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Guaranty Trust Company of New York
One Hundred Forty Broadway
New York 15, N. Y.

June 23, 1945

Mr. Walter B. Kahn
Department of State
Washington, D. C.

Dear Walter:

It was a pleasure to hear from you under date of June 20th.

I beg to enclose a memorandum which summarizes the results of an inquiry made of the best source we know. As you will see from the opening paragraph this information was concurred in by several other informants.

If you would like anything further on this or any other subjects, please command me.

With kind regards, believe me

Sincerely yours,

James M. Nicely
James M. Nicely

enclosure:

emo

THIS DOCUMENT MUST BE RETURNED TO THE RM/R CENTRAL FILES

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LWS

The New York
Evening Sun
June 14, 1945

JAPANESE SILK STOCKS

The possibility that 500,000 bales of raw silk is being held in Japan at the present time, available for export on resumption of trade after the war, is visualized by W. A. Spafford, silk expert. Based on quoted prices for inferior Brazilian silk arriving in this country, Mr. Spafford notes that the Japanese holdings would be worth nearly \$1,000,000,000. Even at 1941 ceiling prices they would be valued at between \$200,000,000 and \$300,000,000.

With the American public starved for fine textile fabrics and hosiery and consumer stocks at the vanishing point, Mr. Spafford says that a ready market would be created for Japanese raw silk after hostilities cease. He also believes that silk production would fill a gap in Japan's economic life, if peace terms dictate abandonment of many heavy industries.

Some stocks of silk are in Italy. Mr. Spafford estimates the volume at from 50,000 to 60,000 bales. Hints have been heard that some of that silk soon may be exported to the United States.

Stocks of Japanese Raw Silk

The question of stocks of Japanese raw silk was discussed with several firms that are importers of Japanese silk in normal times. All said that it is impossible even to estimate the amount of raw silk at present held by the Japanese. The following information was given by one source, which in the past has been the largest importer of this type of silk, and the information given was largely confirmed by the other informants.

It is my opinion that stocks in Japan, are 50,000 to 75,000 bales. I would not dignify that statement by calling it an "estimate", it is merely a "wild guess", as there has been no information for some time upon which to base any estimate. My reasons for thinking stocks are small are:

1. We have been informed that mulberry trees have been cut down and the acreage planted with grains.
2. There have also been reports that the Japanese, like the Chinese, have been using cocoons for inter-lining in clothing. They act like insulation. You can't have your cocoons and use them too.
3. Labor shortage.
4. The reeling plants could very easily be converted into factories for making airplane parts and I think this has probably been done in most cases. Of course, some reeling is still being done to supply domestic needs.
5. Based on my knowledge of the Japanese, I do not think they went on producing large crops after our embargo on silk. They have done some very stupid things, but I do not think they would have been stupid enough to produce big crops of silk for which there was no market. Therefore, I don't think that there has been a huge accumulation of silk stocks in recent years. Also, they have drawn on their stocks for war needs and to mix with wool and cotton in the manufacture of fabrics in order to stretch their dwindling supplies of these fibres. I think Mr. Spafford's idea that there may be 500,000 bales in Japan is pure day-dreaming and I would be willing to bet with him that my "wild guess" of 50,000 bales is nearer the truth than his 500,000.
6. Yokohama and Kobe are the centers of the silk industry and heavy destruction by bombing probably has caused damage to the industry and destroyed stocks that may be there. Heavier bombing is promised for the future.

Attached is a clipping from the New York Evening Sun of June 14, 1945. Mr. Spafford was formerly connected with the Silk Exchange in some statistical capacity. All our sources of information were familiar with this clipping and all stated emphatically that they did not agree with Mr. Spafford's estimate of 500,000 bales.



COMBINED RAW MATERIALS BOARD
SOCIAL SECURITY BUILDING
WASHINGTON, D. C.

Return
JD
gfc

September 26, 1945

Mr. J. G. Evans
State Department
Room 509
1712 G Street, N. W.
Washington, D. C.

file
COMMODITIES DIVISION
Letter to McDougall
SEP 27 1945
drafted 10-5-45 JYE
DEPARTMENT OF STATE

Dear Mr. Evans:

Attached you will find copy of a memorandum, dated September 22, from Mr. M. McDougall of the British Raw Materials Mission, concerning Japanese silk, together with copy of our reply.

We should appreciate it if you would answer Mr. McDougall's inquiry directly or, if you prefer, provide us the information he is seeking.

Very truly yours,

Eulalia L. Wall

Eulalia L. Wall

Attachment

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Return to
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JH
M. McDougall

Miss E. Wall

September 22,

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SILK

Owing to the short raw material position, the U.K. are anxious to obtain supplies of Japanese raw silk as soon as possible. Mr. Gaddum will probably be visiting China in October, and if possible the Ministry of Supply would like to have him visit Japan also.

The policy regarding Japanese supplies generally is still under discussion interdepartmentally in London, but meanwhile the Ministry have asked us to ascertain what plans F.E.A. or other U.S. agencies are making regarding supplies from Japan and whether the U.K. requirement should be coordinated with any U.S. requirements.

I should be grateful to have your comments as soon as possible.

MCMcD/ct

MD
M. McDougall

Return
AD
WTE

September 26, 1945

MEMORANDUM

TO: Mr. M. McDougall
FROM: Eulalia L. Wall

This will acknowledge your memorandum of September 22 inquiring as to what plans the Foreign Economic Administration or other United States agencies are making regarding silk supplies from Japan. We do not know of any plans of this kind, but are forwarding copies of your memorandum to the appropriate divisions of the State Department and F.E.A., asking that they either get in touch with you directly or supply us the answers to your questions.

Army and Navy Munitions Board
Washington, D. C.

Gentlemen:

A letter from the Secretary of the Navy dated October 2, 1944 suggested that a comprehensive review be undertaken of the abaca projects in Central America and that recommendations be made regarding their retention in whole or in part as a means of prior provision in the Western Hemisphere in the event of any future emergency. On November 11, 1944 this department replied to the Secretary of the Navy stating that consideration of this problem would soon be undertaken by a technical sub-committee on cordage and miscellaneous fibers to be established under the Executive Committee on Economic Foreign Policy.

The sub-committee on cordage and miscellaneous fibers has been studying this and related problems since January of this year and now desires to submit its recommendations on disposition of the Central American abaca projects to the Army and Navy Munitions Board as the appropriate organization to implement such recommendations coordinated with whatever legislation may be enacted to provide for postwar stockpiling of critical and strategic raw materials.

There are five abaca plantations now being operated by the United Fruit Company in Central America for the United States Government, two being located in Costa Rica and one each in Panama, Guatemala and Honduras. They were originally designed to have each produce approximately 12,000,000 pounds of fiber or a total annual output of 60,000,000 pounds. As developments have occurred, however, the three projects in Panama and Costa Rica have progressed most favorably and, with the addition of another processing line of machinery

- 2 -

in Panama, these three plantations alone should produce about 38,000,000 pounds annually commencing in 1946. The projects in Guatemala and Honduras have been retarded by a combination of unfavorable factors including prolonged drouth conditions and possibly less desirable soil for maximum field production as compared with the current outlook at the other three plantations.

This government's contracts with the United Fruit Company do not expire until the end of 1948 but may be terminated upon sixty days' notice. In the event of termination of the projects in Panama and Costa Rica, the United Fruit Company has first option to purchase them before liquidation by this government; the nationals in Guatemala and Honduras have first option to purchase the abaca properties in those countries, with the United Fruit Company to have next option before liquidation by the United States Government.

