers, in light of U.S. security requirements and our overall strategic planning for Japan, that restrictions should be imposed in the post-occupation period on any non-arms industries in Japan. Particularly, should restrictions be imposed on the aircraft manufacturing

industry,

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industry, or on the size and speed of individual merchant ships constructed by Japan for domestic use, or for export, or on the total volume of merchant ships above a designated size built or owned by Japan. If it is considered that restrictions will be required, I would appreciate learning what in the view of the National Military Establishment the restrictions, and corresponding capacity or other limitations, should be. Our proposals to the FPC, which would have effect, if adopted, only during the period of Allied occupation, will be formulated in light of your reply, so that they will accord with United States long-range thinking on this question.

Sincerely yours,

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6/10/49

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In reply refer to
BA

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Dear Bob:

Reference is made to your letter of May 4 enclosing an initial staff study prepared by the Department of the Army on Japanese shipping and shipbuilding, and to my interim reply of May 19. The Department of State has now completed consideration of the staff study and offers its views on the Conclusions and Recommendation therein as follows (the paragraph numbers refer to the corresponding paragraphs in the study):

Paragraph 23--The Department of State fully supports the principle that Japan should be permitted to revive its merchant marine as a normal and important feature of the Japanese economy.

Paragraph 24--FEC-218, "Reparations Removals of Industrial Facilities and Merchant Shipping From Japan", submitted to the FEC as a U.S. policy proposal on April 9, 1947, became Commission property with its submission and cannot be withdrawn by unilateral decision of the United States. The U.S. position on this and subsequent papers on the subject of reparations from Japanese merchant shipping has long been reserved, however, and in the statement read by General McCoy to the FEC on May 12 the United States announced its opposition to further industrial reparations of any kind from Japan.

You

Mr. Robert West,
Deputy to Assistant Secretary
of the Army,
Department of the Army.

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You will recall that in the concluding sentence of General McCoy's statement the United States announced intention shortly to submit to the FEC proposals for the rescission or amendment of existing and pending FEC reparations and level-of-industry policy papers so as to bring FEC policies on these matters into conformity with the new U.S. position that there should be no further industrial reparations and "no limitation on Japan's production for peaceful purposes or on levels of Japanese productive capacity in industries devoted to peaceful purposes". In preparing drafts of these proposals, which it is hoped will be ready for discussion with the Department of the Army at an early date, the Department has found itself without any recent or authoritative expression of opinion by the National Military Establishment as to what, if any, restrictions will be required for reasons of long-range security on Japanese non-arsenal industries, particularly the aircraft manufacturing and shipping and shipbuilding industries. The Acting Secretary of State has accordingly written to the Secretary of Defense requesting the National Military Establishment's views on this question. Copy of the Acting Secretary's letter is enclosed.

Paragraph 25--The Department of State agrees that SCAP should continue to solicit contracts for the construction of ships for export as an important source of foreign exchange. It cannot be definitely stated, however, that modification of our stand on this point may not be necessary if restriction or termination of this program is vigorously pressed by U.S. shipping and shipbuilding interests and by other nations. There is also the question of whether, if it is decided in light of the National Military Establishment's reply to the Acting Secretary's letter that size and speed restrictions on Japanese merchant ships are necessary for security reasons, these restrictions should not also be applied to the construction of ships for export.

Paragraph 26--It is agreed that ship construction for domestic account should be accelerated, with due consideration for the competing requirements of other

Japanese

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Japanese industries for scarce materials and foreign exchange resources. While there is at present no FEO or U.S. directive restricting the size or speed of ships which SCAP may authorize the Japanese to build for domestic use, it is understood that SCAP has nevertheless applied certain restrictions on his own authority. It is believed that SCAP should not be requested to abandon these restrictions at least until it has been decided within this Government whether restriction of Japanese merchant shipping and shipbuilding will be necessary for security reasons. Similarly, it is doubted whether SCAP should be advised to support legislation encouraging investment by Japanese entrepreneurs in the construction of merchant ships until U.S. policies have been further clarified.

Paragraph 27--The Department of State is of course in full sympathy with and supports the purpose of the Department of the Army to achieve economies in the cost of occupation operations, and to provide an added source of revenue for Japan. However, in view of the sentiment in the Congress with respect to chartering of U.S. owned vessels for foreign flag operation, and the strong opposition of the U.S. shipping industry and maritime labor to such a policy, the Department believes that it would be extremely unwise to propose at this time the elimination of the restrictive provisions of Public Law 423, which prohibits the sale or charter to foreign interests of U.S. owned, war-built vessels, so that such vessels could be chartered to Japan.

