

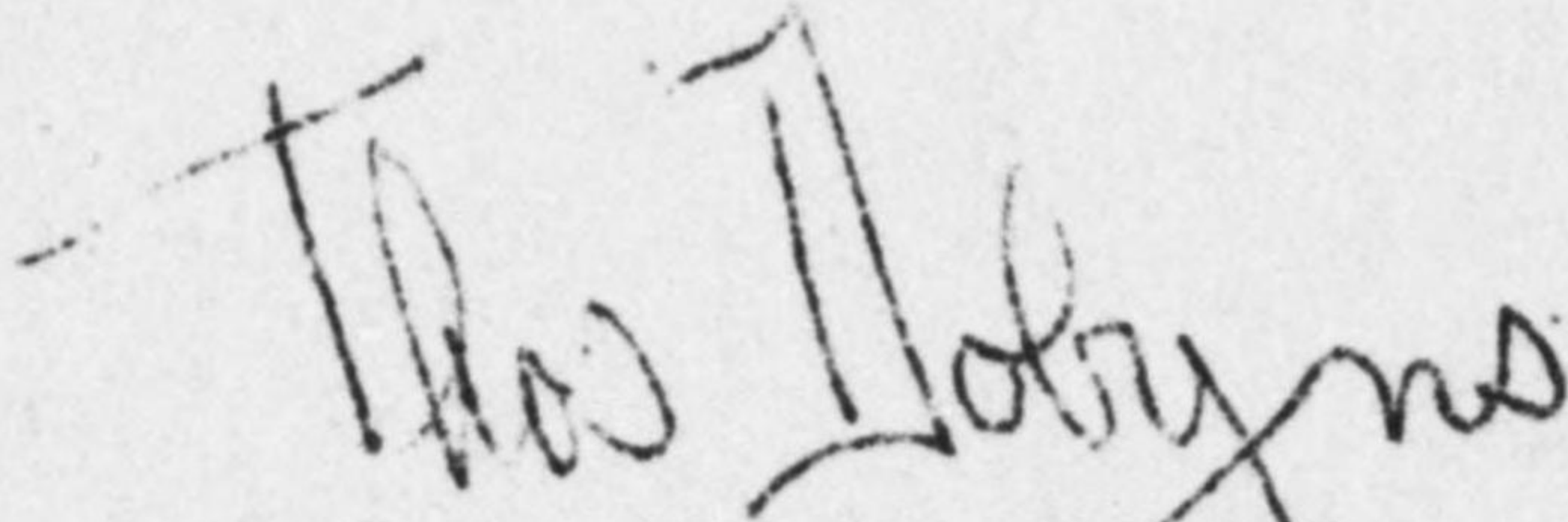
94-831

AGENDA  
for the  
NINETY-FOURTH MEETING  
ALLIED COUNCIL FOR JAPAN

To be held in the Meiji Building, Tokyo,  
Wednesday, 31 August 1949, at 1000 Hours

- I APPROVAL OF THE CORRECTED VERBATIM MINUTES OF THE  
NINETY-THIRD MEETING (1 Session, numbered 93-817).
- II PROCEDURAL MATTERS  
None held over or submitted as subjects for this Agenda.
- III OFFICIAL MATTERS  
None held over or submitted as subjects for this Agenda.

By Direction of the Chairman:

  
THOS. G. DOBYNS  
Colonel, U.S.A.  
Secretary-General

26 August 1949

94-831

CORRECTED  
VERBATIM MINUTES  
of the  
NINETY-FOURTH MEETING  
ALLIED COUNCIL FOR JAPAN

Meiji Building, Tokyo, Wednesday 31 August 1949, at 1000 Hours

MEMBERS PRESENT

The Honorable William J. Sebald, Deputy for the Supreme  
Commander, Chairman, and Member for the United States

Lieutenant General Chu Shih-ming, Member for China

The Honorable Patrick Shaw, Member representing jointly the  
United Kingdom, Australia, New Zealand and India

Colonel S. A. Polyashenko, representing the Member for the  
Union of Soviet Socialist Republics

SECRETARY-GENERAL

Colonel Thos. G. Dobyms

Office of the Secretariat  
Allied Council for Japan  
31 August 1949

THE CHAIRMAN: The meeting will please come to order.  
The Corrected Verbatim Minutes of the Ninety-third Meeting have been circulated among the Members and in the absence of objection (Pause) are approved.

Are there any procedural matters? (Pause)

There are no official matters on the agenda; that would appear to conclude the meeting.

The meeting is adjourned.

(The meeting adjourned at 1001 hours.)

D-601 Tokyo

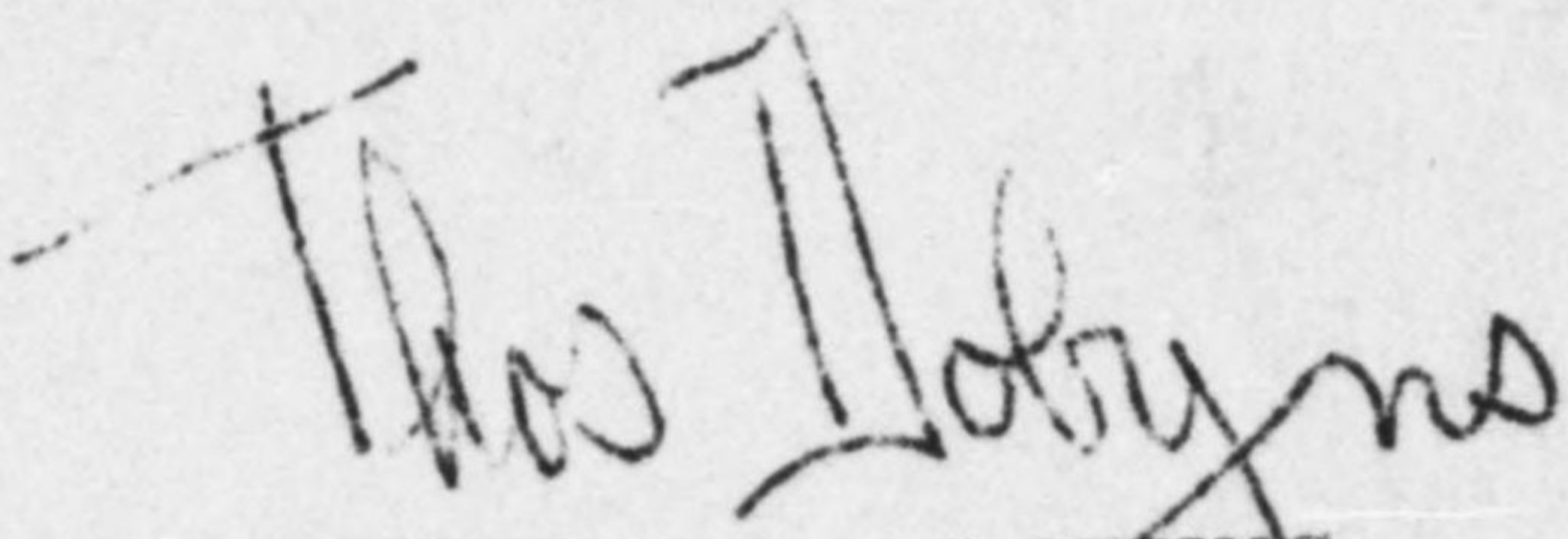
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Secretary-General

26 August 1949

94-831

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The meeting is adjourned.

(The meeting adjourned at 1001 hours.)



~~SECRET~~Office of the United States Political Adviser  
for Japan

Tokyo, August 31, 1949

## MEMORANDUM

To: Mr. Sebald

From: Gerald Warner *GW*Subj: Remarks at GHQ Staff Conference for Orientation of Undersecretary  
of the Army Tracy S. Voorhees.

At your direction I attended the GHQ Staff Conference held in Room 600-J, Dai Ichi Building, on August 30 beginning at 2:30 pm for the orientation of Undersecretary of the Army Tracy S. Voorhees. This conference was attended by about twenty Army and civilian officers of GHQ, apparently principally by officers from the five GHQ, SCAP, sections ~~who were~~ scheduled to lecture on subjects pertaining to their sections and by other officers from those sections who attended to assist the speakers. Mr. Voorhees was accompanied by Dr. Reid. Several other high-ranking Army and Navy officers attended the Conference as did Col. C. S. Babcock of the office of the Chief of Staff.

The Conference was opened by Major General E. M. Almond, Chief of Staff, who briefly introduced the first speaker, Brigadier General A. P. Fox, Deputy Chief of Staff, SCAP. General Fox used a chart to show the set-up of GHQ, SCAP, and briefly described the functions of each section boxed on the chart. The Allied Council was boxed to the right of General MacArthur and connected to his box by a broken line. Diplomatic Section was boxed to the right of the Chief of Staff and connected to his box, and also to that of the Deputy Chief of Staff, by a solid line.

General Fox was subjected to continual interruption by Mr. Voorhees with running comments and questions and summaries of points made by General Fox so that he appeared to spend more time speaking on the subject than did General Fox himself. He asked specifically who headed the Allied Council and Diplomatic Section and was told that Mr. Sebald headed both activities and was also Acting Political Adviser to General MacArthur. Mr. Voorhees commented that he planned to see Mr. Sebald later.

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Considerable discussion on this chart was held around the functions of "G" sections, particularly G-1, and non-military activities. Mr. Voorhees thought that some saving to GARIOA appropriations could be effected by having some appropriated fund activities performed under military appropriations. He observed that he is continually called upon by Congress to justify use of appropriated funds by the military establishments in Tokyo. He also digressed at some length to compare operation of Military Government in Germany with what he understood to be the set-up in Japan. The introductory remarks by General Fox were extended considerably beyond his allotted time and only three of the subsequently scheduled five speakers could be heard before Mr. Voorhees had to leave the Conference to keep an appointment with General MacArthur at 5:30 pm.

General Fox introduced the next speaker, Lt. Col. H. G. Schenck, Chief of Natural Resources Section. Col. Schenck delivered a very interesting lecture amply illustrated with charts describing natural resources in Japan and problems connected therewith.

① During the course of his lecture Col. Schenck made the point that importation of phosphate rock is essential for fertilizer needs in Japan and that, outside of the United States and Pacific island sources (Anaur, east of P.I., and Kita Daito, off Kyushu), the biggest Far Eastern source of supply - now cut off from access to Japan - is French Indo China. Mr. Voorhees observed that this source should by all means be made available to Japan by French Indo China and that the State Department should refuse to transfer \$80,000,000 in gold to French Indo China until that country agrees to supply phosphate rock required by Japan. He asked Dr. Reid to make a note of this problem so that he could take it up with Mr. Acheson when he returns to Washington.

④ Col. Schenck showed on a chart the present Japanese fishing area and the area which will be usable by Japanese fishermen as soon as the added SANACC-approved area becomes operative. Mr. Voorhees inquired why the area is not used now if SANACC has approved its use. Col. Schenck pointed out that the use of the additional area depends upon demonstration by Japanese fishermen that they are able to operate within defined limits before they will be permitted to enter the new area. Mr. Voorhees said he saw no reason why this area should not be entered immediately by Japanese fishermen in as much as it will provide an estimated cash fish crop of between \$4 and 5 million per year. Col. Schenck said he anticipates that it will be possible for Japanese to use the approved area within sixty days. Mr. Voorhees said this should be put into effect immediately and he would also take that matter up with Mr. Acheson on his return to Washington.

During

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-3-

2 During the course of his discussion on oil resources in Japan Col. Schenck mentioned that a certain quantity of oil is imported from British sources in Bahrein and that payment for such oil is made in U. S. dollars by use of GARIOA appropriated funds. Mr. Voorhees asked if sterling funds were available for such payments and was informed by General Marquat, Chief, ESS, that not only are sterling funds available but that the State Department will not permit use of these funds to pay for such oil. Mr. Voorhees "hit the ceiling" at this point and declared he would find out who in the State Department ever issued such an instruction and see that Mr. Acheson cancel it at once to stop this drain on appropriated funds. Mr. Voorhees asked General Marquat to supply him with detailed facts on this situation and asked Dr. Reid to make a note of the problem.

3 Col. Miller, Chief, Civil Transportation Section, GHQ, SCAP, read a paper on the activities of his Section during the course of which Mr. Voorhees initiated a discussion on whether Japan can use surplus liberty ships for transportation of GARIOA food stuffs from the United States to Japan. Col. Miller and other SCAP officials present estimated that about fifty liberty ships could be used by SCAJAP in this operation if it were possible to secure consent of American labor to entry of such vessels to load in American ports. Mr. Voorhees was of the opinion that it might be easiest to enter Gulf ports and proposed to take up this problem upon return to the United States. The discussion then proceeded to possible use of these ships in entering other world ports and Col. Miller thought that the political problems involved in connection with clearances with nations concerned would necessitate an approach on this subject to the State Department. Mr. Voorhees pointed out that use of liberty ships manned by Japanese and operated under SCAJAP flags would cut the dollar charge against GARIOA funds on shipping the supplies which Japan needs. He pointed out that use of U. S. bottoms is the biggest leak in use of appropriated funds, taking about 20% of such funds for transportation. He said that he would see Mr. Acheson to see whether the State Department could consult other nations on this subject on the basis of refusing American aid to those countries which refused to allow SCAJAP shipping to call at their ports. Col. Miller stated that while some SCAJAP ships enter foreign ports, there is an increasing tendency to delay clearances for these vessels and that pressure must be increased to secure necessary clearances. He also pointed out that no unfair competition is envisaged in use of these ships.

Mr. F. Rizzo, Deputy Chief, Government Section, SCAP, delivered a well-organized lecture on the pre-war governmental structure in Japan

compared

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-4-

compared with the present post-war set-up, emphasizing the democratic trends discernible in the present government of Japan.

At the conclusion of the meeting Col. Babcock came up to me and said that he hoped that I did not regard the Secretary's very frank remarks about the State Department as indicative of his attitude toward the State Department. I merely observed that I did not take the remarks to have been made in a personal vein and that undoubtedly the State Department is as interested as is the Army in working out a mutually satisfactory solution of any existing problems. I did not enter into the discussions as I was not familiar with the problems which Mr. Voorhees contemplated discussing with the State Department.

GWarner:vw

*lv*

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*Original of this  
memo left by Mr. Burt  
with Mr. Voorhes on Sept. 20, '49  
mg.*

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(1) INDOCHINESE PHOSPHATE ROCK

Extract from Headquarters memorandum

"During the course of his lecture Col. Schenck made the point that importation of phosphate rock is essential for fertilizer needs in Japan and that, outside of the United States and Pacific island sources (Angaur, east of P.I., and Kita Daito, off Kyushu), the biggest Far Eastern source of supply - now cut off from access to Japan - is French Indo China. Mr. Voorhes observed that this source should by all means be made available to Japan by French Indo China and that the State Department should refuse to transfer \$80,000,000 in gold to French Indo China until that country agrees to supply phosphate rock required by Japan. He asked Dr. Reid to make a note of this problem so that he could take it up with Mr. Acheson when he returns to Washington."

Comment

There are large deposits of high grade phosphate rock near Lacksy in northern Indochina close to the Chinese border. About 600,000 tons were mined during the war and there is a workable reserve of approximately 150,000,000 tons. The rock must be moved, however, by river or railroad to the port of Haiphong. The railroad has been destroyed for a considerable distance, and the area through which either river or railroad traffic must pass is under control of the Viets who are at war with the French authorities. Until Indochina is pacified, therefore, which is not likely to happen soon, there is nothing that can be done to make these phosphates available. The Indochinese authorities are, doubtless, as anxious as anyone else to sell them when it is possible.

*EW. 740. 00117 Central (Japan) / 9-14-49*

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(2) SCAP PURCHASES OF BAHREIN OIL

Extract from Headquarters memorandum

"During the course of his discussion on oil resources in Japan Col. Schenck mentioned that a certain quantity of oil is imported from British sources in Bahrein and that payment for such oil is made in U.S. dollars by use of GARIOA appropriated funds. Mr. Voorhees asked if sterling funds were available for such payments and was informed by General Marquat, Chief, ESS, that not only are sterling funds available but that the State Department will not permit use of these funds to pay for such oil. Mr. Voorhees said he would find out why the State Department ever issued such an instruction and see that this drain on appropriated funds was checked at once.

Comment

While Bahrein Petroleum is owned by two U.S. companies (Standard of California and the Texas Oil Company), it is a British company incorporated in Bermuda. It buys crude oil from ARAMCO for dollars; its equipment represents an element of dollar costs; and dollars are needed for remittances of profits to the U.S. Bahrein has an arrangement with the British Treasury whereby dollars realized from oil sales are turned over to the British Treasury, and the British Treasury turns back enough dollars to cover the dollar needs just mentioned. It sells for sterling in the sterling area and for dollars wherever possible outside.