There are several important factors to be considered in connection with any decision to be made regarding disposition of these projects. First of all, the United Fruit Company has not as yet made known its own intentions as to whether or not it will want to operate any or all of the plantations on a commercial basis. Secondly, there is the problem of arriving at some ratio of Central American in relation to Philippine production in the possible event of continuing government control over Western Hemisphere abaca output.

Based upon present known conditions and factors, it is recommended that the Army and Navy Munitions Board consider favorably the retention and operation of the three projects in Panama and Costa Rica which will have an annual estimated output of 38,000,000 pounds of fiber and which will provide also a continuing seed bed for future expansion if and when needed. In the event that the United Fruit Company does not choose to operate these projects independently, it is recommended that they be kept in operation through continuing support by this government in order to insure maintenance of Western Hemisphere abaca productions at the above minimum level.

Your comments are invited on the above recommendation. In the event that further consideration is desired on this subject and the related problem of postwar stockpiling of critical and strategic abaca fiber, the detailed files of the sub-committee can be made available to your Board upon request.

Information copies of this letter are being forwarded to the Secretary of War and to the Secretary of the Navy.

Sincerely yours,

For the Secretary of State

Clayton

~~SECRET~~

OCT 10 1945

In reply refer to
GD

My dear Mr. McDougall:

Your memorandum of September 26, 1945 to Miss Eulalia L. Wall of the Combined Raw Materials Board, relating to the proposed visit of Mr. Gaddum of the British Ministry of Supply to Japan and the disposition of supplies of Japanese silk that may become available, has been referred to the Department of State.

I assume that the British Ministry of Supply will arrange for the visit of Mr. Gaddum to Japan through British Army representatives on General MacArthur's staff.

A policy regarding the distribution of Japanese supplies is now in process of formulation, and it is probable that some arrangements for coordinating the

requirements

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CS/LE

Mr. M. McDougall,

Room 4746, Social Security Building,

Washington, D. C.

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requirements of importing countries and for allocating available supplies of raw silk and other products in surplus in Japan will soon be determined.

Sincerely yours,

DK
Donald D. Kennedy
Chief
Commodities Division

JK
OCT 9 1945 P.M.



JK
CD: JGEvans:JD
10/9/45

A-C
(Cleared with Mr. Martin)

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ITP
(Mr. Wilcox)

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8-9

DANIEL J. MAHONEY

SILK - RAYON - WOOL
WOODPULP

246 SUMMER STREET
BOSTON

CABLE ADDRESS
MAHONFIBRE

October 22, 1945.

Mr. Merrill C. Gay
Commercial Policy Division,
Dep't of State- Room 513,
1712 G St., N.W.
Washington, D.C.

Dear Mr. Gay:

Confirming our very interesting and pleasant conversation during my visit to your office on Oct 17th.; I outline herewith briefly a resume of my past performances of International business activities. This resume is offered for your departments enlightenment in considering my request to partake in reopening and promoting my business activities with Japan; if and when such approval is given by the U.S. for such trade.

Entering the Textile Fiber business on July 1, 1919 upon my return to civilian life from the U.S. Naval Flying Corp after W W 1, I learned the Silk and Wool Trades from the firm of Troy & Gladu Co., of Boston. Opening my own business May 1922 as Merchant etc., until 1927 at which time I took over the American representation of the firm of Raimondo Buratti of Biella, Italy, continuing as such until 1935 when the Ethiopian War finished trade with the U.S. As such representative I promoted and sold their products of Rayon fibers, Raw Silk Wastes for import. I purchased Wools and Silk By-products from American Mills for shipment to Italy.

In 1936 I took over the Agency of Hara & Co., of N.Y. City and Yokohama continuing until July 26, 1941, when the U.S. put on the freeze order which thus ended this connection as far as business went. In this capacity I developed a market for Chinese and Japanese Textile Fibers Raw Silks-Rayons- Camels Hairs- Cashmere- Wools etc., and negotiated for them the purchase of Rayon Pulps and Newsprint Pulps. These being the principal products and no materials that might go towards War products were included. I believe this firm was in business in New York from about 1900 and had marketed only Raw Silk prior to my association with them.

I understand that this company during my association handled approximately 25% of all the Raw Silk Imported to U.S. from Japan. With the freeze of 1941, this source of business ceased. You will recall the letter I showed you dated Aug 20, 1941 from Mr. Shunosuke Yoshimoto, the General Manager of this firm wherein he stated in part, that he wished that I visit New York to hold a conference with

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Mr. Gay #2.

Oct. 22, 1945.

him to outline a plan to continue the General Merchandise Department under cover of the American Flag and the U.S. permission with countries other than Japan. That the Raw Silk they owned and that they should deliver to their customers, as well as the 2,000 Bales they had in stock was frozen and the problem was still unsolved. Of course no such activity was allowed even though he was holding out hopes that some kind of bater system would be arranged between U.S. and Japan as well as the healing of diplomatic relations. However Pearl Harbor closed all activities excepting the liquidation of this company, which was an orderly affair under the Supervision of Mr. Howard Reed from the Treasury Dep't and Mr. Thos. J. O'Conner, National Bank Examiner with Mr. Yoshimoto cooperating at the request of the U.S. Governments Officials., during 1942.

I believe there was only one other Japanese firm that was liquidated under this system of having the Japanese Manager's cooperation, all other firms' Managers being interned. Further than this Mr. Yoshimoto enjoyed his freedom at home until Aug, 1942, at which time he was taken into custody.

During the early part of 1937, I was requested to study and make contacts in the Wood Pulp field. Our domestic Rayon Plants could not supply the demand for Rayon and Japan needed new sources of supply of Rayon Pulp; Pulp containing Special High qualities of purification. During this period I interviewed either the Sales Managers or High Officials of practically every important Rayon Pulp Mill in the U.S. and Canada. It was my assignment to negotiate the purchase of a contemplated 50,000 Tons per year for contract for five years. This also pertered out shortly after the start of the China Japan War which tied up Japanese currency for Imports, necessitating Japanese Import licenses etc. However I do feel responsible for the erection of the English River Pulp Mill at Fort William, Ontario, where they perfected a Pulp much higher than any previous type running up to 99.4% as against 96% for cotton. This was a 60,000 Tons per year mill that eventually was diverted to the manufacturing for Gun Powder, as this pulp would save some 8 to 10 hours in the process per operation.

During 1940/41, I had been purchasing Silk Noils for a dealer who held a contract for Shipment to Canada for the making of Powder Bags, until they ran into difficulty in their process. I was invited to attend a meeting of members of the Dominion Textile Mills and the Government Dep't of Munitions and Supplies., at Montreal. Pointing out their mistakes and unnecessary consumption of 50% extra Raw material; then getting scarce; I was requested to negotiate the purchase of a Million and a Quarter square yds., from American Mfgs., as an original order for delivery over a one year period. This was concluded but never executed as a Member of OPM stepped in and prohibited its export, although GPO, M22, quoted Canada as a preference nation.

Mr. Gay #3.

Oct 22, 1945

After the Japanese entered China in 1937 and the Chinese products that had always been controlled by British and German Firms became available to the Japs, I drew up a program for their acquisition etc., for Hara & Co., the basis of which was that they employ the best available Chinese help regardless of costs. So that they opened offices in Tientsin and Shanghai and these products came to the U.S., in some cases better products than the American trade had ever received before., being diverted from the English market.

Thus with China now open again for free trade and development, I have recently made connections and have pooled my interests with an American Chinese and some other American business men; thus bringing in capital and connections and now stand prepared to renew a much larger and more active program in the development of this foreign trade.