If the elimination of the restrictive provisions of Public Law 423 applicable to the sale and charter of U.S. owned vessels to foreign operators or governments were sought, the question of foreign charters with all of its implications, to which the Congress, the shipping industry, and maritime labor have been strongly opposed since the passage in 1946 of the Ship Sales Act, would be opened again. It will be recalled that a proposal to remove the restrictions as applied to Germany was almost unanimously rejected by Congress a year ago, and that Congress has shown itself most unsympathetic to similar proposals by ECA.

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If special legislation were sought to provide for the chartering of U.S. owned, war-built vessels to Japan, a consideration of major concern to the Department would arise out of the element of discrimination against maritime nations who fought with us in the war against Japan. The Department would be compelled to consider the implications of such a proposal in connection with the conduct of foreign relations with other countries. From this point of view, it would be difficult to justify chartering of United States Government-owned merchant vessels to Japan, while denying similar facilities to nations which fought on our side against Japan. This discrimination would be the more pointed in view of the fact that, in accordance with the statutory policy governing disposal of war-built vessels, Allied governments were required to purchase or to return the merchant vessels made available to them under Lend Lease authority.

Paragraph 28--There is at present no law or regulation prohibiting Japanese ships from calling at United States ports. There is some question however, whether American longshoremen would be willing to work Japanese vessels at the present time. As long as the law continues to require that U.S. aid shipments to Japan be carried in U.S. vessels if available, it would seem more to our long-run disadvantage than advantage to advise SCAP to permit Japanese ships to take over the relatively small carriage trade from Japan to the United States.

Paragraph 29--The Department of State will continue to afford the Supreme Commander all possible diplomatic assistance in Japanese shipping matters.

Paragraph 30--Although it is believed that the State and Army Departments should remain in close touch on this problem and wherever possible present an agreed point of view, the recommendation that a State-Army working group be formed to draft a policy paper on Japanese shipping and shipbuilding for submission to the National Security Council would seem to ignore the considerable

interest

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interest of the Maritime Commission in the matter, and would bring the Department of the Navy into the picture only at the NSC level. Since the views of domestic shipping and shipbuilding interests and maritime labor on the competitive aspects of this problem, and of the Navy on its security aspects, will have to be prominently considered in arriving at a final U.S. policy, it is believed that the Maritime Commission and the Navy should participate from the beginning in the preparation of the policy paper. An alternative plan, therefore, would be for State and Army to place the matter before the Shipping Coordinating Committee which was set up to consider problems of this type, on which the State, Army, Navy, Commerce and Treasury Departments and the Maritime Commission are represented at the sub-Cabinet level, and which has recently been reconstituted as an actively functioning and effective body. The Committee's normal procedure would be to set up an ad hoc working group on which all the member agencies would be represented.

I should like to emphasize that the Department of State fully appreciates the importance to Japanese self-support of the reconstruction of an adequate Japanese merchant marine, and desires to further this objective by all practicable means. Unfortunately the problem's importance is matched only by its complexity, and the greatest care, patience and attention to conflicting points of view will be necessary if the objective is to be attained.

The Department of the Army's views on the suggestion that the matter be referred to the Shipping Coordinating Committee, and on the other points advanced in this letter, would be appreciated.

Sincerely yours,

W. Walton Butterworth
Director for Far Eastern Affairs

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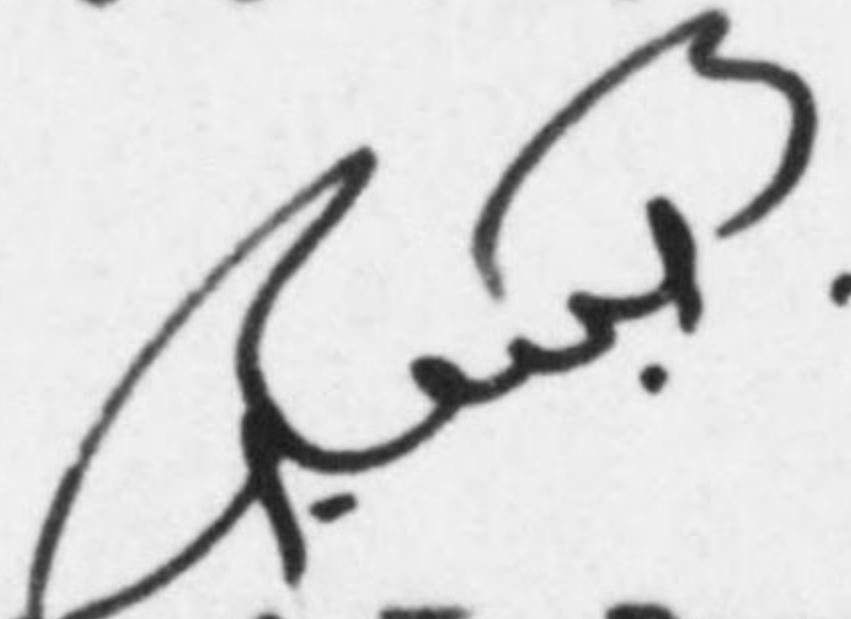
July 13, 1949