Essentially the question of sales to SCAP for sterling rather than dollars is a matter for bargaining on the part of SCAP. There is, of course, a definite U.S. interest in the use of sterling held for this purpose rather than appropriated dollars. On the other hand, there are considerations of national interest supporting operations in this area by American companies, and the arrangement between Bahrein and the British Treasury has been considered reasonable. If a change in the basis of payment by SCAP were sought, the same principle would probably apply to ECA purchases, and the whole basis for Bahrein's operation would be seriously affected. There is considerable doubt, therefore, whether this Government would want to see the present arrangement changed. If the Army decides to raise it, the matter will have to be gone into very carefully.

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(3) SCAJAP SHIPPING

Extract from Headquarters memorandum

"The discussion then proceeded to possible use of these ships (50 liberty ships transferred for use by Japan) in entering other world ports. Col Miller thought that the political problems involved in connection with clearances with nations concerned would necessitate an approach on this subject to the State Department. Mr. Voorhees pointed out that use of liberty ships manned by Japanese and operated under SCAJAP flags would cut the dollar charge against GARIOA funds on shipping the supplies which Japan needs. He pointed out that use of U.S. bottoms is the biggest leak in use of appropriated funds, taking about 20% of such funds for transportation. He said that he would see whether the State Department could consult other nations on this subject on the basis of refusing American aid to those countries which refused to allow SCAJAP shipping to call at their ports.

Comment

It is not clear whether Mr. Voorhees envisages charter of the fifty liberty ships to Japan or their transfer by the Maritime Commission to the Army for use by SCAP with Japanese crews. Mr. Voorhees indicated in a subsequent conversation that he agreed with this Department's view that there is no possibility of Congress altering existing legislation to permit Japan to charter U.S. vessels. While it is believed that the Maritime Commission possesses authority to transfer liberty ships to the Army for use by SCAP with Japanese crews, it is extremely doubtful whether they would exercise that authority in the face of the strong opposition such an action would encounter from American ship owners and maritime labor.

This Department informed the Army Department last July that it agreed with the Army that SCAP should be advised to permit Japanese ships to call at U.S. ports. The State Department has carried out all requests by SCAP to seek clearances for SCAJAP vessels from other countries, and had been unaware that there had been an increasing tendency on the part of some countries to delay clearances for SCAJAP vessels.

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(4) EXTENSION OF JAPANESE FISHING AREA

Extract from Headquarters memorandum

"Col. Schenck showed on a chart the present Japanese fishing area and the area which will be usable by Japanese fishermen as soon as the added SANACC-approved area becomes operative. Mr. Voorhees inquired why the area is not used now if SANACC has approved its use. Col. Schenck pointed out that the use of the additional area depends upon demonstration by Japanese fishermen that they are able to operate within defined limits before they will be permitted to enter the new area. Mr. Voorhees said he saw no reason why this area should not be entered immediately by Japanese fishermen in as much as it will provide an estimated cash fish crop of between \$4 and 5 million per year. Col. Schenck said he anticipates that it will be possible for Japanese to use the approved area within sixty days. Mr. Voorhees said this should be put into effect immediately and he would also take that matter up with Mr. Acheson on his return to Washington."

Comment

SCAP has discretion to extend the present Japanese fishing area but considers that the use of the additional area should depend upon demonstration by Japanese fishermen of their capability of operating within defined limits. There is, therefore, nothing which need be taken up with the Department of State in this connection. The Department is entirely in accord with SCAP's policy of making sure that the Japanese understand and will observe sound conservation practices, but the decision to extend the area within the limits authorized by SANACC 99/11 is for SCAP to make.

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*File Jap Participation in Int Relations*

STANDARD FORM NO. 64  
**Office Memorandum • UNITED STATES GOVERNMENT**

TO : FE - Mr. Hamilton  
 Mr. Allison      Mr. Moseley      DATE: September 1, 1949  
 NA - Mr. Bond      POS/J - Mr. Schuler

FROM : NA - Mrs. Dunning

SUBJECT: Instructions for U.S. Member Committee 4, FEC re Proposed Policy Decision Providing for Japanese Participation in International Agreements and Conferences of a Technical Character

At the last meeting of the subcommittee of Committee 4 on June 6, 1949, at which the U.K., U.S., Netherlands, France and China were represented, the members, under the active leadership of the Chairman and U.K. representative, Mr. Thresher, prepared the following draft proposal which was to be submitted to their respective governments for formal comment:

"The FEC decides as a matter of policy that SCAP, subject to his discretion and continued control, should permit Japan to participate with other nations or groups of nations in such international agreements and conferences of a technical character as Japan may be invited to enter into, accede to, attend or participate in, and as SCAP shall consider to be in the interests of the occupation.

"SCAP should inform the FEC of each case of accession to technical agreements or participation in technical conferences by the Japanese Government which he may authorize.

"The Supreme Commander should direct the Japanese Government to fulfill any international obligations which it may assume in accordance with the provisions of this policy."

The U.S. member reserved his position on this proposal throughout the discussion. The other members, while unable to express any formal comments on the above draft, indicated a personal desire to reach a working compromise with the U.S. on the subject of Japanese participation in international relationships.

In view of the fact that a meeting of the subcommittee will probably be held the latter part of next week at which the members will be expected to present their government's views on this draft, it is recommended that the U.S. member be instructed:

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 Col

*Northeast Asian  
 Affairs Division  
 Dunning*

SEP 1 1949  
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This document must be returned to the PMR Central Files



- 2 -

- (1) to make it clear that the U.S. Government feels that SCAP already has sufficient discretionary powers to permit Japanese participation in international relationships either as sole executive authority for the Allied Powers or on the basis of existing policy decisions,
- (2) to inform the other members that the U.S. can agree to a policy providing for Japanese adherence to and participation in technical international conferences, as indicating leadership on the part of the FEC member governments in welcoming Japan back into international society, but does not consider such a policy to be exclusive or to estop SCAP from authorizing the Japanese Government to participate in other international relationships (consular arrangements, etc.).

*ALD*  
FE: NA:ALDunning:clh



THE FOREIGN SERVICE  
OF THE  
UNITED STATES OF AMERICA

*RM/R*

Central  
Files

Tokyo, September 2, 1949.

PERSONAL AND SECRET

Dear John:

With reference to my letter to you of September 1, 1949, regarding the briefing of Under Secretary of the Army Voorhees, I enclose a copy of a memorandum written by Boehringer regarding the briefing on general economic problems conducted on August 31 by Dr. Sherwood M. Fine, ESS Director for Economics and Finance, for Secretary Voorhees' benefit.

Regarding Mr. Voorhees' interest in use of non-American, including Japanese, vessels for movement of GARIOA cargoes to Japan and the general question of expanded use by the Japanese of their merchant marine, you may be interested to note that Mr. Voorhees discussed this matter in detail at an ESS briefing held on September 2 and also attended by Boehringer. He waved aside the scheduled program and insisted upon having a full and frank discussion of this matter. He indicated that he was determined to press for a change in the interpretation of a 1904 law requiring use of American bottoms for Army, Navy and GARIOA cargo, on the ground that GARIOA goods do not constitute Army cargo but fall rather into the same class as ECA goods, in the movement of which it is required that only 50 per cent thereof be handled by American bottoms.

With regard to expanded use of Japanese merchant vessels on deep sea routes, Mr. Voorhees indicated

forcibly

John M. Allison, Esquire,  
Director,  
Office of Northeast Asian Affairs,  
Department of State,  
Washington, D. C.

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By *CD/BR* NARS, Date *22 AUG 1975*

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(Japan) 9-249*

- 2 -

forcibly that he disliked the designation of SCAJAP, as being bound to give rise to anti-Japanese sentiment. He suggested that General MacArthur might have a special flag designed for use on Japanese vessels during the remainder of the Occupation. All in all, Mr. Voorhees gave the impression that he was keenly interested in the general subject of Japanese shipping.

Sincerely,

*Bill*  
W. J. Sebald

Enclosure:

Copy of memorandum  
prepared by Mr. Boehringer

PERSONAL AND SECRET

# INCOMING AIRGRAM

DEPARTMENT OF STATE

DIVISION OF COMMUNICATIONS AND RECORDS

TELEGRAPH BRANCH

DEPARTMENT OF STATE  
ACQUISITION AND DISTRIBUTION  
DIVISION  
DISTRIBUTION BRANCH

1694 SEP 12 1949

AIRGRAM

ACTION: CLI  
INFO:  
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FROM: USPOLAD, Tokyo

Dated: September 2, 1949.

Date of Mailing: September 2, 1949.

Rec'd: September 11, 1949  
10:45 A.M.

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Secretary of State,  
Washington.

A-216, September 2, 1949.

Reference my A-209, August 23, 1949, reporting announcement of discontinuance of publication of Press Translations and Summaries prepared by Allied Translator and Interpreter Section (ATIS) of G-2, General Headquarters, SCAP.

I am now informed by Major General E. H. ALMOND, Chief of Staff, that it was decided to discontinue publication of Press Translations and Summaries because it had been found that distribution of this publication had become too extensive, copies having found their way to the foreign missions, press correspondents and other quarters for which they were not intended. General Almond indicated that G-2 would partially continue its press translations and analysis functions, and that a reduced volume of excerpts and summaries will hereafter be incorporated in the daily issue of Intelligence Summary which is classified secret.

SEBALD

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CKHustont:cs

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

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Action Assigned to Cunell  
Action Taken none  
reply to DRF memo  
Date of Action 12 Sept 49  
Action Office Symbol 1AD  
Name of Officer Ed Starnall  
Distribution to DC/R file

SECRET FILE  
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Dear John  
 Tokyo  
 From you may be interested in these  
 communications to the Chief of Staff. No  
 replies have as yet been received.

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 Sept. 2, 1949.

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Regards  
 Bill

Diplomatic Section

DIVISION OF  
EAST ASIAN AFFAIRS  
SEP 1 1949  
DEPARTMENT OF STATE

Tokyo, August 30, 1949.

PERSONAL AND CONFIDENTIAL

Dear General Almond:

You will recall that some months ago I spoke to you informally regarding an apparent tendency on the part of U.S. Army authorities in Tokyo to ignore what I consider my proper relative standing among the senior officers of the Occupation. At the time of our conversation, I was under the impression that you would take appropriate steps to remedy this situation.

You are of course aware that I am the senior American civilian attached to the Occupation, the senior representative of the Department of State in Japan with the rank of Minister Plenipotentiary, the Deputy for certain purposes of the Supreme Commander, and the civilian representative of the United States Government in Japan. The assignment of my relative rank at yesterday's review does not, I am sure you will agree, reflect proper recognition of these several capacities.

I hope you will believe me when I say that no personal considerations whatsoever are involved in this matter; but I feel so strongly regarding the principles involved by reason of the position which I occupy as an officer of the United States Government and in relation to the foreign diplomatic missions in Tokyo, that I feel it would not be appropriate for me to accept further invitations to appear publicly in my official capacity in formations of the kind under discussion unless this problem can be resolved in an authoritative manner.

Sincerely yours,

*WJ*  
W. J. Sebald

Major General E. M. Almond,  
Chief of Staff,  
GHQ, SCAP,  
Tokyo.

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*FW 740.00119 Control (Japan) / 9-249*

Mr. Sebald  
26-7011

CONFIDENTIAL

Alleged Discourteous Treatment  
of Foreign Chiefs of Missions  
at Review for Mr. Voorhees.

1 September 49

DS

C/S

1. Several Chiefs of Diplomatic Missions have called upon me to complain informally regarding the treatment which was accorded to them at the review held for Mr. Voorhees on August 29. The alleged facts as related to me are as follows:

Chiefs of Missions were invited to attend the review, although they were not given yellow cards as were members of the reviewing party. Upon arrival at the entrance to the "interior enclosure", MP's stopped the various mission cars and advised the Chiefs of Missions that their cars could not enter the enclosure and that they would have to find their own parking places. (Sir Alvary Gascoigne's car was allowed to enter the enclosure.) Having found parking places, the Chiefs of Missions proceeded on foot to the bleachers where they found that no seats had been reserved for them and that they were expected to find their own places. No one apparently had been appointed to assist them in finding seats and several stood throughout the review.

2. The crux of the complaints which I have received may be summarized as follows: if diplomatic representatives of friendly powers are invited to a U.S. Army review, minimum courteous treatment would appear to demand that seats be reserved for them, or at least that a small section of seats be set aside for use by Chiefs of Missions. Parking of Mission cars should be facilitated. I was told that the invitations were accepted out of courtesy to the U.S. Army, but that if the review is to be purely an "American show" and Chiefs of Missions cannot be given the consideration due their status in Japan, they would rather not be invited as no issue could then arise. I was also queried as to whether the above treatment is indicative of a new policy vis-à-vis foreign diplomatic representatives.

3. I of course denied that there is any policy involved in the alleged treatment and said that if there was any discourtesy shown, it was entirely unintentional and inadvertent.

4. In the instant case, however, I concur that there is ground for complaint. If Chiefs of Missions are not invited to take part in the reviewing party, and should it prove impracticable to set aside a small section of seats reserved for Chiefs of Diplomatic Missions (including parking facilities in the "interior

CONFIDENTIAL

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FOI 740 00117 Carter (Spencer) 9-24-99

CONFIDENTIAL

DS:WJS:gmd  
Mr. Sebald  
26-7011Alleged Discourteous Treatment  
of Foreign Chiefs of Missions  
at Review for Mr. Voorhees.

DS

C/S

1 September 49

enclosure"), I recommend that invitations not be extended to the diplomatic corps to attend reviews which are intended to be American affairs only. In any event, if desired, DS will be pleased to assist in making appropriate arrangements for the reception of foreign diplomats at official functions.

----- W. J. S. -----

CONFIDENTIAL





STANDARD FORM NO. 64

*Office Memorandum* · UNITED STATES GOVERNMENT

DATE: October 14, 1949

TO : NA - Mr. Allison

FROM : NA - M. Green *mg*

SUBJECT: Reference Attached

This is the letter from Mr. Sebald to you, for which I have been searching high and low over the last week. Apparently it was locked up in Mr. Butterworth's file cabinet during his leave. This little office crisis suggests to mind the advisability of requesting that Mr. Sebald hereafter furnish us with letters in triplicate when they concern matters of general office interest. One of these copies can then be kept in a regular NA file and the original could wander foot-loose and fancy-free as has this one, without causing crises.

I would be most interested to discuss this letter with you after you have had an opportunity to read it, plus the comments by NWB, RAF, and myself.

DC/R
15
Rev
Ca

FE:NA:MGreen:db

*F.W. 740.00119 Central (Sofman) / 9-347  
SECRET FILE*



THE FOREIGN SERVICE OF THE UNITED STATES OF AMERICA

DIVISION OF NORTHEAST ASIAN AFFAIRS  
SEP 14 1949  
DEPARTMENT OF STATE  
*FE/JMA*  
*held for his return*

Office of FAR EASTERN AFFAIRS  
SEP 13 1949  
DIRECTOR  
Department of State

SECRET

Dear John:

Tokyo, September 3, 1949.  
Your letter of August 16, 1949, commenting upon our despatch no. 421 of June 30 and the proposed transfer of liaison functions from G-2 to the Diplomatic Section, raises a problem with which I have been struggling since before Mr. Kennan visited Tokyo. I fully appreciate the desirability of having an independent mission in Tokyo, but after considering all the factors and considerations involved, it appears to me that some compromise solution offers the only practical means by which the Department, its Mission here, and SCAP could be satisfied.

*Acknowledgment sent on Sept 22, 49, saying Mr. Allison would give matter detailed thought upon return from leave*

When the Office of the Political Adviser was first integrated into General Headquarters early in 1946 (with Department of State approval), it was considered that that procedure offered the only way in which a State Department Mission could "get along" with the Army. Since that time we have gone a long way in establishing smooth-working relationships, not only with General MacArthur, but with the Chief of Staff, Section Chiefs, and working levels. We have also managed, by the gradual process of showing our worth and facility in handling difficult problems, to prove that Department of State personnel have a definite place in the Occupation. In consequence, more and more reliance has been placed upon the Diplomatic Section to the point where, in matters involving broad political considerations, practically no decision is made in Headquarters without first obtaining our comment or concurrence. We have time and again vetoed courses of action which appeared to us to be inimical to the best interests of the United States, notwithstanding strong argumentation by SCAP people to the contrary.

*rankings with but after the Veterinary Corps - see Sebald's letter to Allison -*

One

John M. Allison, Esquire,  
Director, Office of  
Northeast Asian Affairs,  
Department of State,  
Washington.

FILED  
JUL 28 1959

740:00119-CONTROL (JAPAN) 79-349  
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9-349

SECRET

- 2 -

One of the advantages of being "on the inside", as the Diplomatic Section, is the facility with which we are able to remain au courant with policies and decisions in Headquarters. As one of the important sections in the Headquarters hierarchy, we receive information copies and take part in numerous problems, staff studies, discussions, and decisions concerning which, were we to be "independent", we would have no knowledge or would be forced to obtain information by devious and often embarrassing means. It is my belief that the information which we have been able to forward to the Department has been authentic largely because of our ready access to the information involved. If our reporting has not been of sufficient quantity, it has been largely the result of our chronic shortage of personnel.

b.s.

why embarrassing?