Therefore as stated previously, I trust that in considering the future trading with Japan and China and particularly in the Distribution of the Japanese Raw Silk now held in Japan, some 46,000 Bales, which I understand is contemplated to be used to barter against food for the Japanese; I have opportunity of taking part in this distribution; being a Pre-War Channel for these goods.

The Japanese Silk dealers and importers now being out of the American picture there are not many of us left. My former principals handled approx., 25% of the total and the U.S. averaged to take about 85% each year of the Japanese total production. Thus I trust that in the coming International conference, when this product is discussed for the division among the some 10 nations participating Oct 30, this figure will be kept in mind as undoubtedly these other nations combined did not buy 10% of the total.

My dealings with Switzerland, Holland, England, South American countries, Canada, Australia, and Russia through the Amtorg Trading Corp., have been quite extensive. The Russian picture looms up in a different light than all others. I have found in the past that there is only one way to conclude successful dealings with them and that is a strong and definite insistence that if they did not want to agree to a justifiable compromise, to merely tell them, "I am no longer interested in their proposition and to forget the whole business etc.," but in much stronger language. I have purchased from them, for customers, some large quantities of Mongolian Camels Hair and negotiated for more. Recently they offered large quantities of Silk Cocoons, the origin of which is claimed to be Russia, but there is a doubt as to this country of origin. However there is possibilities with these over ambitious people, if they are properly handled, as each transaction always brings in new unpleasant angles unlike dealings with most foreign business firms.

Mr. Gay #3.

Oct. 22, 1945.

I shall be only too pleased to furnish any further information regarding this entire field of activity that I have to offer and consider it a privilege to do so in person at your office if you so desire.

I thank you for your courtesy on my recent visit and hope we meet again soon.

Yours very truly,

DJM:O

David J. Maloney.
Have just returned to my
offices from Washington and
shall write you tomorrow
regarding Mr. S. Yoshimoto.

DEPARTMENT OF STATE
FOREIGN ACTIVITY CORRELATION

11-30-45

CP Mr. Brown:

In accordance with your request, there is attached all the information concerning Shunosuke Yoshimoto contained in the FBI's files.

*WMB:
assume
this is for
you.*

DIVISION OF COMMUNICATIONS
NOV 30 1945
DEPARTMENT OF STATE

J.M.
FC: *J.M.* DNeal:OPV

*HO
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hold it
a while*

SECRETYOSHIMOTO, Shunosuke

There is a report dated June 24, 1942 regarding the subject. He is a Japanese alien born in Japan on January 14, 1892. He is presently residing at Great Neck, Long Island, with his wife, who is of French descent. They have two children. He was formerly Director of the Nippon Club and a member of the Japanese Association and Japanese Chamber of Commerce of New York. He was General Manager of Hara and Company, prominent silk importers. A brother of the subject is associated with a Japanese newspaper in Tokyo and a brother-in-law is said to be a Japanese General serving in China. He was reported to be intimate with officers of the Japanese Imperial Navy, Inspectors Office, and Japanese Army Officers prior to the war. He visited Japan on April 1, 1939 and was there only a short time when he returned to the United States. The United States Attorney for the Eastern District of New York applied for a Presidential warrant on June 19, 1942 for his apprehension. He was apprehended on July 6 at his residence and was delivered to Immigration and Naturalization authorities, Ellis Island, on the same date. He admitted serving as Director of the Nippon Club in New York from 1937 until December 1941, and further admits membership in the Japanese Association and Japanese Society in New York. He also admitted that from July 1940 to July 1941, he acted as an agent for Hara and Company in purchasing mercury to be sent to Japan for munitions. Subject claimed relationship to General Tojo and stated his brother-in-law was a General but denied any association or activities with subversive groups in this country.

On October 27, 1942 the Attorney General recommended that subject be interned. On October 15, 1943 the internment order dated September 10, 1942 was vacated by the Attorney General in view of the fact that the subject was repatriated to Japan.

DCR says Office of Naval Intell. may have more detailed and exhaustive investigation report; but we would have to write to Sec of Navy Dept to get it. Probably not worth it
WMB
6 Dec 1945

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DANIEL J. MAHONEYSILK - RAYON - WOOL
WOODPULP246 SUMMER STREET
BOSTONCABLE ADDRESS
MAHONFIBRE

October 26, 1945.

Mr. Merrill C. Gay
Commercial Policy Division
Dep't of State- Room 513
1712 G St., N.W.
Washington D.C.

Dear Mr. Gay:

I confirm my letter of Oct. 22nd. to you re to my interest in the contemplated shipments of Raw Silk from Japan.

On my recent visit I outlined briefly what I knew about MR. SHUNOSUKE YOSHIMOTO, who was General Manager of Hara & Co., 1 Park Ave., New York and with Headquarters in Yokohama. I herewith repeat those facts.

If I recall correctly he is now 48 or 50 years old. He went to France for this company to the Silk Trading center of Lyon I believe abt 23 years ago, where he remained for some 10 Years. He then was transferred to the New York office, where he spent approx. 10 years up to the time of his repatriation Sept. 2, 1943 to Japan., on the Gripsholm.

He is married to Marie Threse Terrier about 10 or 11 years now- whom he had known in France as sweethearts and who came to New York to be married. They have two children: Minette now abt 9 years and Simone Claudette abt 4½ yrs., both born in New York City and thus U.S. Citizens. I do know that Mrs. Yoshimoto had taken First Citizenship papers but he of course could not being born in Japan.

I first knew him in early 1937 and until his departure had a constant business association with him as well as much social opportunity to visit his home and family. He is a man who devoted all of his off business hours entirely to his family and his religion is Catholic., which he practices very fervently., as does his wife and family.

He was a man who loved the U.S.A., proof of the point being that he had a Contract with his home company that he could remain as Head of the American Branch for the balance of his life. Further in 1939 when he was recalled to Japan for a conference and offered the Managership of the Company for the whole world he rejected same. It was his expressed desire to have his family remain Americans for all time and this expression was before any talk of trouble with Japan and before the last child was born and it was still his desire expressed to me even after Pearl Harbor. His wife had been Violinist in her younger days having a Studio in France.

He speaks seven languages- having acquired Latin and Italian during his internment in the U.S.A., and having acted as Asst. Head of the Language school at Ft. Meade while he was interned; Prince Boncompiano being the head.

894-6552/10-2645

DANIEL J. MAHONEY

SILK - RAYON - WOOL
WOODPULP

246 SUMMER STREET

CABLE ADDRESS
MAHONFIBRE

BOSTON

Oct. 26, 1945.

Mr. Gay #2.

At the time of Pearl Harbor practically all Japanese were rounded up and interned and the Companies were seized as well as their Books etc. Mr. Yoshimoto was not. The Officials from the Treasury Dept. and the National Bank examiners took over the premises and in fact made the offices of Hara & Co., their headquarters. A Mr. O'Connor headed the Bank men and Mr. Howard Read from the Treasury. Mr. Yoshimoto was invited to come to the offices daily and assemble some of the employees and assist in the liquidation of his company in an orderly fashion. This of course unlike the procedure of Mitsui and Mitsubishi and all the others, whose Jap men were in internment camps. This action of course I did not have explained to me by Gov't officials but I presumed they had a check on the different men and knew Yoshimoto to be O.K.