In reply refer to
OFD

My dear Colonel Hendricks:

At the 156th meeting of the FEC on 2 June 1949, the New Zealand representative requested the U.S. Government to provide certain information relating to primary war facilities and war supporting industries in Japan. In radio C 51214 (CM IN 12904) 5 July 1949, SCAP made available to us a compilation of the requested information. Concurrence of the Department of the Army is requested to submission of this information to the FEC, if possible at the meeting to be held on 21 July 1949, in tabular form similar to the Annex attached.

Sincerely yours,



Robert W. Barnett
Economic Adviser
Office of Financial and Development Policy

2 Enclosures:

1. Statement for U.S. Member of FEC.
2. Annex (Tabulation).

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JUL 14 1949

CR
JUL 14 1949

Lt. Col. E. W. Hendricks,
Civil Affairs Division,
Department of the Army,
Room 2E-550, Pentagon Building.

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CONFIDENTIAL**STATEMENT FOR U.S. MEMBER OF FEC****(To Accompany Table Prepared in Reply to New Zealand Query)**

At the 156th meeting of the FEC on 2 June 1949, the New Zealand representative requested from the U.S. representative certain information relating to primary war facilities and war supporting industries in Japan. This information has now been received from the Supreme Commander for the Allied Powers and is circulated herewith to the Commission in tabular form.

FW 894.60/9-1349

CONFIDENTIAL

INCOMING AIRGRAM

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Action Assigned to *JS*
 Action Taken *None* 1536
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 Name of Office *CTW-White*
 Date of mailing: September 8, 1949
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Secretary of State,
Washington.

A-214, August 30, 1949.

Following item released August 27, 1949, by Public Information Office, General Headquarters, Far East Command, Tokyo:

NEW INDUSTRIAL INDEXES DEVELOPED

New indexes of industrial production and industrial activity have been developed by the Economic and Scientific Section, it was announced today by E. D. Morrow of Washington, chief of the Economic and Scientific Section Research and Programs Division.

The new indexes will be used by Occupation authorities as more comprehensive and reliable measures of industrial production and activity and as guides to the level of recovery for Japan.

Morrow also announced that beginning with issue No. 24, the monthly publication Japanese Economic Statistics will be published in three sections: Section I, Industrial Production, Section II, Foreign and Domestic Commerce, and Section III, Population and Labor. Plans also have been made for the issuance in the near future of a fourth monthly publication to be titled Japanese Economic Indicators.

The new indexes, which will be published in the first section of Japanese Economic Statistics, utilize the years 1932-1936 as the base period rather than the 1930-1934 period previously used. The 1932-1936 base was selected

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Tokyo's A-214,
August 30, 1949.

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since, due to development of new industries in Japan in the middle thirties, it is more representative of a period of normal, undepressed business conditions. Officials of the Research and Programs Division of ESS pointed out also that because of the increase in population since then a level of production roughly equal to that in the 1932-1936 base period would provide for the present Japanese population a per capita level of goods, services, and export commodities approximately equal to that which was available from 1930-1934, the period used by the Far Eastern Commission as an Allied industrial target for Japan.

The new index of industrial production is composed of 67 independent production series instead of 45 in the old index. In addition, two utilities series, gas and electricity generation, have been added to the industrial production series to create the industrial activity index. Finally, the composite index has been built upon weights derived from value added by manufacture rather than employment used in the old index, thereby bringing the Japanese index into line with the internationally accepted standards of index construction.