I am certain that you are aware of the large amount of work directly concerned with Headquarters policies and decisions in which we are involved. While admittedly the Department often is unaware of such work, time, and effort spent therewith, I am convinced that this work does more in the direct implementation of United States foreign policy than mere reporting would accomplish. We are, furthermore, in the position where communications from the Department come to the direct attention of General MacArthur so that he is in a position to know the thinking of the Department, and I know that many of his decisions are in consequence influenced, if not based entirely, upon the Department's views or instructions.

after screening  
by Gen. Whiteleywe should direct  
rather than  
assist "GHA" in  
field of foreign  
relations.

Even if it were possible to obtain a greater degree of "independence", I nevertheless feel that we must, to some extent, assist Headquarters in its problems dealing with foreign relations. Experience has indicated to me that Army officers and run-of-the-mill civilians are not qualified effectively to deal with these problems. I especially have in mind Headquarters dealings with the foreign diplomatic missions. Before the establishment of our Liaison Division, the diplomatic missions here were most unhappy and a tremendous amount of ill-will resulted from the Army's often impertinent methods and use of peremptory language in dealing with the missions. Furthermore, so long as present directives call for the supervision of Japan's foreign relations by SCAP, it seems to me that the logical people to handle those foreign relations are Foreign Service personnel. I shudder to think what might happen if, for example, Japan's foreign relations were turned over to the Government Section

SECRET

or

- 3 -

or, say, to a Deputy Chief of Staff of the Army, without the leavening influence of the Department or its officers to keep matters in hand.

In view of the above, I would say that the Diplomatic Section organization as a part of SCAP is not all bad. The shortcomings under the present setup are three, namely, (1) the prohibition against reporting; (2) our lack of private telegraphic communications with the Department; and (3) the difficulty in bringing the Department's desires before General MacArthur. The first mentioned is largely hypothetical as we are reporting to the extent that we could report even were we "independent". The lack of codes, while at times inconvenient, is not, in my opinion, all one-sided and in practice has not been serious. Regarding the third point, the remedy lies partly in Washington where policy matters are often split between the Departments of the Army and State, with the former having the whip hand. A partial remedy would also appear to lie in greater backing of USPOLAD by the Department through relevant instructions and insistence that POLAD be given opportunity freely to air his views to the Department. The Department should by all means continue the practice of instructing USPOLAD to consult with SCAP and to forward his views, etc.

on p. 2 he says  
just the opposite

what's the other side?

Despite the above, I am prepared to approach General MacArthur with a proposition somewhat along the following lines. This proposal is what I believe to be within the realms of practicality. It is not ideal, but would largely meet the drawbacks of our present situation.

(a) My proposal would be that the Diplomatic Section be abolished and in lieu thereof, a small division known as the "Foreign Liaison Division" be attached to the Office of the Deputy Chief of Staff, SCAP, for handling routine matters pertaining to foreign diplomatic missions and also to assist Headquarters in its many problems. The staff of this Division would comprise three or four FSO's and an equal number of qualified Army officers.

(b) The present Chief of DS (Acting USPOLAD) and the bulk of the Foreign Service staff (FSO and FSS) would continue to be known as "U.S. Political Adviser for Japan" and "Office of the U.S. Political Adviser for Japan" respectively, responsible directly to the Supreme Commander and independent of the military chain of command in the present General Headquarters organization.

SECRET

(c)

- 4 -

(c) Allied Council functions would remain unchanged.

(d) In view of the State Department's interest in many of the problems of General Headquarters, the Political Adviser should, of course, be prepared to cooperate with and advise Staff Sections of GHQ, SCAF, and vice versa, as may be necessary or desirable to carry out the policies of the United States Government. He would not, however, be considered a staff section of Headquarters.

with State codes? (e) The Political Adviser would be free to communicate with the Department as he desires and without previous reference to anyone (except possibly, in appropriate cases, General MacArthur) in Headquarters. (There would arise here the question of POLAD's responsibility to the Supreme Commander in view of the latter's responsibility in carrying out his functions as the sole executive authority for the Allied Powers.)

(f) The mission of the Political Adviser would be to advise both the Supreme Commander and the Department of State with respect to matters of high policy pertaining to Japan and the Occupation. He should keep the Department informed of the current situation and assist the Department in the formulation of its foreign policy.

(g) As a preliminary step, we should build up and develop the present International Liaison Division of DS to the point where it can with practical effect handle all Headquarters problems presently referred to DS. This would release the General Affairs (Political) and Economic Division officers of DS for reporting and normal Mission activities. If a change-over were to be made, we would thus be prepared on short notice to transfer all or part of the reinforced International Liaison Division personnel to the newly formed Liaison Division.

The above proposal has some disadvantages in that it would make for a divided staff but, under the Occupation as it has developed, I cannot too strongly emphasize the necessity for assisting Headquarters in its foreign relations problems. Despite the administrative difficulties which a divided staff would entail, I feel that a workable organization of some kind could be evolved. The FSO's in the "Foreign Liaison Division" would be on loan to the United States Army and would largely be independent of the Political Adviser and responsible to the Deputy Chief of Staff in the military

SECRET

chain

- 5 -

chain of command. The desired effect would be that the Liaison Division would eventually, in somewhat modified form, replace DS.

I consider the above proposal as within the limits of practicality and one that would be most likely to achieve the desired results. I would, however, be most grateful to you for your comments and advice on this subject. Once I have a statement of general principles which the Department would desire to follow, I will be glad to approach General MacArthur to learn of his reactions.

Sincerely yours,

*Bill*  
W. J. Sebald

SECRET

STANDARD FORM NO. 64

SECRET

*Office Memorandum* • UNITED STATES GOVERNMENT

TO : NA - Mr. Bond

DATE:

September 16, 1949

FROM : NA - R. Fearey *RAF*

SUBJECT: Comment on Attached

By and large, leaving aside the tone of the letter which I agree is a bit self-congratulatory, Sebald's reorganization plan seems to me to have considerable merit. With the decision to explore every avenue for a peace treaty, it becomes increasingly important that action be taken to elevate the status of the State Department's representation in Japan in the coming year or more before a treaty can come into effect. The proposed plan of establishing POLAD outside of the Headquarters chain of command, advising SCAP directly rather than through the Chief of Staff on major policy questions and reporting freely to the Department, seems to embody the main steps by which this could be accomplished. The establishment of a Foreign Liaison Division of FSO's attached to the Office of the Deputy Chief of Staff would preserve the undoubted benefits resulting from FSO rather than Army handling of relations with the foreign missions. Although POLAD reporting of SCAP, as opposed to Japanese, thinking and developments would probably suffer from POLAD's isolated status (it seems doubtful if paragraph d of Sebald's proposal would work out as planned) this seems unavoidable, and should be largely compensated for by more complete reporting of the Japanese scene.

The weakness of the plan, it is believed, is not organizational but personal. Elevation of the State Department's position in the occupation requires organizational change, but even more it requires appointment of a forceful personality of ambassadorial rank as chief State Department representative. Even Mr. Atcheson, who General MacArthur really did consult and rely on in most matters involving "broad political considerations," would have had difficulty in making the new Office of the Political Adviser the effective instrument of State Department policy which it should be, because of his obligation and loyalty to SCAP. While General MacArthur might consent to Sebald's plan, it is doubtful if he would heed his advice on really important internal and foreign policy questions any more than now. The plan would have to be accompanied by appointment of a new POLAD, as long envisaged, who merited General MacArthur's confidence and respect, or, if these were withheld, of sufficient stature in his own right to begin the process of revival of the prestige of the civil authorities of the U.S. Government in Japan.

There

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-2-

There is no assurance of course that General MacArthur will be any more receptive to the appointment of a new POLAD of ambassadorial rank and with ideas and influence of his own than he has been in the past. As I recall, the question was held over by Mr. Lovett before last year's elections and, as far as I know, no recommendation has ever been made to Secretary Acheson in the matter. The Secretary's reference in his recent letter to General MacArthur to a defect in their liaison, and the increasing likelihood of a treaty, would seem to indicate the advisability of such a recommendation. If, as earlier stated, a new POLAD is appointed, Sebald's organizational plan would seem generally satisfactory. If a new man is not appointed, I doubt whether the proposed reorganization would be worthwhile.

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FE:NA:RAFearey:db

STANDARD FORM NO. 64

# Office Memorandum • UNITED STATES GOVERNMENT

TO : NA - Mr. Bord  
FROM : NA - Mr. Green *mg*  
SUBJECT: Comment on Attached

DATE: September 22, 1949

I agree with the final sentence of the attached memorandum by Mr. Fearey.

I am not clear as to the need for the reorganization proposed by Mr. Sebald in the light of his opening paragraphs on the effectiveness of our Tokyo Mission as now organized. As for the enumeration presented by Mr. Sebald of the Mission's three major shortcomings at present, it is obvious that the present Headquarters prohibition against independent reporting is not being enforced. The Mission's present lack of independent telegraphic channels is admittedly an inconvenience, though offset by such compensating factors as not requiring additional code clerks and, through its cryptic code messages engendering certain suspicions in Headquarters that the State Department is engaged in "spying" activities on Headquarters. Mr. Sebald mentions as a third shortcoming the difficulty in bringing the Department's desires before General MacArthur, though on a preceding page of his letter he states: "We are in the position where communications from the Department come to the direct attention of General MacArthur so that he is in a position to know the thinking of the Department".

Without an Ambassador to head the Mission who has the requisite personality, prestige and experience to command the respect of General MacArthur and the ability to "stand up to" the General, there is little point in making paper changes in the organization of POLAD within General Headquarters. To find the individual who would meet the above requirements and who would be willing to accept the job is something we have already looked into before. At that time we could find no one with the requisite qualifications.

This Document Must Be Returned to  
Mr. Bord  
F.W. 740.00119-CONTROL

CONTROL (JAPAN) / 9-349

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F.W. 740.00119 Control

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**CLASSIFIED**  
INCOMING  
**MESSAGE**

**~~RESTRICTED~~**

DEPARTMENT OF THE ARMY  
STAFF COMMUNICATIONS OFFICE

~~RESTRICTED~~  
PRIORITY

PARAPHRASE NOT REQUIRED

From: CINCPAC Tokyo Japan from Voorhees

To: Dept of Army Wash DC for OUSA MacGruder

Nr: C 52310

4 Sep 49

Retelecons TT 2617 and 2618. General MacArthur read full telecon and entire Sentner Article. He requests that you give following message to Secretary Gray: General MacArthur advises that his only conversation with Mr Sentner took place 6 weeks ago was entirely unofficial and informal and intended to be off the record. For the most part it dealt with the occupation of Japan and references to the situation elsewhere in Asia were basically confined to views he has previously expressed in reports to the Department of the Army and House Committee on Foreign Affairs and in public statements. No stenographic or other notes were taken by the correspondent and any quotations he may have embodied in his articles can only have been drawn from memory. General MacArthur expressed amazement that the State Department should regard such a press statement as having any material influence upon the legislative situation when congress presumably already has his official view available to it.

ACTION: OUS

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(4 Sep 49) DTG: 040633Z ers/7

**~~RESTRICTED~~**

*File*

THE SECRETARY OF STATE  
WASHINGTON

September 6, 1949

SECRET

MEMORANDUM FOR THE PRESIDENT

You will recall that in June General MacArthur wrote both Under Secretary of Defense Early and me letters setting forth his views on the Japanese problem.

After discussing his letter with you, you agreed that I should send a brief acknowledgment to his letter and follow at a later date with a more definitive reply.

I have now prepared a reply which I believe is suitable to go to General MacArthur. I enclose the proposed reply together with General MacArthur's letter for your approval.

The letter has Secretary Johnson's concurrence.

*Dean Rusk*

DOR NE Unit	
<i>mf</i>	<i>dash</i>

*The President returned this paper to me today with his approval.  
D.A.*

*9/9/49.*

Enclosures:

- Proposed letter to Gen. MacArthur
- Copy of letter from Gen. MacArthur

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DEPARTMENT OF STATE *s/s R*  
OFFICE OF THE SECRETARY

*AG.*

*9/7*

Mr. Battle ✓

The reference TELECONS are not available to us, but Mr. Humelsine does not think the Secretary will require any of the background material.

JGC

DEPARTMENT OF STATE  
THE UNDER SECRETARY

September 7

Marion: ✓

Mr. Webb ✓ asked me to show this to Mr. Rusk and then to give it to Mr. Battle to show to the Secretary.

After Mr. Rusk has seen it, will you please see that Mr. Battle gets it?

GES

*DR*

~~RESTRICTED~~  
DEPARTMENT OF THE ARMY  
WASHINGTON

DEPUTY UNDER SECRETARY OF STATE  
MR. RUSK

SEP 7 1949  
6 September 1949

DEPARTMENT OF STATE

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UNDER SECRETARY  
SEP 7 - 1949  
DEPARTMENT OF STATE

Hon. James E. Webb,  
Under Secretary of State,  
Washington 25, D. C.

Dear Jim:

I enclose the message we discussed by  
telephone this morning.

Lest you misconstrue the last sentence  
in the cable, please allow me to point out that  
I think we failed to say to General MacArthur  
that individual Members of Congress were peddling  
the newspaper articles referred to. From where  
General MacArthur sits, I can well understand his  
amazement.

Sincerely,

*Gordon Gray*

Gordon Gray  
Secretary of the Army

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Encl: CM IN 4157

*cmc*  
*or*

OCT 20 1949

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(Japan) 19.649  
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E.O. 11652, Sec. 3(E) and 5(D) or (E)

Authority NND 760035

By CD/S/R NARS, Date 2 AUG 1975

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~~RESTRICTED~~

6 September 1949

Hon. James E. Webb,  
Under Secretary of State,  
Washington 25, D. C.

Dear Jim:

I enclose the message we discussed by  
telephone this morning.

Lest you misconstrue the last sentence  
in the cable, please allow me to point out that  
I think we failed to say to General MacArthur  
that individual Members of Congress were peddling  
the newspaper articles referred to. From where  
General MacArthur sits, I can well understand his  
amazement.

Sincerely,

Gordon Gray  
Secretary of the Army

Encl: CM IN 4157

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**FILE NO. DESP. 168 FROM YOKOHAMA**  
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OCT 3 1949

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THE FOREIGN SERVICE  
OF THE  
UNITED STATES OF AMERICA

740.00119 Control (Japan)/9-749

Yokohama Branch,  
Office of the U. S. Political Adviser,  
Yokohama, Japan, September 7, 1949.

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REC'D  
SEP 23

No. 168

ACTION  
EEB  
KLI FE

SUBJECT: Analysis of Recent Changes in Military  
Government Structure in Japan

INFO  
DCR  
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The Consul in charge has the honor to forward herewith memoranda of conversations with Military Government officials of widely separated areas of Japan as written by Vice Consul William L. MAGISTRETTI of this office. It will be noted that the conversations were held at different times and independently of each other so that neither official has in any way been influenced by the opinion of the other nor do they know each other personally. Therefore, while the conversations report the opinions of only two officials taken at random cross section, it may be considered significant that they were in substantial agreement that the removal of local Military Government teams and the establishment of regional military government offices will provide a stimulus toward setting Japan upon her own feet preparatory to the emergence of a new democratic Japanese government.

Both officers are in agreement that so long as the local teams remain there is a tendency for local Japanese officials to rely upon the Military Government team for direction where they should institute their own action and for them to make the local team a political scapegoat for the various shortcomings of the Japanese government. Both officials are agreed that the presence of large concentrations of troops does create friction in the particular area where they are stationed because of the inevitable small percentage of wrong doers, but, by and large, the troops were favorably regarded by the Japanese people. One officer in particular felt that while some segments wished removal of the troops for their own selfish political purposes the probability was that the majority of the Japanese people viewed the onrush of Communism in Asia as a very vital threat to now disarmed Japan and earnestly desired the retention of American troop strength sufficient to protect Japan.

Of interest

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No. 168  
September 7, 1949  
Yokohama

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Of interest from the standpoint of attainment of long range American policy in Japan is the observation that the seeds of democracy have been planted through the guarantee of civil liberties in the Constitution but their development should rather be regarded as a long range process somewhat akin to the spread of Christianity in Japan.

In sharp contrast to the attitude of these field team officials in close contact with the Japanese people have been the opinions of some key headquarters military government personnel. Informal conversations with Headquarter officials held during the course of a dinner meeting of the MG Association attended by Mr. Magistretti, revealed a consensus of opinion that the removal of the local teams was too early at this stage because on the spot controls for the carrying out of specific SCAP policy for the democratization of Japan would thereby be removed. Further, it was felt that the personal contact of MG team personnel and local Japanese officials and members of the general public was particularly vital in carrying out these policies.

Respectfully yours,

Charles H. Stephan  
American Consul

CC: USPOLAD, Tokyo

*C.H.S.*  
WLMagistretti/fa

Parchment mat to Department.