In August 1942- nine months after Pearl Harbor he was placed in internment. Shortly thereafter a hearing was held for him and I was invited to testify as to his character etc. I attended this hearing held in the Brooklyn courthouse and under the direction of the U.S. Attorney a Mr. Kennedy, but the actual hearing by an Asst. U.S. Attorney a Mr. Silver and the entire Board and many F.B.I. Men. Other witnesses included Rev. Father Piscirillo Pastor of Church of St. Vincent de Paul (Catholic) 120 West 24th. St., N.Y. and Rev. Fr. Joseph O'Meara of the Passionist Monastery at Jamaica L.I. as well as a Mr. Doherty and Mr. Bonner both employees of Hara & Co. for many years, and many others including Judge Qua's sister a Miss Qua who had been Mr. Yoshimoto's English teacher when he first arrived in the U.S. and friend of the family all those years.

Appearing individually before this board in a separate room each told their story and answered questions and in my own personal case I can reiterate that the same Mr. Silver's insinuations and what I considered insulting questioning was highly out of place- I being a Vet of World War 1 in the Navy Flying Corp. Regardless Mr. Y. was placed in internment at Ellis Island. I do know that in answer to the question to the effect " Who did he want to see win the War" his reply was "he wanted to see a Just Peace."

The Maryknoll Fathers became interested in his case, hoping to assist in obtaining his release. At this point I came into contact with one of the Fathers who suggested that if I wished to assist our Government's cause he would put me in touch with the proper parties as he had a plan that a man of Yoshimoto's type could be used to assist. Thus I called at the office of the F.B.I. in New York and talked with Mr. McNamara. From that point I saw Mr. Yoshimoto at Ellis Island but I knew that as he was not a member of the Shinto religion he could not be in on any secrets or plans of sabotage or other Un-American activities. This proved to be the case and so tackled another angle.

DANIEL J. MAHONEY

SILK - RAYON - WOOL
WOODPULP

246 SUMMER STREET

CABLE ADDRESS
MAHONFIBRE

BOSTON

Oct. 26, 1945.

Mr. Gay #3

Mr. Y. had a brother a Music critic of high standing in Japan and a sister who some years ago married a young Army Lieut. The sister had a daughter and this daughter was married to Premier Tojo's son. It was for this reason that Yoshimoto was interned, I have been given to understand, although I believe he had met Tojo but the once and of course as he did not visit Japan for many many years except on the 1939 occasion was disconnected from the Japans Political affairs and insisted that he stay so, believing the American Democracy.

I was advised that a Japanese by the name of Noda who was in internment had stated that Yoshimoto was dangerous, believing that he would gain his own release by giving such information. He did gain his release but Mr. Noda was soon back in internment camp. He had been the Head of the Japan Cotton Co., in N.Y. City and married to an American woman., and I personally had never met him, but had heard some very disparaging statements made regarding him. He also sailed back on the Gripsholm Sept. 2, 1943 and it was only this week that a friend of mine told me he was in Tokio and in some way connected with Col. Kramers activities in the Economic and Scientific Division. From what I know it should be Mr. Yoshimoto that should be assisting in that department and no Japanese who had been under the clouds as ascertained by the F.B.I.

During Yoshimoto's internment I saw him a several occasions and as the Japanese Government had placed his name on the List to be repatriated- it was my assignment to work on him and extract the promise that he would do what he could on his return to Japan to assist in getting relief for Americans. This promise I did extract from him as well as his wife- believing he could approach Tojo and thus use his great ability and influence along this line. Of course he did not know what I was doing when I was obtaining for him special favors- from the Dept' of Justice (Mr. Edward Innis) such as keeping him in the East when all other Japs were sent from Ft. Meade to Montana. Getting his transfer to Ft. Howard where his children could visit him- transfer to Ellis Island where his wife could visit each week and bring him food and vitamins, returning home a few days before he sailed to pack etc. But it worked as attested by his desire that I notify The Dept of Justice- the National Catholic Welfare Conference and the Maryknoll Fathers how much he appreciated their actions in making his life easier and his wife's position more tolerable. Particularly the Dep't of Justice were to thanked for the fine treatment he received. This of course was executed.

I had been further advised that his Parole was possible if he remained here- but he could not in view of the fact his name had been placed on the Jap list to be exchanged for some prominent American. He was not well from Internment and so his wife insisted on going with him and taking the two girls.

Y-sailed
9-2-'45?

1943

DANIEL J. MAHONEYSILK - RAYON - WOOL
WOODPULP246 SUMMER STREET
BOSTONCABLE ADDRESS
MAHONFIBRE

Oct. 26, 1945.

Mr. Gay #4.

I once asked Father Piccirillo who was the family religious adviser and who heard the confessions of Mr. Y., as part of his religious duties- whether he believed that Mr. Y was as good a man as I believed him to be. His reply was that this man was an exceptionally fine clean man of the highest character and many other nice statements. He further took a deep interest in the welfare of the American Girls and Men who worked under him as to their home life and morals and was deeply respected by all who came in contact with him. I know for I sat in on many many conferences with him and the Top Owners of most of the Rayon Pulp manufacturers in the U.S. and Canada. I also know that the Owners of Silk Stocking Mills throughout the country highly respected him. His connections abroad with native firms in Brazil, Australia, France and many other countries were with only the highest thought of firms in business International circles.

Just recently since I returned from Washington I learned from a boy who was with the Army of Occupation in Japan that he had met them and that they had been bombed from their home in Yokohama and lost everything but uninjured and alive. That it was the only thing in that strange land that reminded him of home was the Yoshimoto's. That they wished to let me know they were alive but much aged as to be expected and hoped for better times.

There is of course much more to be said regarding this man but it is all good and unnecessary. I believe that our Economic and Scientific Division should be able to place him in a position of Trust in their program. He is the most brilliant business man I have ever had dealings with and as his firm in N.Y., handled approx. 25% of all the Raw Silk that entered the U.S., should be extremely valuable to our forces at Tokio. With a man of his type there- a Buyer here could depend on any statement of quality of goods that he should stamp on a shipment. Whereas with some Japanese men- it is doubtful whether they would perform so honestly. On this basis I believe it is almost an essential that our Gov't should check into this subject by first contacting Dep't of Justice either Mr. Ennis Director or Mr. Gitlan his assistant to confirm his record. I note that Silk is to become the leading product to be shipped here in exchange for foods and thus I think Gen. McArthur or his Asst. Col. Kramer should be cabled advising of Yoshimoto, if you find the man from the records to be all I have found out about him.

I have been unable to find out if he carried out his promise to get relief to Americans after his return to Japan abt December 1943- but from my readings I think Prisoners fared a little better in 44 and 45 than previously. I shall be glad to give any further information so desired and trust this is helpful. Excuse typing as it is my own.

Yours very truly,



Return to JA
file

DEPARTMENT OF STATE

Memorandum of Conversation

FEB 13 1946

DATE: November 1, 1945

SUBJECT: Ceiling Price for Silk Purchased in Italy or Japan.

PARTICIPANTS: Mr. Acheson
Mr. Magruder(?)
Mr. Kennedy
Mr. Borton
Congressman Flood
Mr. Thorpe
Mr. Martin
Magagna

COPIES TO: *JC Vincent*
WT Turner

894.6552/11-145

OS/10

894.6552/11-145

Congressman Flood and Mr. ^{*Magagna*}Magruder(?) were primarily interested in breaking down the present OPA ceiling price of \$3.08 per pound in silk in view of the impossibility of obtaining silk at that price in inflationary countries such as Italy and Japan, pointing out that it would be to our interest to start the development of exports in these countries to prevent our having to send them relief later. They suggested the possibility of an international conference to settle the matter, to which suggestion Mr. Acheson took violent exception.