The new index of industrial production for June was 77.8 and the index of industrial activity was 94.2 (1932-1936=100). Increases over May were 1.5 index points for industrial production and 0.5 index points for industrial activity. The trends by important major groups are as follows:

	Jan	Feb	Mar	Apr	May	June
					(revised)	(Preliminary)
Industrial activity	85.7	84.6	94.7	95.5	93.7	94.2
Utilities	167.4	164.4	180.8	171.4	176.2	171.5
Industrial Production	68.4	69.8	79.5	79.5	76.3	77.8
Mining	94.9	97.3	113.5	106.1	92.5	106.7
Manufacturing	65.5	66.7	72.4	76.5	74.5	74.5
Durable goods	98.0	98.2	104.9	100.9	100.8	100.4
Non-durable goods	44.6	47.1	52.8	55.6	53.9	54.5

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Tokyo's A-214,
August 30, 1949.

- 3 -

One of the most significant facts revealed by the new industrial production index is that utilities generation, mining, and the manufacture of durable goods are equal to or greater than in the 1932-1936 base period. The manufacture of non-durables, textiles, miscellaneous chemicals, food, beverages and tobacco, and printing are well below base period levels. Of the major industrial groups the most significantly curtailed segment in the Japanese economy is in textile manufacturing.

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AUG 30 1949

In reply refer to
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Dear Bob:

You may recall a request by the New Zealand Representative at the FEC meeting on June 2 for certain information relating to "primary war facilities" and "war supporting industries" in Japan and removals under the Advance Transfers Program. The request was forwarded at our suggestion by the Department of the Army to SCAP, for the basis of a reply, and on July 5 a telegram was received from SCAP (C-51214) containing the requested information. The information, covered by a brief statement for reading by the U.S. Member, has been incorporated in an instruction to General McCoy. Unless I hear from you that the instruction, copy of which is enclosed, is unsatisfactory in any way, I propose to send it to General McCoy in time to permit circulation of the information at the Commission's first meeting following its recess, on September 8.

Sincerely yours,

John W. Allison
Deputy Director for
Far Eastern Affairs

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Enclosure:

Copy of instruction
to General McCoy.

Mr. Robert West,
Deputy to Assistant Secretary
of the Army,
Department of the Army.

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6 DIVISION OF NORTHEAST ASIAN AFFAIRS

United States Political Adviser for Japan

Tokyo, September 16, 1949.

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No. 643

DEPARTMENT OF STATE

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Subject: Forwarding Reports on Coloring Products, Carbons, Zinc-white and Lithopone, Vitrifiable Colors, and Fatty Alcohols.

894.60/9-1649

The Acting Political Adviser has the honor to forward as of possible interest to the Department and the Department of Commerce a copy of a memorandum of April 16, 1949, prepared by the Industry Division, Economic and Scientific Section, General Headquarters, SCAP, in reply to a request from the French Reparations and Restitution Delegation in Japan for information on certain Japanese industries. The enclosed memorandum covers the production of coloring products (sodium hydrosulfite and hydrosulfite formaldehyde or "Rongalite"), carbons for electric use (artificial graphite electrode, natural graphite electrode, aluminum cathode, artificial graphite brush, metallic carbon brush, other carbon brush, arc carbon rod, other carbon rod), zinc-white and lithopone, vitrifiable colors (for enamelling, ceramics, etc.), and fatty alcohols.

Enclosure: *att 2*

Copy of Memorandum of April 16, 1949.

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Enclosure No. 1 to Despatch No. 643 dated September 16, 1949 from the United States Political Adviser for Japan, Tokyo, on the subject "Forwarding Reports on Coloring Products, Carbons, Zinc-white and Lithophone, Vitrifiable Colors, and Fatty Alcohols".

(COPY)

Economic and Scientific Section
APO 500

ABO/HSC/mn
16 April 1949

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MEMORANDUM FOR: The Chairman of the French Reparations and Restitution Delegation in Japan

SUBJECT: Requests for Information about Japanese Industries

1. References are:

a. Memorandum for Foreign Trade Division, ESS, GHQ, No. 843-16, subject: Request for Information about Japanese Industry, 7 January 1949

b. Memorandum for Industry Division, ESS, SCAP, No. 843-17, subject: Request for Information about Japanese Industry, 7 January 1949

c. Memorandum for Textile Division, ESS, SCAP, GHQ, No. 843-20, subject: Request for Information about Japanese Industry, 7 January 1949

2. The following information is submitted in response to inquiries about Japanese industries, made in references 1a and 1b:

a. Industry of Coloring Products

(1) Global capacity figures (pre-war and present) are not available in the files of General Headquarters, Supreme Commander for the Allied Powers, nor are 1948 production figures for countries other than Japan.

(2) Pre-war Japanese capacities:

(a) Sodium hydrosulfite - five plants with total capacity of 1,300 metric tons per year.