Enclosures: *[Signature]*  
3 memoranda of conversations

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*[Handwritten mark]*

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(For Department's Use Only)

Enclosure to Despatch No. 168,  
dated September 7, 1949, from Yokohama

MEMORANDUM OF CONVERSATION

Subject: Change from Local Military Govern-  
ment Teams to Civil Affairs

Participants: Captain Callahan, Legal Officer,  
Shizuoka Military Government Team  
William L. Magistretti, Vice Consul,  
US POLAD, Yokohama

Date: August 5, 1949

Captain Callahan was asked whether he viewed the change-over from MG teams to 8 regional offices as a helpful move. He replied that in general he did inasmuch as on his team there was very little to be gained from personal contact by the team members and local Japanese officialdom. Captain Callahan stated frankly that during the more than two years he had been on the team only two of his complement of 38 members were really interested in their jobs. He went on to indicate that most of them were interested in the black market, that he had reports from the Japanese police along these lines and knew that the Japanese officials were likewise aware of this situation. This, he felt, seriously detracted from the mission of the team inasmuch as most members thereof had lost the respect of the Japanese officials through these activities and accordingly had no real leadership value.

In addition, the Captain observed that the Military Government team had become the scapegoat for Japanese politicians who blamed the team whenever anything went vitally wrong. The situation had become considerably aggravated also by the local officials playing members of the Government Section, GHQ SCAP, against the local team. Shizuoka is located close enough to Tokyo so that the local officials can easily travel to Tokyo to seek Headquarters opinion. Therefore it frequently happened that a SCAP directive would come out in broad policy leaving the interpretations to the local officials. The Japanese would first seek Military Government opinion which would be given and then proceed to Tokyo to obtain a SCAP opinion which would frequently vary with that of the local Military Government team. The team would then be placed in the embarrassing position of being confronted with the SCAP opinion by the local Japanese officials.

Captain

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Enclosure #1  
to Despatch #168  
September 7, 1949  
Yokohama

CONFIDENTIAL

-2-

Captain Callahan reported that in his area there had been a fairly large incidence of crime among the troops while on maneuvers which had a bad effect on the local populace. He felt that this was in part due to inadequate command function by the officer in charge but nevertheless viewed the presence of troops in his area as a source of trouble.

It should be noted that as in the case of the vast majority of Military Government team officers, Captain Callahan is not a Japanese language officer but has handled his work through Japanese interpreters.

William L. Magistretti  
American Vice Consul

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Enclosure No. 2 to Despatch No. 168,  
dated September 7, 1949, from Yokohama

MEMORANDUM OF CONVERSATION

Subject: Change from Local Military Govern-  
ment Teams to Civil Affairs

Participants: Captain Vernon C. Hill, Nagasaki  
Military Government Team

William L. Magistretti, Vice Consul,  
US POLAD, Yokohama

Date: August 24, 1949

Questioned as to whether removal of teams to regional headquarters would be desirable, Captain Hill replied that it would. He explained by saying that there was a great tendency on the part of Japanese officials to rely on Military Government teams. This developed from the earlier days when SCAP issued directives to the Japanese government putting a time date on the directive and also sent copies of the directive to the Team. Because of inadequate Japanese government communications the Military Government team got their copy via 8th Army first whereas local Japanese officials frequently did not get their copy in time to meet the deadline. Accordingly, Military Government personnel would contact the local Japanese officials who would take action on the basis of the local team orders.

Nowadays Japanese government communications have improved to the extent that they are quicker than MG facilities, but the Japanese officials still rely on MG for direction and interpretation of the orders of their own government. In view of these facts, Captain Hill is of the opinion that removal of the MG teams will serve to put the Japanese government on its own feet and alleviate undue reliance on occupation authorities.

The change will also serve to prevent the Japanese officials from blaming occupation authorities for acts causing resentment among the people. The Japanese

officials

CONFIDENTIAL

Enclosure #2,  
to Despatch #168  
September 7, 1949  
Yokohama

CONFIDENTIAL

-2-

officials in Nagasaki take credit on behalf of the Japanese government for all legislation welcomed by the people. However, as in the case of the unpopular tax collection measures fixing payment by a certain date or imposing a penalty, the Japanese tax officials stated it was due to occupation demands. They did not explain it was legislation of their own government which was in the interest of that government and the people.

Captain Hill was next asked whether the Japanese people would welcome the end of the Occupation. He indicated that while certain people would, others are desirous of continuing the Occupation fearing the Soviet menace in Asia. In general the farmers (who are a nouveau riche class) are in favor of the Occupation and its continuance for the time being, inasmuch as it has been responsible for the land reform, placing them on their own land for the first time in memory. However, there are a certain element who are resentful of the Occupation because of imposition of ways of doing things which are alien to Japan.

The Captain was of the opinion that good groundwork for the fruition of democracy in Japan had been laid, but the spreading of such ideas, plus those of sanitation and reforms in the education system would require a generation or generations. With the seeds sown, however, he felt that there would be a gradual healthy spread. Upon termination of the Occupation there would be a swing of the pendulum to more Japanese ways of doing things, but it probably would only be a half swing, resulting in a half gain as a result of Occupation directives and teaching.

By and large the ideas and ideals of the new constitution have taken hold in the larger cities where a large portion of the people are conscious of their rights. In the farm villages, however, the Captain has personally encountered indirect retention of power by purged former village masters. The method utilized is financing and coaching relatives to run for political office. The villagers who have only vaguely read of their rights are afraid to protest feeling that they will cut off their source of livelihood should they do so.

Questioned

CONFIDENTIAL

Enclosure #2  
to Despatch #168  
September 7, 1949  
Yokohama

CONFIDENTIAL

-3-

Questioned about Japanese feeling toward the troops, the Captain said the troops were well received in those areas where there were not regiments or divisions stationed. However, because of the inevitable percentage of trouble makers and certain cocky soldiers who considered themselves as the conquering heroes, feeling in towns where troops in large numbers are stationed is not good, as in Kumamoto. While disorders of the troops circulates widely by word of mouth, the balancing number of good acts (such as emergency aid to Japanese suffering an automobile accident) does not travel so widely and it is incumbent on MG to see that it does get sufficient publicity.

It should be noted that as in the case of the vast majority of Military Government team officers, Captain Hill is not a Japanese language officer but has handled his work through Japanese interpreters.

William L. Magistretti  
American Vice Consul

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(For Department's Use Only)

Enclosure No. 3 to Despatch No. 168,  
dated September 7, 1949, from Yokohama

MEMORANDUM OF CONVERSATION

Subject: Effect of Change from Military  
Government Teams to Military  
Government Regions

Participants: Captain Callahan, Legal Officer,  
Shizuoka Military Government Team

William L. Magistretti, Vice Consul,  
US POLAD, Yokohama

Date: September 2, 1949

Further discussion was held with Captain Callahan relative to the Japanese opinion about troops remaining in Japan. Captain Callahan stated that he had no indication that the Japanese would welcome troops remaining in his particular area but rather felt that the number of serious rape cases (19 from June 1949 to August 1949 with 5,000 troops on maneuver) had seriously alienated the Japanese population inasmuch as these occurred in very small villages. These came to the attention of an investigating board from GHQ which felt that 19 out of 5,000 was not a bad percentage. However, Callahan analysed the situation along the lines that if a murder happened in Chicago no one paid much attention to it whereas if it happened in a small town in Illinois the people remembered it 25 years or a hundred years later.

In this connection Callahan complained that adverse reports were usually stopped in channels and were not forwarded to the policy making level of GHQ with the result that in his experience and observation policy formulated on the GHQ level was entirely unrealistic as opposed to local needs and background.

Callahan felt that ideas and ideals of civil liberty, while known among lawyers and politicians, had not penetrated to the local level. The farm villages are entirely unacquainted with these ideas and in fact, the old politicians are still controlling

the villages

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Enclosure #3  
to Despatch No. 168  
September 7, 1949  
Yokohama

CONFIDENTIAL

-2-

the villages although purged. Even in the case of the large city of Numazu, Callahan pointed out, the purged mayor still runs the city through controlled office holders. Callahan claimed to have made a report on this situation through channels but nothing has ever been done about it. One of Callahan's greatest criticisms of the Occupation, particularly from the attainment of MG objectives, is that MG personnel were not screened for racial prejudice, nor were competent people with background selected for the particular job. One instance he cited was that of a Mr. Jones, a former bond salesman who now runs all of the industry in Shizuoka Prefecture which includes what is probably the largest light metal factory in Japan. These facts are known to the Japanese because Japanese employees handle the personnel records of the Team and the information gets back through them. In another instance on the small Shizuoka Military Government team an officer named Cullison, who formerly worked in the advertising department of a newspaper, is telling the Japanese farmers how to grow rice. Captain Callahan feels that this lack of appropriate background together with the lack of interest prevalent at least in his team, is a serious deterrent to the attainment of MG objectives.

While these personnel problems are an impediment to obtaining Occupation objectives, Callahan also believes that the Occupation, through its MG teams, missed a tremendous opportunity in the earlier days through failure to bring the message of democracy and what democracy means in terms of civil rights and liberties directly to the people. For the most part MG personnel dealt only with Japanese officials so that the message could not penetrate to the people and even today the majority of them do not understand democracy. There has been a tendency in Callahan's experience to regard the pre-war days of Japan as preferable to what the Japanese have to-day. In this connection the Japanese tend to interpret democracy from the daily lives of MG personnel which Callahan believes has not been particularly exemplary. He cited several instances of excessive drinking, rude conduct, and disparaging of the Japanese.

Because of the fact that the Occupation message was not brought directly to the people and because of the Japanese attitude of "it can't be helped" Callahan is of the opinion that the message of the Occupation has not and probably will not penetrate to the grass roots.

William L. Magistretti  
American Vice Consul

GENERAL HEADQUARTERS  
SUPREME COMMANDER FOR THE ALLIED POWERS  
Washington, D.C.

3 January 1949

MEMORANDUM TO: William H. Draper,  
Undersecretary of Department of Army

SUBJECT: Report and Summary of the Activities of the De-  
concentration Review Board and the Deconcentration  
Program in General.

FROM: Walter R. Hutchinson, Member of Deconcentration  
Review Board.

1. Under order of General MacArthur, dated 26 November 1948, a copy of which is attached hereto, Walter R. Hutchinson, a member of the Deconcentration Review Board, proceeded on 7 December 1948 from Tokyo, Japan to Washington, D.C. on TDY for the purpose of discussing with Department of Army officials the activities of the Deconcentration Review Board and the deconcentration program, generally.

2. A conference was held with Undersecretary of the Army William H. Draper on 21 December 1948, at which time the said Walter R. Hutchinson submitted an oral report summarizing the activities of the Deconcentration Review Board and the deconcentration program, generally, from the time of the organization of the Board down to date, and herewith submits a written report supplementing what has been reported orally.

3. The report together with properly marked exhibits is attached hereto in five copies.

*Walter R. Hutchinson*

Walter R. Hutchinson

Encl: Report

GENERAL HEADQUARTERS  
FAR EAST COMMANDAPO 500  
26 Nov 48

CP 201

SUBJECT: CP Order 331-6

TO : Mr. Walter R. Hutchinson, DAC  
Corporate Economist, P-8,  
BSS

1. You will proceed from Tokyo, Japan on or about 1 December 1948 to Washington, D. C. on TDY for a period of approximately forty-five (45) days for the purpose of discussing with DA officials the activities of the Deconcentration Review Board and the deconcentration program generally. Upon completion return to present station.

2. Travel by military and naval aircraft and rail is directed as necessary in the military service for the accomplishment of an emergency war mission and is chargeable to 991-1001 P415-02 A2192700 S92-500. U.S. Army surface transportation is authorized. AFR USMW 3D 3570 WD 11. Return AFR MWUS 3D 0038 WD1.

3. In lieu of subsistence a flat per diem of \$6.00 for travel and period of TDY within and \$7.00 for travel and period of TDY outside the CLUS is authorized in accordance with existing law and regulations, except while traveling on vessels where subsistence and quarters are furnished without cost to the individual. Mr. Hutchinson is authorized three (3) days delay enroute chargeable against annual leave or leave without pay at such time as will not interfere with accomplishment of his mission. During period of delay or leave per diem is not authorized.

4. An allowance of sixty-five (65) pounds personal baggage is authorized while traveling by air.

5. Prior to departure individual will be required to have completed prescribed immunizations and will require physical inspection as prescribed in par 4, MEC Cir 79, 25 July 47.

BY COMMAND OF GENERAL MAC ARTHUR:

/s/ E.S. Pavlock  
E.S. PAVLOCK  
CAPTAIN, AGD  
ACTG ASST ADJ GEN

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I N D E X

- I - Report and Summary of the Activities of the Deconcentration Review Board and the Deconcentration Program in General-- Pages 1 through 13
- II - Conclusions-- Pages 12 and 13.
- III - Recommendations--Pages 14 and 15.
- IV - Exhibits: Exhibit 1--Radio from General Douglas MacArthur dated, 26 January 1948  
 " 2--Radio Department of Army, dated 6 Feb 48  
 " 3--Basic Interpretation of Authority, dated, 7 June 1948  
 " 4--Deconcentration Review Board,, dated 4 June 1948  
 " 5--Ltr General MacArthur, 15 Jun 48  
 " 6--Operating Procedure Re Law 207, 10 Jan 48  
 " 6A--Reorganization of Nippon Soda KK-- 20 Jul 48  
 " 7--Findings and Recommendations in the Matter of Nippon Soda KK-19 Aug 48  
 " 8--Standards for Excessive Concentration in Industrial Fields  
 " 9--Recommendations with Reference to certain Aspects of the Deconcentration Program  
 " 10--Proposed Memo From Deconcentration Review Board for the Supreme Commander for the Allied Powers, Subject: "Recommendations With Reference to Certain Aspects of the Deconcentration Program, dated 28 Aug 48", 31 Aug 48  
 " 11--Record Meeting held 11 Sep 48, at Gen. W.F. Marquat's office Concerning Findings of the Deconcentration Review Board in the Case of Nippon Soda Co.  
 " 12A--Findings & Recommendations in the Matter of Nippon Kokan Kabushiki Kaisha (Japan Steel Tube Co., Ltd) HCLC Order #156, 2 Nov 48  
 " 13A--Findings & Recommendations in the Matter of Nispon Kogyo Kabushiki Kaisha (Nisson Chemical Industry Co., Ltd) HCLC Order #122, 14 Oct 48  
 " 14A--Findings & Recommendations in the Matter of Kabushiki Kaisha Kobe Seikoshu (Kobe Steel Works) HCLC Order #71 4 Nov 48  
 " 15A--Findings and Recommendations in the Matter of Fusu Kinzoku Kogyo KK (Fuso Metal Industries, Ltd), HCLC Order #36, 4 Nov 48

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Exhibit 16A--Findings and Recommendations in the  
Matter of Nippon Seitetsu KK (Japan  
Iron & Steel Co., Ltd) HCLC Order  
No. 166, 15 Nov 48

" 17--The Yasuda Bank, Ltd; The Teikoku Bank,  
Ltd.; The Mitsubishi Bank, Ltd.; The  
Sanwa Bank, Ltd.; The Sumitomo Bank,  
Ltd. of Japan; 2 Jul 48

GENERAL HEADQUARTERS  
SUPREME COMMANDER FOR THE ALLIED POWERS  
Washington, D.C.

3 January 1949

SUBJECT: Report and Summary of the Activities of the Deconcentration Review Board and the Deconcentration Program in General.

TO: Department of the Army Officials.  
Washington, D.C.

1. Pursuant to a radio request from General MacArthur, dated 26 January 1948, copy of which is attached hereto as Exhibit 1, and confirmed by the Department of the Army, by radio dated 5 February 1948, copy of which is attached hereto as Exhibit 2, the Deconcentration Review Board was created on a policy level basis and its members were duly appointed pursuant thereto as follows:

Roy S. Campbell, Chairman of the Board  
Edward J. Burger  
Joseph Robinson  
Byron D. Woodside  
Walter R. Hutchinson

These individuals proceeded to Tokyo, Japan where they arrived on 4 May 1948.

2. The Board immediately upon arrival proceeded to complete its organization on a policy level basis and adopted as its charter, a basic Interpretation of Authority, a copy of which is attached hereto as Exhibit 3. This basic Interpretation of Authority which was adopted by the Board, was based upon its interpretation of the authority conferred upon it by virtue of the two telegrams mentioned above, and it contains its terms of reference which are set out under Paragraph II thereof. The terms of reference can more fully be understood by referring to Paragraph II, Exhibit 3, attached, but are substantially divided into two parts as follows:

(a) Major functions:

The Deconcentration Review Board is to independently review the reorganization order issued by the Holding Company Liquidation Commission in the case of each company which has been designated by the HCLC as an excessive concentration under Article 3 and Article 6 of the Japanese Public Law 207, for the purpose of appraising the impact and effect of the deconcentration action upon the operating efficiency of the industrial, distributive, insurance or banking enterprises concerned and its consequent effect upon the general industrial, financial or commercial economy of the country and shall thereafter

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make specific findings and directly advise the Supreme Commander for the Allied Powers whether the order should be stayed, modified or set aside.