Mr. Acheson felt the problem was primarily an American one and that the economic offices should work out with OPA and Commerce (former interdepartmental meetings apparently having gotten nowhere on the matter of a ceiling price) a method whereby the present price of \$3.08 would be raised in Italy until it was found the Italians were willing to sell. This price could then be adjusted to meet the particular situation in Japan and be used there. Mr. Thorpe will apparently work on the problem.

Comment: I saw no political objections to the proposed plan as we are anxious to have the Japanese economy put on a self-supporting basis as soon as possible.

Congressman Flood is anxious to have Mr. ~~Magruder(?)~~ go to Japan. As the Army has already asked Mr. Jerle to go for them, it would seem to be a matter for the Army to decide.

DCR: TTP Unit
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FILED
FEB 13 1946

HB
JA:MBorton:mp

Return to
JA: H. Borton

DEPARTMENT OF STATE

Memorandum of Conversation

DATE: **Friday, January 18,**
1946

SUBJECT: **Restoration of Japanese Silk Trade**

PARTICIPANTS: **Congressman Daniel J. Flood,**
Mr. Peter Frederick Magagna, Silk Throwster
Mr. Jerle, Silk Importer
Mr. Acheson, U
Mr. Thorp, A-C
Mr. Borton, JA
Mr. Martin, JK

COPIES TO: **Mr. Gale, IR**

Copies to: **U**
A-C
ITP
JA
JK

* * * 1-1493

Congressman Flood referred to the fact that raw silk has finally been removed from price control by the OPA and expressed his appreciation for the part played by the Department in bringing about this action.

Mr. Acheson inquired concerning the effect of the action on silk. Mr. Magagna replied that it would help restore the Japanese economy. He also said that silk is likely for a time to sell at prices from \$8 to \$14 per pound depending upon quality, that its principal use is likely to be in luxury products, and that after conditions become more normal in the silk industry the price may be reduced to an average of about \$6 per pound.

Congressman Flood pointed out that the Civilian Affairs section of the Army is interested in the rehabilitation of the Japanese silk industry and had asked Mr. Magagna and Mr. Jerle to go to Japan to assist in the rehabilitation program.

Mr. Jerle, he said, is unable to go but Mr. Magagna is going. Mr. Magagna said that going to Japan for the Army would involve a sacrifice on his part since he would have to put his own business aside while working for the Army.

Congressman Flood

-2-

Congressman Flood stated that Mr. Magagna planned to leave for Japan in the very near future and that the meeting with Mr. Acheson had been requested because he (Congressman Flood) wanted the Department to know who Mr. Magagna is and what he plans to do. Congressman Flood indicated that he expects the Department to take an interest in the work Mr. Magagna will be doing in Japan, that he felt the work should not be the sole responsibility of the Army, and that Mr. Magagna would need the Department's blessing in his work. Mr. Acheson replied that everyone going to Japan to do work of the type Mr. Magagna will be doing has to be on General MacArthur's staff.

Mr. Magagna again referred to the sacrifice he is making in going to Japan and said that he would have to receive the cooperation of everyone, if his work is to be successful. Mr. Acheson replied that he was sure it would be very helpful to the Army to have Mr. Magagna working on the restoration of the Japanese silk industry.

Congressman Flood and Mr. Magagna indicated that they felt it would be desirable to have Mr. Jerle, rather than the USCC, arrange for the distribution of silk among users within the United States. They expressed strong opposition to having the silk sold at auction, stating that this would lead to speculation, rising prices and to silk being kept out of the hands of legitimate users by speculators. Mr. Magagna stressed the ability and experience of his "associate" Mr. Jerle. Congressman Flood stated that Mr. Jerle imported 80 percent of the Japanese silk imported by American importers prior to the war. (It later developed that American importers imported only 30 percent of the Japanese silk consumed in the United States prior to the war, the other 70 percent being imported by Japanese interests.)

Mr. Thorp said that the USCC has been asked by the Department to assume responsibility for the restoration of Japanese foreign trade, pending such time as it is possible for private industry to take over. He pointed out that the USCC is to buy and distribute not only silk but other Japanese products as well. He also indicated that it would not be proper for Mr. Jerle to be responsible for the allocation of Japanese silk within the United States, since other importers are also interested.

(Because of

-3-

(Because of a previous appointment Mr. Acheson and Mr. Thorp were unable to continue participation in the conversation. At their suggestion, the remaining participants continued the conversation. Messrs. Jerle and Martin, who until this time had not been present, joined the meeting when it was resumed.)

Congressman Flood informed Mr. Jerle of the previous meeting in Mr. Acheson's office, stating that Mr. Acheson had been requested to give Mr. Magagna's trip to Japan his blessing and had done so. He said that the question of the distribution of Japanese silk within the United States had been under discussion when the meeting was discontinued. Both he and Mr. Magagna expressed strong opposition to distribution of the silk by USCC. They alleged that USCC personnel lacked experience and would not act with sufficient dispatch. They also implied very strongly that USCC's method of disposing of the silk would be by public auction which would, they said, deliver the silk business into the hands of speculators.

Mr. Martin stated that the Department is mainly interested in two matters concerning the distribution of Japanese silk, namely, allocation of the silk among countries and the price at which it is to be sold. He said that the Department would look to the USCC to allocate the silk within the United States. Congressman Flood said that the Department should also have an interest in the way in which the silk is allocated within the United States, since it is possible to handle the allocations in such a way as to interfere with the smooth flow of silk to this country and to hamper the restoration of the Japanese silk industry and of the silk using industries within the United States. Mr. Martin replied that the Department is interested in the restoration of the Japanese silk industry in such a way that it will be a continuing industry and that he would be glad to indicate to the USCC that the Department wished to have silk distributed in this country in such a way as to contribute to this objective. Congressman Flood stated that he felt this was as much as could be expected of the Department at this time.

Mr. Jerle

-4-

Mr. Jerle described his own experience in the silk industry and said that it had led him to the conclusion, notwithstanding his own inclinations to the contrary, that it would be preferable from now on for silk to sell at a controlled price.

Mr. Cale inquired whether or not Mr. Jerle knew what method USCC proposed to use in selling and allocating silk and received a negative reply. Mr. Cale then pointed out that the Government had had very considerable experience in allocating short supply commodities during the war and that the basis of allocation among users has generally been the user's share in the business during a previous representative period. He cited tea as an example of a commodity which has been purchased by USCC and so allocated. Congressman Flood indicated that he felt that allocation on the basis of past participation in the business would be fair for silk.

Mr. Borton suggested that Congressman Flood, Mr. Magagna and Mr. Jerle take up with the USCC their views as to the best method of allocating Japanese silk within the United States. They agreed to do so. Mr. Borton said that the Department would go ahead and signify to the USCC our interest in the restoration of the Japanese silk industry on a continuing basis, as suggested earlier by Mr. Martin.

IR:EGCale;mcc
1-22-46

COPY

DEPARTMENT OF STATE

Memorandum of Conversation

DATE: November 1, 1945

SUBJECT: Ceiling Price for Silk Purchased in Italy or Japan

PARTICIPANTS:

Mr. Acheson
Mr. Magagna
Mr. Kennedy
Mr. BortonCongressman Flood
Mr. Thorpe
Mr. Martin

COPIES TO:

J. C. Vincent
W. T. Turner

* * * 1-1403

Congressman Flood and Mr. Magagna were primarily interested in breaking down the present OPA ceiling price of \$3.08 per pound in silk in view of the impossibility of obtaining silk at that price in inflationary countries such as Italy and Japan, pointing out that it would be to our interest to start the development of exports in these countries to prevent our having to send them relief later. They suggested the possibility of an international conference to settle the matter, to which suggestion Mr. Acheson took violent exception.