(b) Hydrosulfite formaldehyde (Rongalite) - three plants with total capacity of 1,000 metric tons per year.

(3) Present

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Enclosure No. 1
to Tokyo's Despatch No. 643,
September 16, 1949.

- 2 -

(3) Present Japanese capacity is as follows:

- (a) Sodium hydrosulfite - five plants with total capacity of 1,300 metric tons per year.
- (b) Rongalite - two plants with total capacity of 370 metric tons per year.

(4) Japanese production in 1948 was as follows:

- (a) Sodium hydrosulfite - 340 metric tons.
- (b) Rongalite - 61 metric tons.

(5) Information is not available on Japanese production in 1939.

(6) Imports of Rongalite and similar reducing agents in 1939 were as follows:

<u>Origin</u>	<u>Total Weight</u>	<u>Total CIF Japan Value</u>	<u>CIF Japan Unit Value \$/MT</u>
Germany	20.1 MT	\$4,540.32	\$235.00
Switzerland	1.8 kgs	.48	\$265.00

(7) Imports in 1948 were as follows:

<u>Origin</u>	<u>Total Weight</u>	<u>Total CIF Japan Value</u>	<u>CIF Japan Unit Value \$/MT</u>
Sodium hydrosulfite USA	337 MT	\$185,000	\$550
England	2 MT	\$ 1,100	\$550
Rongalite USA	2.72 MT	\$ 1,480	\$542

b. Industry of Carbons for Electrical Use

(1) Comparative capacities in metric tons:

<u>Commodity</u>	<u>Yearly Capacity</u>	
	<u>1939</u>	<u>1949</u>
Artificial graphite electrode	27,000	22,500
Natural graphite electrode	60,000	38,000

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Enclosure No. 1
to Tokyo's Despatch No. 643,
September 16, 1949.

- 3 -

<u>Commodity</u>	<u>Yearly Capacity</u>	
	1939	1949
Aluminum cathode	5,000	5,000
Artificial graphite brush	300	570
Metallic carbon brush	400	600
Other carbon brush	100	2,700
Arc carbon rod	250	2,750
Other carbon rod	600	4,800

(2) There were 25 electrode plants in 1939 and 23 in 1949; 23 carbon brush producers in 1939 and 25 in 1949; and 13 carbon rod factories in 1939 as compared to 15 in 1949. Actual production in 1949 was less than 60% of that of 1939.

(3) Carbon electrodes are markedly inferior to pre-war Japanese electrodes because of the poor quality of raw materials. Quality of carbon production has improved greatly during the past ten years and compares favorably with that of other countries.

(4) The carbon industry has acquired no foreign licenses since 1939.

c. Zinc-white and Lithopone

Zinc-white and Lithopone are presently available for export from Japan.

d. Vitrifiable Colors for Enamelling, Ceramics, etc.

(1) The Japanese ceramic color industry is able to meet all domestic requirements for vitrifiable colors for porcelain enamelling.

(2) For the chinaware industry the importation of only small quantities of specific colors of designated manufacturers is necessary. Not more than 6,000 kilograms per year is required.

(3) The quality of Japanese vitrifiable colors to be applied on glass is inferior, but at present the need is negligible.

e. Industry of Fatty Alcohols

(1) At present

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Enclosure No. 1
to Tokyo's Despatch No. 643,
September 16, 1949.

- 4 -

FRENCH REPARATIONS AND

RESTITUTION (1) At present, some 23 makers of sulfonated higher alcohols rely on domestic sperm, rice bran oil or imported coconut oil as raw material for making the necessary higher alcohols to be sulfonated. An additional seven makers of sulfonated alcohols purchase their higher fatty alcohol from the above mentioned 23 companies.

(2) Almost all sulfonated higher alcohol production is allocated to textile industries.

3. Questionnaire inclosed in reference 1c was forwarded to Industry Division by Textile Division and is being returned to the French Reparations and Restitution Delegation. More specific terminology is desired to properly interpret the term "Industry of Cellulosic Films."

FOR THE CHIEF, ECONOMIC AND SCIENTIFIC SECTION:

4. Origin of the material

5. If possible samples of the product
W. S. VAUGHAN
Chief, Industry Division

1 Incl
As stated,
per 3.

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Enclosure No. 1
to Tokyo's Despatch No. 643,
September 16, 1949.