(b) Other functions. The members of the Board shall be available for such other appraisals as the Supreme Commander for the Allied Powers desires.

3. The Board thereafter, on 4 June 1948 by formal communication, a copy of which is attached hereto as Exhibit 4, advised General MacArthur that it was formally organized for the purpose of carrying on its duties and transmitted to him its basic Interpretation of Authority, the receipt of which was acknowledged by a letter from General MacArthur, dated 15 June 1948, a copy of which is attached hereto as Exhibit 5.

4. The Board, after having been briefed generally on the organization of General Headquarters and of SCAP, and the functions and duties of its respective sections, proceeded to consider and approve a method of procedure for receiving the respective cases and assignments that would be referred to it under its terms of reference. As a result, an operating procedure under Law No. 207 (Deconcentration Law), a copy of which is attached hereto as Exhibit 6, was approved as of 10 December 1948, for the purpose of establishing a method for processing the cases from the Holding Company Liquidation Commission, the Japanese Enforcement Agency through the Anti-Trust and Cartels Division of ESS, CHQ, the surveilling agency, to the Deconcentration Review Board.

5. The Board after having formally organized, commenced a review and study of Allied and United States Policy and Directives together with Occupation Policy and Directives, which were recognized as the basis for the enactment of Japanese Public Law No. 207 (Law for the Elimination of Excessive Concentration of Economic Power) by the Japanese Diet. The Board further made a study of the deconcentration law itself together with all related statutes that had been previously passed by the Japanese Diet. These laws particularly included Japanese Imperial Ordinance No. 233 of 1946 (the Holding Company Liquidation Commission Ordinance), and Japanese Public Law No. 2 of 1948, (Law for the Termination of the Zaibatsu Family Control), Japanese Public Law No. 54 (Law relating to Prohibition of Private Monopolies and Methods for Preserving Fair Trade), Japanese Public Law No. 208 (Reconstruction and Reorganization Law) and the deconcentration law itself, Japanese Public Law 207 (Law for the Elimination of Excessive Concentration of Economic Power), copies of which are available from the Department of Army files.

6. The Board also made a study of all actions previously taken by the Holding Company Liquidation Commission under Japanese

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Public Law No. 207 (Law for the Elimination of Excessive Concentration of Economic Power) together with all actions taken by the Anti-Trust and Cartels Division of the Economic and Scientific Section of SCAP pursuant to their duties as a surveilling agency for General Headquarters.

7. The Board further made an informal examination of the pending cases for reference to it for review and on the 20th day of July 1948, received from the Holding Company Liquidation Commission through the Anti-Trust and Cartels Division under its terms of reference, the First Order for review in the case of the Nippon Soda Kadushiki Kaisha (Nippon Soda Company, Ltd.) a copy of which is attached hereto as Exhibit 6A.

8. The board reviewed the above mentioned order together with the basic files referred to it by the Holding Company Liquidation Commission and independently interviewed officials of the H.C.L.C., and of the company involved, and of the Anti-Trust and Cartels Division, ESS, GIC, and after having objectively considered the case found that there was no prima facie showing of evidence that the company was an excessive concentration within the definition contained in the deconcentration law and therefore adopted and formally recommended to the Supreme Commander for the Allied Powers that the company be removed from the list of designation as an excessive concentration under date of 19 August 1948, a copy of which is attached hereto as Exhibit 7.

9. At the same time the above mentioned order was reviewed, the Board had made an examination and study of the overall policy and procedure that had been followed by the Holding Company Liquidation Commission in enforcing the deconcentration law and had likewise made an examination and study of the policies and procedures that had been followed by the Anti-Trust and Cartels Division in carrying out its duties as the surveilling agency over the Holding Company Liquidation Commission in the performance of the latter's duties as the Japanese enforcement agency of the deconcentration law and found substantially that the following conditions existed:

(a) That approximately 325 companies had been designated by the Holding Company Liquidation Commission under direction of the Anti-Trust and Cartels Division as excessive concentrations, based entirely upon a preliminary examination having been made of each company by the staff of the Holding Company Liquidation Commission and the Anti-Trust and Cartels Division;

(b) That these designations were made under a set of standards previously prepared by the Anti-Trust and Cartels Division and at its direction approved by the Holding Company Liquidation Commission and that these standards were established administratively under the deconcentration law, a copy of which is attached hereto as Exhibit 8;



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(c) That at no time was any hearing held by the Holding Company Liquidation Commission for the purpose of introducing evidence to establish that the company designated was in fact an excessive concentration, nor was there any opportunity given to the company to present evidence to the effect that it was not an excessive concentration;

(d) After the company had been designated as an excessive concentration, orders were then issued by the Holding Company Liquidation Commission, under the advice and direction of Anti-Trust and Cartels Division providing for its reorganization either by requiring it to divest itself of certain stock interest or property holdings, or to take other divestatory action, but not requiring a physical breakup; or to require that the company be reorganized along certain physical lines according to plans submitted and adopted by the Holding Company Liquidation Commission upon advice and direction of the Anti-Trust and Cartels Division;

(e) That of the 325 companies originally designated, 50 were removed from designation as not constituting excessive concentration prior to 4 May 1948;

(f) That an additional 144 companies were classified as excessive concentrations not subject to physical breakup but upon which orders were issued requiring compliance with certain reorganization plans other than actual physical breakup, such as, disposition of stock holdings in other companies and the liquidation of assets and to take such other action which the Holding Company Liquidation Commission, upon the advice of Anti-Trust and Cartels Division deemed necessary as a result of the companies' designation as an excessive concentration;

(g) That thereafter, subsequent to 4 May 1948, 51 additional companies were ordered to reorganize in a similar manner to that which had been employed in the above mentioned 144 companies;

(h) That the Holding Company Liquidation Commission, upon direction and advice of Anti-Trust and Cartels Division began to consider or propose orders for reorganization of those additional companies which required physical breakup and as in the Order submitted for review and mentioned above as Exhibit 6, provided for the reorganization of the physical properties of the companies concerned, and up to and including the date that the undersigned left Tokyo, a total of six such orders had been reviewed by the Deconcentration Review Board and formal recommendations submitted to the Supreme Commander for the Allied Powers and those respective recommendations in each case are discussed later in this report;

(i) That as a result of a study of Allied and United States Policy, their Directives, and of Occupation Policy and their

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Directives, the Board found that the implementation and enforcement of the deconcentration law was being carried out without complete compliance with the intent of Allied and Occupation Policy and Directives and with the intent of the law; it therefore, concluded it advisable to prepare and submit certain recommendations to the Supreme Commander for the Allied Powers for the establishment of fundamental principles and with his approval to be applied by the Holding Company Liquidation Commission as the Japanese enforcement agency and by the Anti-Trust and Cartels Division as the GHQ surveilling agency in the enforcement of the deconcentration law and to require that all cases be reviewed in the light of those principles;

(j) The Board further determined that in the light of the actions the Holding Company Liquidation Commission had then taken in its enforcement of the deconcentration law, that certain provisions of the Japanese Anti-Trust Act were being followed that raised serious problems that would have to be considered by the Deconcentration Review Board in its future deliberations on Orders provided for re-organization, and this, was likewise called to the attention of the Supreme Commander for the Allied Powers and a recommendation made that the Anti-Trust Law be reviewed by competent lawyers for the purpose of recommending any amendments necessary;

(k) Likewise, the Board found further that the lack of an adequate Japanese corporation law and an appropriate Japanese reorganization law would create certain problems in carrying to a successful completion the deconcentration program, and accordingly, recommended to the Supreme Commander the adoption of such laws.

That as a result of the foregoing conclusions, a memorandum was prepared and adopted on 28 August 1948 directed to the Supreme Commander for the Allied Powers, making certain recommendations and establishing certain principles to be applied in the enforcement of the deconcentration law No. 207, entitled "Recommendations With Reference to Certain Aspects of the Deconcentration Program", a copy of which is attached hereto as Exhibit 9; that as a result of the adoption of said memorandum, a formal request was made by Major General W.F. Harquat of the Chief of the Legal Section of GHQ for a legal opinion upon the subject matter contained in the memorandum approved by the Board and the said legal opinion was rendered approving the recommendations and is attached hereto as Exhibit 10.

10. The Board, after having arrived at the foregoing conclusions, prepared and adopted the recommendations set out in Exhibit 9 because it believed:

(a) That the intent of Japanese Public Law No. 207 (Law for the Elimination of Excessive Concentrations of Economic Power) as expressed in Article III must be complied with, and for the purpose of showing the definition of an excessive concentration that:

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article is set out as follows:

"Article 3. The HCLC shall designate excessive concentrations of economic power which exist on the effective date of this law or which shall have been in existence at any time between 1 August 1945 and the effective date of this law, and shall eliminate such excessive concentrations of economic power in the interest of public welfare. For this purpose, an excessive concentration of economic power shall be defined as any private enterprise conducted for profit, or combination of such enterprises, which by reason of its relative size in any line or the cumulative power of its position in many lines, restricts competition or impairs the opportunity for others to engage in business independently, in any important segment of business. The HCLC shall designate excessive concentrations of economic power in accordance with the foregoing definition and in accordance with standards to be adopted under the provisions of Article 6."

(b) It is the Board's interpretation that the law requires that there must be a prima facie showing of evidence according to well known legal and democratic principles that the company being subjected to the provisions of the law is an excessive concentration, and thereby give that company the right to a hearing and the right to produce evidence before the HCLC that it is not an excessive concentration; it was the Board's opinion that the administrative standards adopted under Article 6 were authorized only for the purpose of providing guides for designation under the law in accordance with the definition of an "Excessive Concentration of Economic Power" and not as conclusively establishing that the company is an Excessive Concentration; the Board further believed that the law in providing for Orders for Reorganization contemplated dealing with fundamental property rights of individuals and corporations and therefore, under the democratic constitution now in effect in Japan, that these individuals and corporations were entitled to the protection granted by that Constitution in accordance with well known democratic principles and procedures. It must be kept in mind that prior to the establishment of the four principles, hereinafter set out, that no hearing at all was held or permitted on the question of whether or not a company designated under the law was in fact an excessive concentration and no substantial showing of evidence was required; in other words, the companies were ordered to break up and reorganize once they were arbitrarily designated as an excessive concentration.

11. That after the Board's formal adoption of the aforementioned memorandum, it was submitted to General Douglas MacArthur in personal conference at which were present General MacArthur, Major General W.F. Marquat, and all the members of the Board as follows: Mr. Roy S. Campbell, Edward J. Burger, Joseph Robinson, Byron D. Woodside, Walter R. Hutchinson. The substance of the memorandum was thoroughly

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discussed and General McArthur announced his entire approval and ordered that it be put into effect at once. He authorized Major General W.F. Largent to call a meeting of the HCLC, the proper officials of the Anti-Trust and Cartels Division and of the Legal Section of GIC and the members of the Deconcentration Review Board for the purpose of announcing the principles adopted and advising the Holding Company Liquidation Commission that they were to be applied in all cases coming before it under the deconcentration law.

12. That on 11 September 1948, a meeting was held in the office of Major General W.F. Largent with members of the Holding Company Liquidation Commission, officials of the Anti-Trust and Cartels Division, of GSS GIC, and officials of the Legal Section of GIC and members of the Deconcentration Review Board, at which General Largent read the principles contained in the above mentioned memorandum, Exhibit 9, and which are as follows:

- "a. That no Order should be issued under the Deconcentration Law unless there is a showing of a prima facie case that the company "restricts competition or impairs the opportunity for others to engage in business independently in any important segment of business"\*. In the absence of such showing the company should be removed from designation.
- b. That the mere possession of non-related lines of business is not in itself sufficient in any case to establish that a company is an excessive concentration within the Law.
- c. That the submission of a plan of reorganization as a voluntary plan is not in itself sufficient to confer upon the HCLC authority to issue an Order under Law No. 207.
- d. That the action a company is ordered to take by the HCLC under Law No. 207 should be directly related to the facts upon which that company was determined to be an excessive concentration.

\*Article 3, Law No. 207"

that General Largent advised the HCLC that they were to apply the principles announced in their enforcement of the deconcentration law and that all cases were to be reviewed and considered in the light of those principles; a copy of the record of that meeting is attached hereto as Exhibit 11.

13. That thereafter the Board received approximately four

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Orders in cases which had been originally prepared prior to the issuance of the above mentioned principles and therefore called the matter to the attention of the Anti-Trust and Cartels Division and returned the cases for reference to the Holding Company Liquidation Commission for the practical application of the principles adopted. It became apparent thereafter that the Holding Company Liquidation Commission was having difficulty in arriving at its own independent decision in each case; that the members of the Holding Company Liquidation Commission were of the opinion that even though their conclusions were contrary to those of the officials of the Anti-Trust and Cartels Division, that they then must conform their final decision to the orders given to them by the Anti-Trust and Cartels Division and accordingly, processed the cases in that manner. It became necessary to call to the attention of Major General W.F. Largent the fact that the Holding Company Liquidation Commission was not being permitted to make an objective determination of the facts in each case, based upon the evidence before it and that therefore, its decision became in effect the decision of the Anti-Trust and Cartels Division. Thereafter, General Largent took steps to properly advise the Chief of the Anti-Trust and Cartels Division that it was necessary, under General MacArthur's orders approving the four principles, that the Holding Company Liquidation Commission be given complete independence to examine the facts and evidence before it; that further it was to be permitted to arrive at its own objective decision. He stated that if it found that the company concerned was not an excessive concentration that it should be removed from the list of designation and, if found that it be an excessive concentration then the order was to be processed in the regular manner to the Deconcentration Review Board for review.

14. That as a result of this delay in fully applying the four principles, orders in the following cases were referred to the Deconcentration Review Board for review and the Board found after a review of the record in each case, that the company concerned did not constitute an excessive concentration and a formal recommendation to that effect was submitted in each case to the Supreme Commander for the Allied Powers and the companies were thereafter removed from designation.

- a. Nippon Koken Ltd. (Japan Steel Tube Company, Ltd.) a copy of which is attached hereto as Exhibit 12A
- b. Nisshon Kogyo Kogyo, Ltd. (Nisshon Chemical Industry Company, Ltd.) a copy of which is attached hereto as Exhibit 13A
- c. Kabushiki Kaisha Kobe Seikosho (The Kobe Steel Works Ltd.) a copy of which is attached hereto as Exhibit 14A
- d. Fuso Kinzoku Kogyo, Ltd. (Fuso Metal Company) a copy of which is attached hereto as Exhibit 15A

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15. That on the 2nd day of October 1945, an order of the Holding Company Liquidation Commission in the Nippon Seitetsu Kabushiki Kaisha (Japan Iron & Steel Co., Ltd.), the Holding Company Liquidation Commission Order No. 166 was submitted to the Board for review. That thereafter the board having fully examined the proposed order and the basic file found that the Japan Iron & Steel Co. was an excessive concentration of economic power within the meaning of Article III, Law 307 and rendered a formal recommendation to the Supreme Commander for Allied Power on the 15th of November 1948, a copy of which is attached hereto as Exhibit 16A.

16. That the Board is continuing its deliberations and now has before it orders for review among which are the Oji Paper Company, received on 2 October 1948 and the Mitsubishi Denki KK (Mitsubishi Electric Manufacturing Co., Ltd.) received 5 October 1948.

17. That after the announcement of the above mentioned four principles and their application, the Holding Company Liquidation Commission proceeded to re-examine all cases for the purpose of removal of those companies from designation that do not constitute excessive concentration within the intent and definition of the law as guided by the principles established and accordingly, upon direction of the Anti-Trust and Cartels Division, re-examined 216 companies and under date of 19 November 1948, removed from designation 142 companies and at that date advised that they had under consideration for similar action 74 additional companies, leaving a total of 54 companies yet to receive formal consideration under the law and under the application of the four principles.

18. It is the considered opinion of the Deconcentration Review Board officials that the entire deconcentration program is being carried out in full compliance with Allied and Occupation Policy and Directives and with the intent of the law and that if the implementation of the deconcentration program is carried out in full compliance with the four principles established by General MacArthur that the entire deconcentration program will be fully and properly brought to conclusion as intended within the approximate time limit established provided the program is subjected to no further delays in administrative procedure under the four principles.

19. The foregoing subject matter of this report has been concerned with the enforcement of Japanese Public Law No. 207, title as follows: "Law for the Elimination of Excessive Concentration of Economic Power", and cases referred to the Board under that part of its terms of reference, entitled "Major Functions" as

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contained in paragraph 1, of Part II, Exhibit 3. The only important case referred to the Board under its terms of reference entitled "Other Function", as contained in paragraph 2, of Part II, Exhibit 3, has been that concerning the reorganization of the five largest banks in Japan.