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Comment: I saw no political objections to the proposed plan as we are anxious to have the Japanese economy put on a self-supporting basis as soon as possible.

Congressman Flood is anxious to have Mr. Magagna go to Japan. As the Army has already asked Mr. Jerle to go for them, it would seem to be a matter for the Army to decide.

JA:HBorton:mp

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Memorandum of Conversation

DATE: Friday, January 18, 1946

SUBJECT: Restoration of Japanese Silk Trade

PARTICIPANTS: Congressman Daniel J. Flood,
Mr. Peter Frederick Magagna, Silk Throwster
Mr. Jerle, Silk Importer
Mr. Acheson, U
Mr. Thorp, A-C
Mr. Borton, JA
Mr. Martin, JK
Mr. Cale, IR

ASSISTANT SECRETARY
W. L. CLAYTON

OFFICE OF
INTERNATIONAL TRADE POLICY

JAN 31 1946

~~COPIES TO:~~

Copies to: U
A-C
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JA
JK

JAN 19 1946

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DEPARTMENT OF STATE

DEPARTMENT OF STATE

894.6552/1-1846

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Congressman Flood referred to the fact that raw silk has finally been removed from price control by the OPA and expressed his appreciation for the part played by the Department in bringing about this action.

Mr. Acheson inquired concerning the effect of the action on silk. Mr. Magagna replied that it would help restore the Japanese economy. He also said that silk is likely for a time to sell at prices from \$8 to \$14 per pound depending upon quality, that its principal use is likely to be in luxury products, and that after conditions become more normal in the silk industry the price may be reduced to an average of about \$6 per pound.

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Congressman Flood

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1946

DOB - ITP Unit
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(Because of

-3-

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Mr. Jerle

-4-

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Mr. Cale inquired whether or not Mr. Jerle knew what method USCC proposed to use in selling and allocating silk and received a negative reply. Mr. Cale then pointed out that the Government had had very considerable experience in allocating short supply commodities during the war and that the basis of allocation among users has generally been the user's share in the business during a previous representative period. He cited tea as an example of a commodity which has been purchased by USCC and so allocated. Congressman Flood indicated that he felt that allocation on the basis of past participation in the business would be fair for silk.

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EGC
IR:EGCale:mcc
1-22-46

DEPARTMENT OF STATE

DIVISION OF COMMERCIAL POLICY AND AGREEMENTS

11/6/45

Dan Mahoney, Boston, called Mr. Gay and referred to the two letters he had written to Mr. Gay re going over to Japan to do business. He inquired as to whether passports were being issued at this time--said he thought he had seen something in the papers to the effect that trade might be open soon. Mr. Gay replied that as far as he knew this was not so and that he did not think there would be anything open for sometime. Mr. Mahoney wanted to know whether that information would come to this Department, and if so, he would appreciate receiving the information when available. Mr. Gay told that we would know about it and that he would let him know as soon as he finds out about it. Mr. Mahoney then said he had a plan in mind and will outline it in a letter. He also mentioned that he will call Mr. Gay in the event that he comes to Washington. Mr. Mahoney also inquired as to getting into China to do business. Mr. Gay replied that that is a different situation.

3

file

DANIEL J. MAHONEY

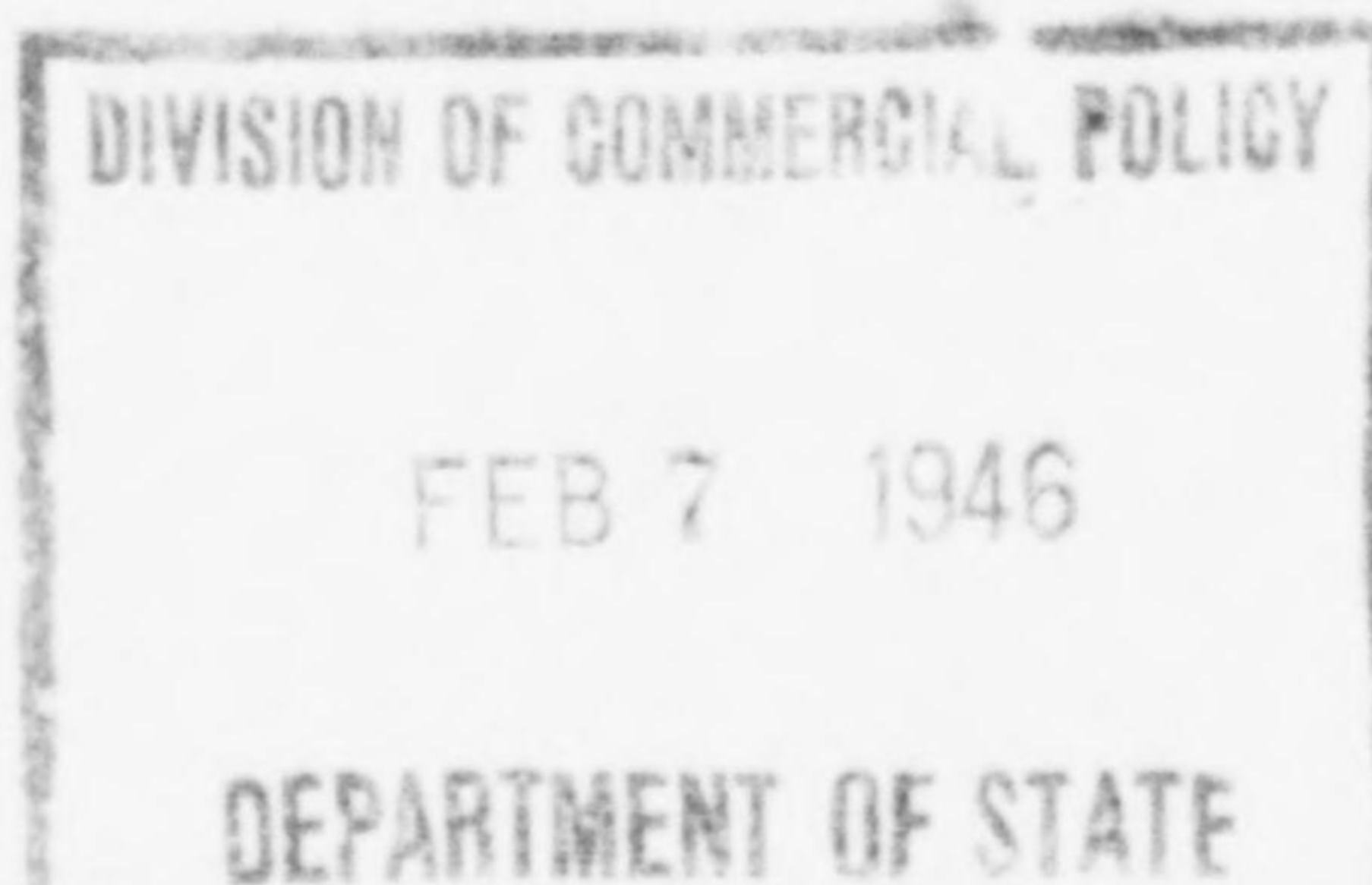
SILK - RAYON - WOOL
WOODPULP

246 SUMMER STREET
BOSTON

CABLE ADDRESS
MAHONFIBRE

February 5, 1946.

Mr. Merrill C. Gay,
Dep't of State,
Commercial Policy Div.,
Washington D.C.



Dear Mr. Gay:

I was very pleased to receive your informative letter of the 31st., and your kind invitation to "drop in again," when I am in Washington. Actually I have made several trips there in recent months and since my visit to you and have been reluctant to impose on your time. However I shall definitely accept your suggestion on my next trip.