- 5 -

FRENCH REPARATIONS AND
RESTITUTION DELEGATION

ENQUIRY CONCERNING THE JAPANESE INDUSTRY

Industry of Cellulosic Films

The French Syndicate of the Artificial Textile would like to have the following informations concerning that industry:

1. Number of working plants:
 - a. before the war.
 - b. presently.
2. Productions:
 - a. before the war.
 - b. presently.
3. Tonnage presently imported in Japan if any.
4. Origin of the importations.
5. If possible samples of the present Japanese products.

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OUTGOING AIRGRAM

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Department of State

Washington,

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TOKYO.

A-169, October 6, 1949

The Oriental Economist of June 4, 1949 contains an article by Hiromu Higuchi, entitled "Machinery Industry in Japan" which raises the question of possible difficulty in harmonizing the economic stabilization program with the deconcentration and anti-monopoly policies. The article states in part:

"The machinery industry in Occupied Japan can be said to be standing at the gravest turning-point in its history because the so-called concentration of production, i.e., a new demarche toward industrial rationalization by concentrating output in low-cost, efficient plants, is being carried out in various ways in almost all divisions at the sacrifice of minor interests. . .

"The increasing concentration of production in efficient plants, however, will bring about serious repercussions upon a large number of medium and small enterprises. It is feared that some of these minor ones either will become sub-contractors for leading corporations, influential wholesalers in some cases, or will be forced to shut down their shops or give up their business entirely. It is also to be noted that although it was only at the beginning of this year that the term 'concentration of production' was first used among interested circles, definite steps toward this direction are already being taken in various industries, especially in machinery and tools manufacture. The most important phase of controversies with regard to this issue is: Won't this kind of post-war adjustment make meaningless the much publicized liquidation of the zaibatsu cliques and thereby reinstate the predominance of monopolizing interests?"

Higuchi cites the shipbuilding, motor vehicle and electrical ~~and~~ machinery and appliance industries as examples of apparent conflict between the stabilization program and the deconcentration and anti-monopoly policies.

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Department of State

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Washington,

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TOKYO - A-169, October 6, 1949

It appears from the aforementioned article that the Japanese public may not be aware that concentration of industrial operations in most efficient plants and concentration of control or ownership need not be the same thing or present the same problems and that competition can be encouraged among efficient plants. The Department would appreciate your views whether any large segment of the Japanese public mistakenly believes that measures to end wasteful, high-cost production resulting from spreading of scarce materials among an excessive number of plants conflict with the purposes of the deconcentration program, including the development of a free, competitive economy. If necessary you may wish to discuss with appropriate SCAP officials means of rectifying any misunderstanding on this score, avoiding ^{any} suggestion in such discussion or statement to the Japanese that concentration of industrial operations in most efficient plants should be held up.

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United States Political Adviser
for Japan

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Tokyo, November 5, 1949.

No. 770 (For Department Use Only)

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Subject: Effect of Industrial Rationalization Program on Medium and Small Enterprises.

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The Honorable
Secretary of State,
Washington.

Sir:

I have the honor to refer to the Department's airgram instruction no. 169 of October 6, 1949, expressing concern at the possibility that the Japanese public may have come to consider industrial rationalization and economic deconcentration incompatible, and suggesting that this Mission discuss the problem with appropriate SCAP officials.

The Department's airgram has been discussed with Mr. William S. VAUGHAN, technical adviser to the Economic and Scientific Section (ESS), General Headquarters, SCAP; Mr. M. M. CLASS, Chief of the ESS Industry Division; and Mr. Edward C. WELSH, Chief of the ESS Fair Trade Practices Division (formerly the Anti-Trust and Cartels Division). The conclusions to be drawn from those discussions may be summarized as follows:

The most significant body of opinion, in SCAP as well as in the Japanese Government, holds that small companies tend to be inefficient companies, and that efficiency falls when meager raw materials must be split up among large numbers of producers, none of whom is operating at capacity. Therefore, although a conscious policy of concentrating material allocations in favored firms is not likely to be adopted, it is believed that economic attrition following on the heels of the stabilization program and the elimination of controls and subsidies will inevitably have much the same result as would conscious concentration. Though the problem is not faced on precisely the terms indicated in the Department's instruction, the conclusion appears to be that rationalization

does

Mr. Tolson
 Mr. E.A. Tamm
 Mr. Clegg
 Mr. Glavin
 Mr. Ladd
 Mr. Nichols
 Mr. Rosen
 Mr. Tracy
 Mr. Carson
 Mr. Egan
 Mr. Gurnea
 Mr. Harbo
 Mr. Hendon
 Mr. Pennington
 Mr. Quinn
 Mr. Nease
 Miss Gandy

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