20. The Board received on 5 June 1948, an official request to make a study of the banking situation in Japan as it pertained in particular to the question as to whether the five largest commercial banks in Japan, The Yasuda Bank, Ltd., The Teikoku Bank, Ltd., The Mitsubishi Bank, Ltd., The Sanwa Bank, Ltd., The Sumitomo Bank, Ltd., should be broken up into a greater number of banks and whether such a breakup or any reorganization should be effected under Japanese Public Law 207 (Law for the Elimination of Excessive Concentration of Economic Power). The Board made an examination of all documents and data made available on the above question in the light of all previous actions taken under Japanese Law No. 2 of 1948 (Law for the Termination of the Zaibatsu Family Control), and Imperial Ordinance No. 233 (The Holding Company Liquidation Commission Ordinance). The Board also reviewed proposed plans for new banking legislation and of the facts pertaining to the then reorganization progress being made of the five banks mentioned above pursuant to the "Financial Institutions Reconstruction and Reorganization Law," Japanese Law No. 59 of 1946. The Board further considered the applicability of Japanese Law No. 54 of 1947 (Law Relating to Prohibition of Private Monopolies and Methods for Preserving Fair Trade) the Japanese Anti-Trust Law, and asked for a legal opinion of the Legal Section of CHQ, on its applicability to the five banks as effectively as Japanese Law No. 207 of 1947 (Law for the Elimination of Excessive Concentration of Economic Power).

21. The Board having been legally advised that the Japanese Anti-Trust Law, Law No. 54 of 1947, applied fully and adequately to the five banks and having ascertained that previous actions taken under Law No. 2 of 1948, and Imperial Ordinance No. 233, mentioned previously had eliminated, or was eliminating, control by the Zaibatsu and designated Holding Companies, recommended to the Supreme Commander for the Allied Powers that the Yasuda, Teikoku, Mitsubishi, Sanwa and Sumitomo Banks be not broken up and that they be remanded to the Fair Trade Commission for effective application and enforcement of the Japanese Anti-Trust Law, Law No. 54 of 1947, a copy of which is attached hereto as Exhibit 17.

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22. That the Board has conducted its deliberations entirely upon the policy level upon which it was created pursuant to the radio request from General MacArthur, dated 26 January 1948, and previously referred to as Exhibit 1, and pursuant thereto, has officially reported on all of its formal actions directly to the Supreme Commander for the Allied Powers.



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### C O N C L U S I O N S

1. The implementation and enforcement of Japanese Public Law No. 207 (Law for the Elimination of Excessive Concentrations of Economic Power), by arbitrary procedures and methods resulted in the problem being called to the attention of the Supreme Commander for the Allied Powers because of its possible detrimental effect upon the economic recovery of Japan.

2. That as a result of this situation, the Supreme Commander for the Allied Powers requested the appointment of the Deconcentration Review Board upon a policy making level, directly responsible to him, for the purpose of reviewing the Orders for reorganization being entered by the Holding Company Liquidation Commission, the Japanese Enforcement Agency.

3. That the review was to determine the impact and effect of the Order issued upon the operating efficiency of the industrial, distributive, insurance and banking enterprises concerned and its consequent effect upon the industrial, distributive, commercial economy of the country.

4. That the Deconcentration Review Board, in acting to appraise the impact and effect of the deconcentration action upon the general industrial, financial or commercial economy of the country was obligated to determine whether or not the law was being enforced as it was intended under the provisions of that law as written.

5. That the Deconcentration Review Board concluded that the law was not being implemented and enforced in compliance with the intention of the statute as written; that in fact, the arbitrary method of determining that a company was an excessive concentration without a hearing was an evasion of the intent of the law.

6. That the Deconcentration Review Board, pursuant to the authority conferred upon it, called to the attention of the Supreme Commander for the Allied Powers the fact that the law was not being properly enforced, and recommended that four fundamental principles must be applied in its enforcement, therefore providing a hearing for the purpose of determining whether or not a company was an excessive concentration.

7. That the four principles recommended and set out in paragraph 12 of this report were approved by the Supreme Commander for the Allied Powers and that he ordered that they be applied in all cases.

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(Conclusions)

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8. That it became apparent that this order was not being complied with by the administrative agency charged with the responsibility of surveilling the enforcement of Japanese Public Law No. 207 (Law for the Elimination of Excessive Concentrations of Economic Power). Thereafter, it was necessary to take steps to see that the said agency complied with the Supreme Commander's order.

9. That the deconcentration program and the enforcement of Japanese Public Law No. 207 (Law for the Elimination of Excessive Concentrations of Economic Power) is being carried out within the intent of allied and United States policy and within the intent of the law as long as the four principles are being applied in all cases objectively by the HCLC; that this is subject to complete coordination on the part of the surveilling agency with the order given by the Supreme Commander.

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1/5/49

### R E C O M M E N D A T I O N S

A. The following recommendations should be given immediate consideration in behalf of the administration and early conclusion of the enforcement of Japanese Public Law No. 207 (Law for the Elimination of Excessive Concentration of Economic Power):

1. Require that there be no interpretation of allied and occupation policy at not lower than the level of the Section Chief of ESS, GHQ, SCAP.

2. Require that no operation policy be determined at lower than the level of the Chief of ESS, GHQ, SCAP.

3. Require that all personnel of Anti-Trust and Cartels Division of ESS, GHQ, SCAP confine its surveillance activities in connection with the enforcement of Japanese Public Law No. 207 (Law for the Elimination of Excessive Concentration of Economic Power), to implementing and administering policy as announced or interpreted by the appropriate higher echelon, including that which is determined as a result of the formal decisions of the Deconcentration Review Board.

4. Require complete administrative coordination and cooperation.

5. Request that the personnel of Anti-Trust and Cartels Division of ESS, GHQ, SCAP be instructed to implement and expedite, without any delay, the decisions of the Deconcentration Review Board as approved by the Supreme Commander for the Allied Powers.

B. Related problems of the occupation program

1. Require that an operational policy be established by the Chief of ESS, GHQ, SCAP to require that the Anti-Trust and Cartels Division shall in every case, where a company has been released from designation under Japanese Public Law No. 207 (Law for the Elimination of Excessive Concentration of Economic Power), immediately process that company to conclusion under any other laws, the enforcement of which the Anti-Trust and Cartels Division is charged with surveillance. For example, Japanese Public Law 54 (Law Relating to the Prohibition of Private Monopolies and Methods for Preserving Fair Trade), Japanese Public Law 208 (Reconstruction and Reorganization Law), Japanese Imperial Ordinance 233, 1946 (The KCLC Ordinance) and Japanese Public Law No. 2 of 1948 (Law for the Termination of the Zaibatsu Family Control).

Report and Summary, p. 15  
(Recommendations)

1/5/49

2. Require that a competent Anti-Trust lawyer from the United States be assigned to the Chief of ESS with full authority to review and recommend any amendments necessary to Japanese Public Law No. 54 (Law Relating to the Prohibition of Private Monopolies and Methods for Preserving Fair Trade) in accordance with a separate report being submitted herewith.

3. Request that all activities engaging in the problem of establishing a new Japanese Corporation Law and Japanese Reorganization Law (Bankruptcy), be coordinated and completed in conjunction with the steps taken in recommendation contained in the previous paragraph.

4. Request that all necessary steps be immediately taken to reestablish and reopen properly controlled and regulated stock exchange.

5. Request that an immediate survey be made of all securities and their amounts held by the HCLC and all other Japanese government agencies, and that as early action as possible, consistent with sound economic recovery, be taken to complete their liquidation and distribution into the hands of the public.

The foregoing report, conclusions and recommendations are herewith submitted this 5 day of January, 1949.

*Walter R. Hutchinson*

Walter R. Hutchinson  
Member, Deconcentration Review Board  
Washington, D.C.

GENERAL HEADQUARTERS  
SUPREME COMMANDER FOR THE ALLIED POWERS

OUTGOING MESSAGE  
UNCLASSIFIED

ESS:EX WFM/nje  
DATE: 26 January 1948

FROM: SCAP (MacArthur)

260433

TO: DEPT OF ARMY ..... PRIORITY

(Z-36542) for CSCAD Subject is enforcement of Japanese Public Law No. 207 (Law for the Elimination of Excessive Concentrations of Economic Power) passed by the Diet on 9 December 1947 with the additions and changes stipulated in Department of Army radio W 91710 dated 9 December 1947. Radio is in seven parts.

PART I. Designation for examination as excessive concentrations.

1. Pursuant to requirements of Article 3 and Article 6 of Japanese Public Law No. 207 passed by the Diet on 9 December 1947 under title "Law for Elimination of Concentrations of Excessive Economic Power," companies will be publicly designated in four categories under classification as (a) industrial, (b) distributive and service, (c) insurance and (d) banking. Plan is for HCLC to designate companies promptly thereby assuring non-designated institutions that they will not be required to reorganize as excessive concentrations under this law. Companies and the public will be informed that designation does not constitute a reorganization order. Total designated companies are estimated at approximately 300 of which more than 70 percent are now restricted Zaibatsu concerns. This number is about one-third of one percent of total corporations in Japan but the degree of direct or indirect control extends to 80 percent of Japan's industrial, financial and commercial enterprise.

2. Standards for designation and reorganization will be issued by HCLC for each of the four categories simultaneously with announcement of designated corporations, except that standards for financial institutions will not be made public initially. Standards will be sufficiently flexible to permit realistic determination in each case upon the basis of the characteristics of the company. Standards based upon capitalization in yen, scale of production or similar rigid specifications will be avoided. Financial soundness and productive efficiency will be strategic determinants as to the type and extent of reorganization required. Application of standards governing a reorganization where required should result in insuring freedom of enterprise while at the same time tending toward an improvement in management efficiency and tending toward decreasing yen costs of production. Complete standards being forwarded.

3. Plan is to require HCLC to designate industrial companies first, distributive and service companies second, insurance companies third and banks under a special procedure. Banking institutions, of which six probably will come under the classification of excessive concentrations, will be designated separately. Banks probably to be affected by deconcentration now are reorganizing pursuant to provisions of the Financial Institution Reconstruction and Reorganization Law and major changes necessary to eliminate excessive concentration characteristics are being effected insofar as practicable. Objective is to conduct reorganization of banks to maximum degree

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PAGE TWO RADIO FROM SCAP (MacARTHUR) TO DEPT OF ARMY ( ) DTD 26 Jan 48

possible before public announcement is made in order to prevent loss of public confidence in banking structure or in any banking institution.

PART II. Determination of existence of excessive concentration of economic power.

The law provides that determination of actual existence of excessive concentrations of economic power and reorganization of companies under standards issued is a function of the Holding Company Liquidation Commission. This is to be carried on in all stages under surveillance of the Supreme Commander's Headquarters. Procedure substantially is as follows:

a. Company designated submits plan to the HCLC for reorganization under standards applicable to its category. Plan will have been worked out as evidence of the degree and type of reorganization that will be required if designated company is actually ordered to reorganize.

b. Company may file with the plan a claim that it should not be required to reorganize on the basis of the standards.

c. Company files statement of the effect of reorganization upon corporation stability, production capacity and financial structure, and other data requested by HCLC.

d. HCLC analyzes the reorganization plan and the company statements and consults with company officials and other interested parties.

e. HCLC holds a formal hearing at which determination is reached as to whether company is, in fact, an excessive concentration and whether company should be reorganized and, if so, the extent and form of reorganization.

f. If company claims that it is not an excessive concentration is upheld by HCLC, HCLC removes company from designated list. If HCLC determines that although company is an excessive concentration it cannot be reorganized because of technological considerations, HCLC removes company from designated list but remands it to Fair Trade Commission for surveillance.

g. If HCLC determines that the company is to be reorganized it issues the necessary orders. A copy of the reorganization order is forwarded to the Supreme Commander.

PART III. Review and advice with reference to the impact of deconcentration proposed upon the operating efficiency of the enterprise as reflected in the domestic economy.

1. It is proposed that analysis of the impact of the deconcentration action proposed by the HCLC upon the operating efficiency of the industrial, distributive insurance or banking enterprises concerned as reflected in the domestic economy, be made by an advisory group, to be designated as the Deconcentration Review Board, functioning under SCAP.

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2. This board will receive from SCAP the HCLC reorganization order, review it together with statements of the companies concerned and make an independent assessment of the situation. Its investigations will include direct conference contacts as desired.

3. In general this board accepts the plan of reorganization for purposes of review as it is presented and appraises the effects of such plan on the operating efficiency of the enterprise as reflected in the economy. This provision simplifies the board action and makes possible the most rapid review of any claims presented.

4. The Deconcentration Review Board states its findings to the Supreme Commander for the Allied Powers as follows:

a. The company may be reorganized as per plan without drastically reducing operating efficiency with manifest impairment of the economy, or

b. The company may not be reorganized as per plan without drastically reducing operating efficiency with manifest impairment of the economy, or

c. The plan contains fundamental defects preventing its use in meeting the requirements of deconcentration without drastically reducing operating efficiency with manifest impairment of the economy.

5. Based on its findings, the Board advises the Supreme Commander when, in its opinion, he should exercise his inherent right to intervene for the purpose of staying, modifying, or setting aside any action or order of the HCLC or any other Japanese governmental agency charged with implementing the deconcentration program.

6. The Supreme Commander decides whether to intervene in the HCLC action after consideration of all facts made available to him by the HCLC and the Deconcentration Review Board.

PART IV. Action.

The HCLC takes necessary action in connection with the administration of Japanese Public Law No. 207 (Law for Elimination of Concentration of Excessive Economic Power). This is done by issuance of orders to the company concerned and subsequent surveillance of the implementation of those orders. When a company has completed reorganization or has been eliminated from designation as an excessive concentration of economic power, or has been released pursuant to instructions from the Supreme Commander, it is publicly announced as free to operate without further reorganization as an excessive concentration under this law.

PART V. Appeal

1. Provisions of Public Law No. 207 permit appeal to the Prime Minister upon neglect of the HCLC to consider substantial evidence. Appeal is filed in accordance with established Japanese procedure.

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2. Judicial appeal from actions of the HCLC is provided in Japanese Law pursuant to the Japanese constitution.

3. Favorable action on the appeal by the Prime Minister will be manifested through a directive to HCLC to modify its action. Favorable decision of appeal to the courts will terminate the specific reorganization action of HCLC which then must either initiate a new reorganization action or remove the company from the designated list. Any new reorganization plan will be processed to the Supreme Commander for the Allied Powers through the same channels as the original action.

4. Appeals will be from actions of the HCLC and not from the instructions of the Supreme Commander for the Allied Powers. The Supreme Commander possesses the inherent right to annul action by the Prime Minister or the courts or to terminate appeal action.

PART VI. Constitution of the Deconcentration Review Board.

1. Request that a group of five specially selected and outstanding individuals on policy making level be recruited in the United States for duty in Japan under the Supreme Commander for the Allied Powers as the members of the Deconcentration Review Board. Members should be prepared to serve for a period of not less than one year, extendable if required.

2. The board members should meet the following specifications:

a. Antitrust specialist from the Department of Justice Antitrust Division.

b. Securities and corporate finance specialist from the Securities Exchange Commission.

c. Corporate management specialist.

d. Industrial engineer and plant management specialist.

e. A suitable presiding member.

3. It is desired that:

a. No appointee should be connected with a firm having interests in Japan from which position a prejudicial attitude may develop as to deconcentration or reorganization.

b. No appointee should be connected with a firm currently under prosecution by the U.S. Department of Justice for violation of United States Antitrust Laws.

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c. Appointees should be notified in advance that they will be required to adjudicate within the framework of U.S. policy statements and upon directives from higher echelons.

d. Both business and government should be represented on the board.

e. The terms of reference furnished to the board members should include clear indication of the nature of duties to be performed. The contemplated procedure provides that they review the reorganization plans proposed by the HCLC for those companies scheduled for a change in corporate structure and that the board members submit to the Supreme Commander for the Allied Powers an expression of opinion as to how the reorganization, if effected, will be reflected in the efficiency of the operations of the enterprises concerned as to the consequent effect on the general industrial, financial or commercial economy of the country. These individuals will be available for such other appraisals as the Supreme Commander may desire to require of them, but their major functions have been specified in order to obviate the necessity for extensive preparation in Japanese industrial or financial history, and to ensure rapid review of the main issue in each case.

It is essential that the utmost speed commensurate with adequate consideration of the problem to be attained since extended delay in implementing the program will produce undesirable reactions which should be avoided.

4. Request that names of proposed board members be submitted for clearance as soon as possible.

PART VII. General.

1. It is believed that the foregoing procedure will implement the directive contained in the proposed revision of SANACC 302/2 in a manner consonant with the intent of the United States Government, while providing proper safeguards and adequate consideration for any possible adverse effect upon industrial production, finance, price levels or general economic recovery.

2. The plan indicated herein is subject to modification as circumstances indicate the need therefor.

OFFICIAL:

R.M. LEVY  
Colonel, AGD  
Adjutant General

APPROVED BY:

/s/ W. F. MARQUAT  
(t) W. F. MARQUAT  
Brigadier General, U.S. Army  
Chief, ESS

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## INCOMING MESSAGE

UNCLASSIFIED  
PRIORITY

6 Feb 48

FROM : CSCAD ECON

TO : GINGFE

NR : WCL 28306

Reurad Jan Z 36542. Deconcentration Program and Deconcentration Review Board is subj.