I am enclosing herewith a recopy of a self explanatory letter sent to Mr. Schieck regarding my desires., as to the Silk Importations. Last week on the 31st., I spent about one hour discussing this business with Mr. Peter McDermott, Chief of Materials Division of U S C C., in the morning, at which time he advised there was to be a meeting at 2:30 that afternoon, regarding the entire status. I deduced it was held and that USCC was confirmed as the Handling Agency at that meeting.

However my discussion with Mr. McDermott while of the most friendly nature as man to man and every possible courtesy was shown to me; left me with a very limp feeling of helplessness, in that actually our talk was; as the Government versus Mahoney representing business. While he could not say Officially at that time, the USCC was going in to the Silk business to the obliteration of Prewar Silk Business man, nonetheless this appeared as the program and later was confirmed in the Newspapers. In other words the Silk to be imported was to be assigned to the USCC and they in turn become the marketing, distributing and merchandising machinery on a sealed-bid basis.

This procedure unquestionably eliminates the International business man not only on this article but any other commodity involved and certainly is rebuilding the Foreign Trading nations which eventually will pulverize the inexperienced corp of Government Traders untrained to this career. Thus my "limp feeling" of helplessness. It promises to be a calamity to our International business future, if continued and the trained men are stifled and either drift into the boiling pot or join foreign national organizations. The arguments advanced to substantiate the USCC procedure naturally pall into insignificance when weighed against the future of our trade. The picture is extremely disturbing from a selfish International and personal standpoint.

894.6552/2-546

DANIEL J. MAHONEYSILK - RAYON - WOOL
WOODPULP246 SUMMER STREET
BOSTONCABLE ADDRESS
MAHONFIBRE

Feb. 5, 1946.

Mr. Merrill C. Gay #2.

I am now in a beautiful position to participate in the Silk picture as well as other Fibres and products from the Orient. My new associates, well experienced in International dealings contain one American citizen of Chinese ancestry well connected in China, there being a total of five of us, who have pooled our resources with the firm conviction of not only helping ourselves but the national welfare as well. I might add that outside of myself, the other associates belong to that class of financial independents; but imbued with the spirit of progress and helpfulness to others. So that I am doubly anxious to see this unfair situation righted as soon as possible.

I trust Gen. McArthur's staff have adopted your departments suggestion that they utilize the services of Mr. Shunosuke Yoshimoto in purchasing Raw Silk for our Army as I am certain they will receive the utmost cooperation and sincere efforts of this specialist. I have received word from an American soldier indirectly that he had visited Mr. Yoshimoto, his wife and two American daughters and had his only real liking for Japan through this visit.

Therefore with all the above on my mind you can undoubtedly see that I am ready to grasp at any straw that will lead to a solution and hope to see you soon and take advantage of your invitation not only along this line but from a personal desire to renew and add to our previous discussion of International affairs so vital to our mutual interests.

With best personal regards, I am,

Very sincerely,



DJM:n

SILK - RAYON - WOOL
WOODPULP

DANIEL J. MAHONEY

246 SUMMER STREET
BOSTONCABLE ADDRESS
MAHONFIBRERE-COPYRE-COPY

Jan 21, 1946

Mr. DeWitt C. Schieck, President
U.S. Commercial Co
Temporary U Building
Washington D.C.

Dear Mr. Schieck:

I note by the news in the "Journal of Commerce", that 6100 Bales of Raw Silk have been declared Exportable, having been approved by the U S authorities, from Japan and is merely awaiting Washington approval.

You will recall on my recent visit to you at your office, I advanced the proposition that I should desire to participate in the marketing of any Raw Silk that would be forthcoming from Japan and to the U.S. Commercial Company. As an officer in the Universal Commodities Corporation, an organization of Boston business men, I have at my command the entire resources necessary to properly merchandize and handle the entire future shipments of this commodity to be handled through the Government channels.

The financial position of this group is such that all necessary funds are available and warehousing spaces are controlled so that these two vital conditions can be met. However I believe the most important asset for successfully marketing this product is the executive selling and manipulation of the Market, by experienced personnel. For this department I have my past performances and connection for a recommendation and also have available the services of two Top Silk men formerly associated with a Japanese Importer, for whom I was Agent; namely Hara & Co., 1 Park Ave., New York, one of the very few firms (Japanese) that was given a clean bill by our Government after investigation and examination of their books following Pearl Harbor. Both of these men have had at least 25 years Raw Silk selling and marketing experience.

Conducting my own business since May 1922, my connections briefly: American Agent for Raimondo Buratti, Biella, Italy (Rayon and Silk), -1926-1935; For J. Hopf, Basle, Switzerland 1935-1939. Hara & Co, Yokohama and N.Y. 1936-1941. Have negotiated purchase Silk Cartridge Cloth -1½ million yds- for Canadian Gov't Dept of Munitions and Supplies and purchased Silk Noils for their consumption 6/700,000 Lbs 1941-42. Also extensive Domestic business with American Silk Mills.

Having in mind handling this Raw Silk merchandizing on a commission basis for the U S C C on a similar basis as

RECORD

Mr. Schieck

-2-

Jan 21, 1946

Iceland Wools and Turkish Mohair is handled by experienced Dealers and the fact that I am a Pre-war established Silk man of which there are few-(Mostly Jap pre-war), I therefore submit this proposition for your consideration.

When I talked with you in Washington you mentioned that you probably would be away from Feb 1st to March 1st, that I could discuss this proposition further in your absence with Mr. McDermott. As I am quite anxious to go in to any and all details regarding this matter with your company at any time, I would appreciate your advising me as to when a suitable time might be arranged in Washington as I am prepared to visit you or Mr. McDermott at any time.

Inasmuch as the Government policy has been to promote business to reconversion and I am equally anxious to reconvert to this trade, cut off by the War, I trust this plan outlined will have the consideration I am certain is so essential to our economic well-being both at home and in our International relations.

Thanking you for the courtesy shown me on my recent visit and trusting that my proposition may have the proper consideration and awaiting further word from you, I am,

Yours very truly,

/s/ Daniel J. Mahoney

DJM;n

PREPARING OFFICE WILL INDICATE WHETHER

TELEGRAM SENT

PREPARING OFFICE WILL TYPE HERE CLEARLY THE CLASSIFICATION OF THE MESSAGE:

Collect

Charge Department:

Charge to

Department of State
Washington

CONFIDENTIAL

NO PARAPHRASE NECESSARY

Conf.

FEB 6 1946

1302

SUPREME COMMANDER FOR THE ALLIED POWERS,

TOKYO.

FOR THE ACTING POLITICAL ADVISER.

The DEPT of State forwarded the name of Mr. Peter Frederick Magagna to the War DEPT for their consideration in selecting an expert on silk to act as consultant to SCAP on the rehabilitation of the silk industry in Japan. Mr. Magagna has been employed by the War DEPT for this task and is expected to leave for Tokyo Feb 7. Copies of memoranda of conversation between Congressman Daniel Flood and Magagna and the Under Secretary are being forwarded to you by pouch for your information. Any assistance you can appropriately render Mr. Magagna will be appreciated.

XR 740,00119 Central (Japan)

894.6552/2-646

OS/D 894.6552/2-646

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Dist	Dist

FEB 6 1946

OK War 8-12-46

By...

TELEGRAPH DISTRIBUTION

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FEB 13 1946

CONFIDENTIAL

No. 87

To the

Acting United States Political Adviser to
The Supreme Commander for the Allied Powers,
Tokyo.