1. Urad most favorably received here.
2. Concerted effort will be made immediately to secure pers requested part 6 urad. Atty Gen and Chairman Sec have been approached and they agree to assist.
3. We understand from urad that board will report its recommendations directly to you, and we fully agree this procedure as this status necessary to obtain calibre of pers required.

NO SIG

ACTION: ECON &amp; SCI

INFORMATION : COMMANDER IN CHIEF, CHIEF OF STAFF, AG, GOVT, CIV PROP CUST

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## DECONCENTRATION REVIEW BOARD

7 June 1948

FOR: The Official Records of the  
Deconcentration Review Board

FROM: The Chairman

SUBJ: Basic Interpretation of Authority

1. The Basic Interpretation of Authority dated 1 June 1948 is hereby certified as having been formally approved by the Deconcentration Review Board in formal session on 3 June 1948. The official and original document is attached hereto and it is directed that it be preserved in the official files and records of the Deconcentration Review Board, together with all other official documents constituting the official actions of the Board.

Roy S. Campbell,  
Chairman

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YDECONCENTRATION REVIEW BOARD  
BASIC INTERPRETATION OF AUTHORITY

1 June 1948

## I. FORMATION AND CONSTITUTION OF DECONCENTRATION REVIEW BOARD

1. AUTHORITY CREATING BOARD. The Deconcentration Review Board was created and established by the specific direction of the Supreme Commander for the Allied Powers by radio Z36542 dated 26 January 1948, and the formation and constitution of The Board was confirmed by the Department of Army, CSCAD, by radio WCL 28306 of 5 February 1948.

## a. Basic documentary authority:

(1) Radio Z36542 from SCAP Tokyo, Japan, signed by MacArthur to Department of Army, CSCAD, Part III, Page 5, Paragraph 1, as follows:

"1. It is proposed that analysis of the impact of the deconcentration action proposed by the HCLC upon the operating efficiency of the industrial, distributive, insurance or banking enterprises concerned as reflected in the domestic economy, be made by an advisory group, to be designated as the Deconcentration Review Board, functioning under SCAP."

(2) Radio Z36542, Part VI, Pages 8 and 9, Paragraphs 1 and 2, as follows:

"1. Request that a group of 5 specially selected and outstanding individuals on policy-making levels be recruited in the United States for duty in Japan under the Supreme Commander for the Allied Powers as the members of the Deconcentration Review Board. Members should be prepared to serve for a period of not less than 1 year, extendable if required.

"2. The Board members should meet the following specifications:

A. Anti-Trust Specialist from the Department of Justice Anti-Trust Division.

B. Securities and Corporate Finance Specialist from the Securities Exchange Commission.

C. Corporate Management Specialist.

D. Industrial Engineer and Plant Management Specialist.

E. A suitable presiding members."

(3) Radio WCL 28306 from Department of Army, CSCAD to SCAP, Tokyo, Japan, dated 5 February 1948, Paragraphs 1, 2 and 3, as follows:

"1. Urad most favorably recd here.

"2. Concerted effort will be made immediately to secure pers requested Part 6 urad. Atty Genl and Chairman SEC have been approached and they agree to assist.

"3. We understand from urad that board will report its recommendations directly to you and we fully agree this procedure as this status necessary to obtain caliber of pers required."

2. MEMBERS OF BOARD. Pursuant to the above direction the personnel of the Deconcentration Review Board was selected, and on the 26th of April 1948, took the oath of office. The Board consists of the following members: Roy S. Campbell, Chairman; Joseph Robinson; Walter R. Hutchinson; Byron D. Woodside; Edward J. Burger.

## II. TERMS OF REFERENCE

### 1. MAJOR FUNCTIONS.

a. REORGANIZATION ORDER REVIEW. The Deconcentration Review Board is directed to review the Reorganization Order issued by the Holding Company Liquidating Committee providing for the reorganization of each company falling in the categories "(A) Industrial, (B) Distributive and Service, (C) Insurance and (D) Banking", and which has been designated by the HCLC as an excessive concentration under Article 3 and Article 6 of the Japanese Public Law 207 entitled "Law for Elimination of Concentrations of Excessive Economic Power".

b. PURPOSE OF REVIEW. The Deconcentration Review Board is to make an independent review of the Reorganization Order issued by the HCLC for the

purpose of appraising the impact and effect of the deconcentration action upon the operating efficiency of the industrial, distributive, insurance or banking enterprises concerned, and its consequent effect upon the general industrial, financial, or commercial economy of the country.

(1) Basic documentary authority:

(a) Radio Z36542, Part III, Page 5, Paragraph 1, as quoted above in I. 1.a.(1) hereof.

(b) Radio Z36542, Part VI, Page 10, Subparagraph 3E, as follows:

"E. The terms of reference furnished to the Board members should include clear indication of the nature of duties to be performed. The contemplated procedure provides that they review the reorganization plans proposed by the HCIC for those companies scheduled for a change in corporate structure and that the Board members submit to the Supreme Commander for the Allied Powers an expression of opinion as to how the reorganization, if effected, will be reflected in the efficiency of the operations of the enterprises concerned as to the consequent effect on the general industrial, financial or commercial economy of the country. These individuals will be available for such other appraisals as the Supreme Commander may desire to require of them but their major functions have been specified in order to obviate the necessity for extensive preparation in Japanese industrial or financial history, and to ensure rapid review of the main issue in each case.

....."

c. FINDINGS AND RECOMMENDATIONS TO SUPREME COMMANDER FOR THE ALLIED POWERS. The Deconcentration Review Board shall, after completing its review, appraise the effect of the plan upon the general industrial, financial, or commercial economy of the country and will make specific findings (hereinafter stated under the heading PROCEDURE), then, based upon its specific findings directly advise the Supreme Commander for the Allied Powers when in its

opinion he should exercise his inherent right to intervene for the purpose of staying, modifying, or setting aside any action or order of the HCLC or any other Japanese governmental agency charged with implementing the deconcentration program, and give its reasons therefor.

(1) Basic documentary authority:

- (a) Radio Z36542, Part III, Page 6, Paragraphs 4 and 5, as follows:

"4. The Deconcentration Review Board states its findings to the Supreme Commander for the Allied Powers as follows:

- A. The company may be reorganized as per plan without drastically reducing operating efficiency with manifest impairment of the economy, or
- B. The company may not be reorganized as per plan without drastically reducing operating efficiency with manifest impairment of the economy, or
- C. The plan contains fundamental defects preventing its use in meeting the requirements of deconcentration without drastically reducing operating efficiency with manifest impairment of the economy.

"5. Based on its findings, The Board advised the Supreme Commander when, in its opinion, he should exercise this inherent right to intervene for the purpose of staying, modifying, or setting aside any action or order of the HCLC or any other Japanese governmental agency charged with implementing the deconcentration program."

d. DIRECTLY RESPONSIBLE TO SUPREME COMMANDER FOR THE ALLIED POWERS.

The Deconcentration Review Board shall carry on its duties and conduct its deliberations independently and shall report its recommendations to and be directly responsible to the Supreme Commander for the Allied Powers.

(1) Basic documentary authority:

- (a) Radio Z36542, Part III, Page 6, Paragraph 5, as quoted above in II.1.c.(1)(a) hereof.

(b) Radio Z36542, Part VI, Page 10, Subparagraph 3E, as quoted above in II. 1.b.(1) (b) hereof.

(c) Radio Z36542, Part III, Page 5, Paragraph 2, as follows:

"2". This Board will receive from SCAP the HCLC reorganization order, review it together with statements of the companies concerned and make an independent assessment of the situation. Its investigations will include direct conference contacts as desired."

2. OTHER FUNCTIONS.

a. ADDITIONAL ASSIGNMENTS. These individuals shall be available for such other appraisals as the Supreme Commander for the Allied Powers desires and directs in writing.

b. Basic documentary authority:

(1) Radio Z36542, Part 6, Page 10, excerpt from subparagraph 3E, as follows:

"E" . . . . . These individuals will be available for such other appraisals as the Supreme Commander may desire to require of them . . . . .

III. PROCEDURE.

1. ORGANIZATION OF THE BOARD.

a. POLICY-MAKING LEVEL. The Deconcentration Review Board has been created and organized on a policy-making level.

(1) Basic documentary authority:

(a) Radio Z36542, Part VI, Page 8, Paragraph 1, as quoted above in I. 1.a. (2) hereof.

2. BOARD ORGANIZATIONAL PROCEDURE. The Board will adhere to the usual standard parliamentary Procedure and, under the authority creating it, has the implied power to formulate its own procedural rules and regulations.

a. Basic documentary authority:



- (1) Radio Z36542, Part VI, Page 8, Paragraph 1 as quoted above in I. 1.a. (2) hereof.

3. BOARD PERSONNEL. The Deconcentration Review Board will request and recommend through proper channels the appointment of competent professional and other personnel necessary to assist it to adequately discharge its functions.

a. Basic documentary authority:

- (1) Radio Z36542, Part VI, Page 8, Paragraph 1 as quoted above in I.1.a.(2) hereof.

4. PROCESSING OF CASES.

a. INAUGURATION OF REVIEW. The Supreme Commander for the Allied Powers will submit to the Deconcentration Review Board through the appropriate channels for review the Reorganization Order after it has been previously submitted to the SCAP for his consideration by the HCLC pursuant to the applicable directives.

(1) Basic documentary authority:

- (a) Radio Z36542, Part III, Page 5, Paragraph 2, as follows:

"2. This Board will receive from SCAP the HCLC Reorganization Order, review it together with statements of the companies concerned and make an independent assessment of the situation. Its investigations will include direct conference contacts as desired."

- (b) Radio Z36542, Part II, Page 5, subparagraph G, as follows:

"G. If HCLC determines that the company is to be reorganized it issues the necessary orders. A copy of the reorganization order is forwarded to the Supreme Commander."

b. METHOD OF REVIEW. The Deconcentration Review Board will review the Reorganization Order as it is received from the SCAP. It will consider in addition, for purposes of review, the statements of the companies concerned.

it will hold hearings, receive evidence both documentary and oral, and make such independent appraisals including direct conference contacts as it determines are necessary to enable it properly to arrive at its decision.

(1) Basic documentary authority:

(a) Radio Z36542, Part III, Page 5, Paragraphs 2 and 3:

(Para 2 as quoted above in III.4.a.(1)(a), and

Para 3 as follows:

"3. In general this Board accepts the plan of reorganization for purposes of review as it is presented and appraises the effects of such plan on the operating efficiency of the enterprise as reflected in this economy. This provision simplifies the Board action and makes possible the most rapid reviews of any claims presented.

c. FINDINGS: The Deconcentration Review Board shall make certain findings after it has reviewed the plan of reorganization, as follows:

(Basic documentary authority: Radio Z36542, Part III, Page 6, Subparagraphs A, B and C, as quoted below).

"A. The company may be reorganized as per plan without drastically reducing operating efficiency with manifest impairment of the economy, or

"B. The company may not be reorganized as per plan without drastically reducing operating efficiency with manifest impairment of the economy, or

"C. The plan contains fundamental defects preventing its use in meeting the requirements of deconcentration without drastically reducing operating efficiency with manifest impairment of the economy."

d. FORMAL RECOMMENDATIONS. The Deconcentration Review Board shall, after it has made its findings in formal session and pursuant to its terms of reference and rules and regulations, prepare and submit in writing to SCAP its finding and opinion and reasons therefor, as to whether he should exercise his inherent right to intervene for the purpose of staying, modifying, or

setting aside any action or order of the HCLC.

(1) Basic documentary authority:

- (a) Radio Z36542, Part III, Page 6, Paragraph 5, as quoted above in II, k, c. (1)(a) hereof.

e. TERMINATION OF REVIEW. The submission by the Deconcentration Review Board of its finding and opinion to the Supreme Commander for the Allied Powers completes its action upon the case before it.

IV. JURISDICTION.

1. GENERAL LIMITATIONS. The Deconcentration Review Board will adjudicate all cases which come before it within the framework of the U. S. policy statements and upon directives from higher echelons. (Basic documentary authority: Radio Z36542, Part VI, Page 10, Subparagraph 3C).

2. SPECIFIC LIMITATIONS. The Deconcentration Review Board is specifically limited in its deliberations to the terms of reference previously set up, except as specifically called upon by direction in writing from the Supreme Commander for the Allied Powers for such other appraisals as he requires.

(1) Basic documentary authority:

- (a) Radio Z36542, Part VI, Page 10, Subparagraph 3E, as quoted above in II, l, b, (1) (b) hereof.

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YGENERAL HEADQUARTERS  
SUPREME COMMANDER FOR THE ALLIED POWERS  
Deconcentration Review Board

WRH/ary

4 June 1948

MEMORANDUM FOR: The Supreme Commander for the Allied Powers

THROUGH : Chief, Economic and Scientific Section

SUBJECT : Deconcentration Review Board

1. The Deconcentration Review Board has formally organized for the purpose of carrying out its duties as provided in its Terms of Reference and has formally adopted its Basic Interpretation of Authority, a copy of which is herewith submitted.

2. The Deconcentration Review Board is now ready to receive officially for formal review the individual orders of the Holding Company Liquidation Committee and other requests for appraisals under the procedure as provided for in its Terms of Reference.

ROY S. CAMPBELL  
Chairman, Deconcentration Review BoardEX 4  
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YGENERAL HEADQUARTERS  
SUPREME COMMANDER FOR THE ALLIED POWERS  
OFFICE OF THE SUPREME COMMANDER

15 June 1948.

Dear Chairman Campbell:

I am in receipt of your memorandum of June 4, stating that the Deconcentration Review Board has now formally organized. I have directed that the services of the Board be utilized to the fullest extent possible without further delay. I would be glad to know from time to time the general progress that is being made.

With cordial regard to you and the members of the Board,

Faithfully,

/s/ Douglas MacArthur  
DOUGLAS MacARTHUR

Mr. Roy C. Campbell, Chairman,  
Deconcentration Review Board,  
GHQ, SCAP.

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EX 5 36

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YGENERAL HEADQUARTERS  
SUPREME COMMANDER FOR THE ALLIED POWERS  
Economic and Scientific Section

10 June 1948

MEMORANDUM FOR: Deconcentration Review Board

SUBJECT: Operating Procedure re Law No. 207

1. It is the primary function of the Deconcentration Review Board to review and make recommendations concerning reorganization orders to companies designated under Law No. 207, prior to the enforcement of such orders. Within a reasonable range of flexibility, the following is the procedure:

a. The Holding Company Liquidation Commission will transmit to the Antitrust and Cartels Division, ESS, the file on each company, which in the Holding Company Liquidation Commission's judgment requires reorganization. Such file will contain all pertinent data and papers available to the Holding Company Liquidation Commission, including the papers filed by the Company, the Holding Company Liquidation Commission's analysis and recommendations, and a proposed order to the company.

b. The Antitrust and Cartels Division, ESS, will analyze such file, as transmitted by the Holding Company Liquidation Commission, and supplement, if pertinent, such file with additional data.

c. The Antitrust and Cartels Division, ESS, will prepare a statement of evaluation of the Holding Company Liquidation Commission's proposed order, indicating non-objection or specific changes to be made.

d. The Antitrust and Cartels Division, ESS, will obtain the concurrence or non-concurrence with attendant statement of specific objections from interested staff sections and divisions.

e. Upon determination within the Economic and Scientific Section that appropriate concurrences have been obtained, the Antitrust and Cartels Division, ESS, will instruct the Holding Company Liquidation Commission to issue the proposed order, with such changes as developed from the General Headquarters' coordination, and will likewise instruct the Holding Company Liquidation Commission to establish a hearing date and hold such hearing.

f. Concurrent with issuance of such instructions to Holding Company Liquidation Commission, the file will be turned over to the Deconcentration Review Board. This file will contain, under separate tabs, each of the pertinent documents referred to above.

g. As soon as the hearing, referred to in subparagraph e., above, has been held, all documents pertaining to the hearing will be transmitted from the Holding Company Liquidation Commission, through the Antitrust and Cartels Division, ESS, to the Deconcentration Review Board, as a separate tabbed portion of the file.

EX 6 37

Basic: Memo for Deconcentration Review Board, subj: Operating Procedure  
Re Law No. 207, 10 Jun 48.

h. If the hearing develops no facts, which in judgment of the Holding Company Liquidation Commission merit changing the proposed order, the Holding Company Liquidation Commission, after clearance with the Antitrust and Cartels Division, ESS, will issue the final order to the company, but before doing so the Deconcentration Review Board will be given ten (10) days written notice of the intention to issue such order.

i. If the hearing does develop facts, which in judgment of the Holding Company Liquidation Commission merit changing the proposed order, the Holding Company Liquidation Commission will re-draft the order and transmit such document, with attendant analysis and supporting data, to the Antitrust and Cartels Division, ESS, so that the procedure of General Headquarters' analysis and coordination can be carried out again on this changed order.

j. The final order to the company will be enforced thirty (30) days after issuance unless action is taken by the Holding Company Liquidation Commission to postpone the effective date of the order, or withdraw the order prior to the expiration of such period.

k. Prior to the expiration of such thirty(30) day period or extension thereof, the Deconcentration Review Board will submit to the Supreme Commander for the Allied Powers its written recommendations regarding the action.

1. The Supreme Commander for the Allied Powers will determine whether the recommendations of the Deconcentration Review Board warrant preventing the order from becoming effective and the Chief of Economic and Scientific Section will advise the Antitrust and Cartels Division, ESS, of such decision. If the order is not to be changed, the Antitrust and Cartels Division, ESS, will take no further action on the case. If the order is to be changed, the Antitrust and Cartels Division, ESS, will so instruct the Holding Company Liquidation Commission.

2. In carrying out its responsibilities regarding orders under Law No. 207 the Deconcentration Review Board may request that information from all available sources be furnished. It is recommended, however, that the Board direct all persons, petitions, etc., which concern with reorganization of companies under Law No. 207 to the Chief, Antitrust and Cartels Division, ESS, unless such persons, petitions, etc. have been requested by the Deconcentration Review Board or by any member thereof.

Sgd/S. B. Marquat  
W. F. MARQUAT  
Major General, U. S. Army  
Chief, Economic and Scientific Section

LLB/6180

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P  
YECONOMIC AND SCIENTIFIC SECTION  
Antitrust and Cartels DivisionECW/ESB/jr  
20 July 1948

MEMORANDUM FOR: Decentralization Review Board

SUBJECT: Reorganization of Nippon Soda K. K.

1. In accordance with the procedure prescribed in memorandum from Chief, ESS, to the Decentralization Review Board, subject: "Operating Procedure re Law No. 207", under date of 10 June 1948, ESS/AC transmits to you herewith the complete file of the Holding Company Liquidation Commission on the proposed reorganization of Nippon Soda K. K. (Nippon Soda Company, Ltd.) Included in the file is certain information in respect to this company which has been received or prepared by this division. The proposed order of the Holding Company Liquidation Commission provides for the reorganization of the company into five or six new companies. The names of these new companies and the principal lines of business in which they will be engaged are as follows:

- |                                     |                        |
|-------------------------------------|------------------------|
| 1. Sanwa Soda K. K.                 | caustic soda           |
| 2. Nippon Kagaku Kogyo K. K.        | caustic soda           |
| 3. Nippon Denki Seiko K. K.         | steel                  |
| 4. Nippon Kogyo K. K.               | coal mining            |
| 5. Missha Koko K. K. $\frac{1}{1}$  | lead and zinc refining |
| 6. Tohoku Kusan K. K. $\frac{1}{1}$ | lead and zinc mining   |

$\frac{1}{1}$  The proposed order provides that the company has the election, prior to the entry of the final order, to combine these two companies into one company.

Although the voluntary plan of reorganization submitted by the company provided for its reorganization into six new companies, the proposed order gives the company the alternative to establish only five new companies, as indicated above, if it so desires.

2. ESS/AC has analyzed all of the papers included in the attached file and the proposed order of reorganization, and approves said order. ESS/AC has obtained the concurrence of PHW and ESS/IND, which are the respective sections and divisions which are interested in the reorganization of the company. These concurrences are subscribed to the proposed order.

3. Included in this transmittal are five additional copies of the proposed order, to each of which is attached a copy of this letter.

/s/ EDWARD C. WELSH  
Chief, Antitrust and Cartels Division

EX 6A 39



## HOLDING COMPANY LIQUIDATION COMMISSION

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In the Matter of:

Nippon Soda Kabushiki Kaisha  
Nippon Soda Company, LtdDesignated under Art. 3 of Law  
No. 207 of 1947

HCLC No. 172

PROPOSED ORDER  
Approving Voluntary  
Reorganisation Plan

A

## JURISDICTION

1. The Holding Company Liquidation Commission, hereinafter referred to as the "Commission," having designated Nippon Soda Kabushiki Kaisha, hereinafter referred to as "Nippon" as an excessive concentration of economic power on 8 February 1948, pursuant to the powers granted to it by virtue of the provisions of Article 3 and in accordance with the standards adopted under the provisions of Article 6 of Law No. 207 of 1947: Elimination of Excessive Concentrations of Economic Power Law; Nippon having entered its appearance to the proceedings by the filing of formal notice pursuant to Article 14 of the Rules of Procedure issued under said Law; having filed its statement with respect to the applicability of Section B of the Standards for Excessive Concentrations in Industrial Fields adopted pursuant to said Law, its intention to prepare

a reorganization plan and its completed questionnaire, all within 30 days after designation pursuant to Article 16 of the Rules of Procedure; having filed a voluntary reorganization plan and a statement as to the applicability of Section C of the same Standards, all within 60 days after designation pursuant to Article 17 of said Rules; and said voluntary reorganization plan as amended having been submitted to the Commission for its approval pursuant to the provisions of item 7, paragraph 2 of Article 7 of the Law.

B

THE PLAN OF REORGANIZATION

2. And whereas Nippon in said reorganization plan provides for the elimination of its concentration of excessive economic power by the establishment of six independent and separate companies, the appointment of independent and non-interlocking directorates, the transfer of certain assets and liabilities to each new company, and the dissolution of Nippon; representing in such plan that each new company will commence business in a solvent condition capable of efficient production in a competitive market.

3. And whereas the separate companies, their establishment, capitalization, directors, auditors, assets and liabilities are proposed by Nippon as follows:

a) Sanwa Soda K.K. (Sanwa Soda Co., Ltd) to be established with a capitalization of approximately ¥250,000,000, divided into shares each

of a par value of ¥50, with the following directors:

Tatsuo Omura  
Toma Tanaka  
Hikosaburo Ichipori  
Tamotsu Kamegai  
Fukuji Kawamura  
Kinji Okubo  
Katsumi Oga

and with Tadami Kimura and Naoyuki Abe as auditors; Sanwa Soda K.K. to receive from Nippon the latter's Nihongi, Takaoka and Tokyo plants and appurtenances, which are in the business of producing and selling caustic soda, liquid chlorine, hydrogen, sulphuric acid, various types of potassium salts and various organic and inorganic compounds thereof; the trade-marks Anti D. M., Yukiusagi, Koshinoyuki, Actibalsan, Syphalonal, Kento, Acetarsin, Haloblit, Sodaplast, Neebolit, Mecamin, Soliblon, Aimohl and ; and other assets and liabilities; all of which are estimated to be valued as of the date of final order as set forth in the attached Schedule A, subject to revision in accordance with such valuations as are established in Nippon's financial reorganization plan to be submitted pursuant to Article 13 of this Order, as such plan is finally approved.

b) Nippo Kagaku Kogyo K. K. (Nippo Chemical Industry Co., Ltd) to be established with a capitalization of approximately ¥50,000,000, divided into shares each of a par value of ¥50, with the following directors:

Naehiro Kugimiya  
Yoshifumi Mochisuki  
Hidetoshi Ogawa  
Kenichi Misaki  
Itaru Ishikawa

and with Masatoshi Shijo as auditor; Nippo Kagaku Kogyo K. K. to receive from Nippon the latter's Kyushu plant and appurtenances, which are in the business of producing and selling caustic soda, phenol, liquid chlorine, hydrogen and various organic and inorganic compounds thereof; and other assets and liabilities; all of which are estimated to be valued as of the date of final order as set forth in the attached Schedule B, subject to revision in accordance with such valuations as are established in Nippon's financial reorganization plan to be submitted pursuant to Article 13 of this Order, as such plan is finally approved.

c) Nippon Denki Seiko K. K. (Nippon Electric Steel Manufacturing Co., Ltd) to be established with a capitalization of approximately ¥135,000,000, divided into shares each of a par value of ¥50, with the following directors:

Takiji Oyano  
Masatake Terai  
Tadao Iohikawa  
Yukio Matsubayashi  
Toshio Uchida  
Hisao Shindo

and with Kiichi Yamashita as auditor; Nippon Denki Seiko K.K. to receive from Nippon the latter's Yamago, Oshima, Maetsu, Shibata, Toyama and Iwase plants and appurtenances, which are in the business of producing and selling pig iron, cast iron, cast steel, forged steel, rolled steel, ferro-alloy, machines, machine tools and special steel; the trade-mark Tansolundum; and other assets and liabilities; all of which are estimated to be valued as of the date of final order as set forth in the attached Schedule C, subject to revision in accordance with such valuations as

are established in Nippon's financial reorganization plan to be submitted pursuant to Article 13 of this Order, as such plan is finally approved.

d) Nippo Kogyo K. K. (Nippo Mining Co., Ltd) to be established with a capitalization of approximately ¥16,000,000, divided into shares each of a par value of ¥50, with the following directors:

Miroshi Shimada  
Yasuhisa Muramatsu  
Kiyoshi Marumi  
Kiyoshi Shikano  
Yoshio Sunayama

and with Shinichi Miyoshi as auditor; Nippo Kogyo K.K. to receive from Nippon the latter's Teshio, Akai, Fukushima and Uonuma mines and appurtenances, which are in the business of mining and selling coal and lignite; and other assets and liabilities; all of which are estimated to be valued as of the date of final order as set forth in the attached Schedule D, subject to revision in accordance with such valuations as are established in Nippon's financial reorganization plan to be submitted pursuant to Article 13 of this Order, as such plan is finally approved.

e) Nisshin Koko K.K. (Nisshin Metal Refining and Chemical Industry Co., Ltd) to be established with a capitalization of approximately ¥20,000,000, divided into shares each with a par value of ¥50, with the following directors:

Shunichi Nishigori  
Mobyuki Mogami  
Nagao Harhimoto

and with Yonesuke Kouda as auditor; Nisshin Koko K.K. to receive from Nippon the latter's Aizu plant and appurtenances, which are in the business of producing, refining and selling lead and zinc and industrial chemicals; the trade-mark Bandalit;

and other assets and liabilities; all of which are estimated to be valued as of the date of final order as set forth in the attached Schedule E, subject to revision in accordance with such valuations as are established in Nippon's financial reorganization plan to be submitted pursuant to Article 13 of this Order, as such plan is finally approved.

f) Tohoku Kozan K. K. (Tohoku Mining Co., Ltd) to be established with a capitalization of approximately ¥3,500,000, divided into shares each with a par value of ¥50, with the following directors:

Toshiehiro Iwaya  
Yozo Hashizume  
Kumaichi Tano

and with Seiichiro Matsuda as auditor; Tohoku Kozan K.K. to receive from Nippon the latter's Funauchi and Iide mines and appurtenances, which are in the business of mining, concentrating and selling lead, zinc and iron sulphic ore; and other assets and liabilities; all of which are estimated to be valued as of the date of final order as set forth in the attached Schedule F, subject to revision in accordance with such valuations as are established in Nippon's financial reorganization plan to be submitted pursuant to Article 13 of this Order, as such plan is finally approved.

4. And whereas such plan provides that all patents now owned by Nippon shall be licensed to each of the six new companies (and no others) established by Nippon as provided for in the preceding paragraph, royalty

free and without any restriction or exclusive provision whatsoever, subject to the condition, however, that no licensee shall assign or sub-license the rights so granted; and provides further that Nippon shall continue to pay all patent fees and dues required to maintain said patents; all until such time as the Commission shall approve a further plan to be submitted by Nippon to allocate and assign properly and equitably such patents and licenses thereunder to the six new companies.

5. And whereas said plan provides that Nippon and the six new companies shall discontinue use, and refrain from use in the future, of the trade name Nippon Soda Kabushiki Kaisha, and the trade-marks Nissel A.S., Nisselite, Nisso-ortho, Nissone, Nisso, Nisso Shokadan, Nissolundum, Plast-glass and Nisolbin and any names or marks similar thereto or which can be confused therewith; and that Nippon shall cancel such name and marks of record with the proper registry authorities; and that none of the new companies shall refer to itself as successor, or in any way related, to Nippon.

6. And whereas said plan further provides for the disposal and liquidation by Nippon as rapidly as possible of assets other than capital stock of new companies remaining after the transfers to such companies, including securities and plants and properties commonly known as the Oya

Mine, Tahara Plant, Donsuiwa Mine, Ono Mine, Sumamachi Plant, and a certain gold and silver mining right under license from the Japanese Government; prior approval to be obtained from the Commission for the disposal of all such remaining assets.

7. And whereas said plan provides that Toma Tanaka and Tomatsu Kamegai are to be appointed as liquidators, and Maoyuki Abe as auditor, to execute the liquidation provisions of the plan in accordance with the ordinary liquidation provisions of the Commercial Code.

8. And whereas said plan provides that the initial boards of directors and auditors appointed by Nippon as proposed in paragraph 3 shall hold office until appointment of directors and auditors at general meetings of shareholders of each new company to be held upon direction or approval of the Commission, which meetings shall be held not later than six months after establishment unless such period is extended by the Commission.

9. And whereas the plan provides that the new companies shall, in consideration for the investment of assets by Nippon as hereinbefore recited, issue their entire initial capital shares to Nippon in the form of common shares of stock of a par value of ¥50 each.



10. And whereas the plan provides that Nippon shall offer to each of its stockholders of record on a date to be fixed which date shall be after the date of final Order approving Nippon's financial reorganization plan but shall not be later than 15 days after the new companies are established, transferable rights to purchase at par value the shares of stock which Nippon shall acquire from the new companies, in the same proportion in each new company as he holds stock in Nippon; that such rights shall be announced by public notice within 15 days after the date of establishment of the new companies, which notice shall also state that such rights shall be transferable and shall be exercised by agreement to purchase or payment within 60 days after the date to be fixed in the public notice, and that Nippon will issue stock certificates for one or more shares upon request of persons exercising such rights or their transferees; provided that Nippon need not issue stock certificates for less than 10 shares, or dispose of such stock for par value, to persons other than those who have exercised such rights or their transferees; and provided further that such rights shall not be exercised for the acquisition of stock by the same Nippon stockholder in both Sanwa Soda K.K. and Nippon Kagaku Kogyo K. K.

11. And whereas the plan provides that such shares of stock in the new companies as shall not have been paid for or issued to holders

of rights or their transferees within the 60-day period set forth in the preceding paragraph, shall be sold for cash or transferred to meet obligations in the event they cannot be sold for cash.

12. And whereas the plan provides that Nippon shall, with the proceeds from the sale of securities of the new companies and the remainder of its assets (other than those assets withheld for reparations purposes), first pay the War Time Compensation Special Tax and all other taxes accrued to the date of transfer to the new companies, except such taxes as are transferred to the new companies, and if the new shares cannot be sold before the date on which such taxes are due or before such extension of time as may be granted by the Government, then the taxes shall be paid in kind by delivering the required number of shares of the new companies to the Government with priority over all other claims, in accordance with the provisions of Item 2, Article 42 of the Procedure Regulations for the War Time Compensation Special Measure Law.

13. And whereas the plan provides that Nippon shall submit its plan of financial reorganization and dissolution pursuant to the provisions and requirements of Law No. 40 of 1946.

14. And whereas the plan provides that Nippon shall file with the Commission the proposed articles of incorporation and by-laws of the

new companies prior to their establishment and the new companies shall file their balance sheets and profit and loss statements at the end of their first fiscal years.

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ORDER

15. NOW, THEREFORE, the Commission, having considered all statements, documents, and recommendations filed by all parties to the proceedings, and the voluntary reorganization plan herein before recited, the Commission now finds and orders:

16. That Hippon is a private enterprise conducted for profit which by reason of relative size in its principal line of business and the cumulative power of its position in many lines, restricts competition and impairs the opportunity of others to engage in business independently in important segments thereof; and is therefore an excessive concentration of economic power within the meaning of Law No. 207 of 1947: Elimination of Excessive Concentrations of Economic Power Law.

17. That the voluntary reorganization plan filed by Nippon, the provisions of which are recited in Section B of this Order, or in the alternative, a plan which provides for a single company in lieu of the separate companies as provided for in the voluntary reorganization plan as recited in paragraphs 3 e) and 3 f) above, with their combined capitalizations, plants, mines, trademarks, assets and liabilities, will eliminate the excessive concentration of economic power in the interest of public welfare and is hereby approved, and Nippon and the new companies provided for therein are hereby ordered and directed to carry out and abide by such plan and each of its provisions.

18. That the plan of reorganization approved under the provisions of Law No. 40 of 1946 to be submitted pursuant to Nippon's voluntary reorganization plan as set forth in Article 13 above, shall become a part of this Order and Nippon and the new companies are hereby ordered and directed to carry out and abide by said plan of reorganization as approved.

19. That Nippon shall execute the transfers to the new companies in accordance with the provisions of the approved plan subject only to the jurisdiction of the Commission; and all documents and instruments of transfer and all other documents, instruments and public notices