318 5-10-46
UP
811-5017

The Secretary of State refers to the Department's telegram No. 129 of February 6, 1946 to Tokyo with regard to the departure for Tokyo of Mr. Magagna, a War Department employee who is to act as consultant to the Supreme Commander for the Allied Powers on the rehabilitation of the silk industry in Japan. Copies of memoranda of conversation between Congressman Daniel Flood, Mr. Magagna and the Under Secretary of State are forwarded herewith for the information of the United States Political Adviser.

894.6552/2-1346

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Rev:	jk
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Enclosures:

Memoranda of conversation:

1. Ceiling Price for Silk Purchased in Italy or Japan.
2. Restoration of Japanese Silk Trade, January 18, 1946.

FEB 12 1946 P.M.

JA:GWB:ner:mp 2-8-46

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2097

JK

A true copy of the signed original.

894.6552/2-1346

OS/D

FEB 21 1946

In reply refer to
JK

My dear Mr. Schieck:

At the request of the Department of State, the U. S. Commercial Company has assumed responsibility for handling imports of raw silk from Japan to the United States and for their sale in this country. It now appears that substantial quantities may be available in the not too distant future.

Raw silk is one of the few exports available to Japan which is dependent neither on import of raw materials nor on facilities which present security problems, or may be claimed for reparations.

It is highly desirable from the standpoint of United States policy, therefore, that a relatively permanent market be established for Japanese silk in this country. It is the hope of the Department of State that whatever sales arrangements may be made fully take into consideration the need for a permanent market.

It is assumed that in making out a distribution policy which will contribute to this end, consultation will be held with representatives of the various elements in the silk industry in this country and with other experts in this field.

Sincerely yours,

John Kenneth Galbraith
Acting Director,
Office of Economic Security Policy.

Mr. DeWitt C. Schieck,
U. S. Commercial Company,
Room 2063,
Temporary "U" Building,
12th and Constitution Avenue, N. W.,
Washington, D. C.

Handwritten notes and stamps:
FEB 12 1946 P.M.
FEB 16 1946 P.M.
FEB 21 1946 P.M.
JK
RH
Whitman:aw

1-30-46

IR
CE
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Handwritten initials and stamps

*Federal Loan Agency
To U.S.C.P.*

894.6552/2-2146

OS 17
894.6552/2-2146



U. S. COMMERCIAL COMPANY
811 VERMONT AVENUE NW.
WASHINGTON 25, D. C.

*White
more*

Walter

MAR 7 - 1946

CABLE ADDRESS
"USCOMCO"

DIVISION OF JAPANESE AND KOREAN
ECONOMIC AFFAIRS
DEPARTMENT OF STATE

No answer required
MAR 11 1946
Bill R H W

Mr. John Kenneth Galbraith
Director
Office of Economic Security Policy
Department of State
Washington, D. C.

Dear Mr. Galbraith:

894.6552/2-2146

I acknowledge receipt of your letter of February 21 concerning the handling of imports of raw silk from Japan by U.S. Commercial Company.

*XR
611,946*

It has long been an underlying policy of the U.S. Commercial Company to discuss our mutual problems with representatives of interested segments of industry so that normal trade practices might be disrupted as little as possible and so that trade might be restored to normal channels as soon as possible upon the return of those conditions which will make our further participation unnecessary.

The case of silk from Japan is no exception although, of course, the problems incident to its proper importation and equitable distribution are much more complicated than those attendant upon many other commodities which we have handled. We have discussed those problems on a number of occasions with representatives of the silk industry and you may be assured that we will continue to do so.

MAR 21 1946

FILED

894.6552/3-746

Sincerely yours,

DeWitt C. Schieck
DeWitt C. Schieck
President

CS/WJ

DCR ITP Unit
Ack *J/B*
Rev *J/B*
Out *am*
Dist

894.6552/3-746

DANIEL J. FLOOD
11TH DIST. PENNSYLVANIA
HOME OFFICE:
1015 MINERS NATIONAL BANK
WILKES-BARRE, PENNSYLVANIA

COMMITTEE:
FOREIGN AFFAIRS

Congress of the United States
House of Representatives

Washington, D. C.
March 29, 1946

DIVISION OF JAPANESE AND KOREAN
ECONOMIC AFFAIRS
DEPARTMENT OF STATE

Reply drafted by R. H. Whitman
APR 1 1946 412746

file

Mr. Edwin M. Martin, Chief
Division of Japanese & Korean Economic Affairs
State Department
Washington, D. C.

My dear Mr. Martin:

In view of the numerous discussions in which I have participated with the various government agencies, including yourself, with reference to the problem of silk generally and of Japanese silk in particular, and in view of the fact that at the time of the OPA discussions with reference to exempting silk from price control, I had submitted, at the request of the OPA, a memorandum on the subject. I now feel, in view of recent developments, experiences and circumstances, in addition to conversations with leaders in the silk industry, that I should submit to you this memorandum.

I have expressed repeatedly a fear of the use of ^{an auction} ~~option~~ for the purpose of disposing of this Japanese silk if and when it reaches the United States. Some months ago, and until very recently, I felt my position to be sound under all the prevailing circumstances.

In view, however, of the circumstances as they now exist, and recalling upon the recent experiences in the silk industry in this country with reference to the silk that has been recently handled from China and a few other places, I find it necessary to revise my statements and in light of all these facts to present a new and different viewpoint as follows:

With reference to the discussions we have had on the Japanese silk situation, I have a number of thoughts and considerations which I would like to lay before you as a guidance in considering the many phases for the distribution of that silk.

Out of the welter of discussions with the War Department, State Department and USCC, some facts shape up quite definitely to indicate that at least for the time being and for some time to come, the movement of silk from Japan to the American market must necessarily follow a certain procedure.

LWH We understand that the army in Japan receives the silk from a Central Japanese silk association which has tested and warranted the silk to be of a specific grade and size and suitable for export, That the Army takes that delivery and brings it to the ship, at which

[Handwritten signature]

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CS/VJ 894.6552/3-2946

-2-

Mr. Edwin M. Martin

March 29, 1946

point the USCC will then take charge and see the silk landed at a predetermined point in the United States, presumably the U. S. Testing Company in Hoboken. That the USCC will then sell that silk to the trade under certain conditions, which up to now have not been defined or adopted. That the proceeds of the sale less the expenses of USCC are then credited to some account of the Government (most likely the War Department or one of its subsidiaries) to be utilized for the purchase of essentials to be shipped from this country to Japan.

It must be realized that under present conditions existing in Japan and while the Army is in charge, this general procedure must be accepted as the only feasible way.

The big question is how USCC will dispose of the silk because under the system adopted will depend the re-establishment, under a sound foundation, of a silk industry in the United States.

The problem here is not as simple as it was for the disposal of the surplus stock of the War Assets Corporation, which was a one shot affair and which, unfortunate as it was in its method, nevertheless can be passed over and forgotten.

The method adopted by USCC for the distribution and sale of silk is indeed a most important and basic factor, the repercussions from which would continue to have their effect not only upon the industry in the United States but also upon Japan's economy and, therefore, upon the policies of the U. S. Army in that occupied country. It cannot, therefore, be lightly undertaken, nor do I think it should be considered on a basis of trying something for the sake of getting started.

The best system, the desirable system, the system most of the trade would like to see adopted, has been and still is for a fixed price good for one year, reached by international agreement of representatives of governments and industries concerned, and distribution by dealers expert in the trade on a commission basis. Dealers who can finance goodly quantities, order ahead specific qualities and sizes corresponding to trade wants, carry stocks of raw silks in New York and service the trade in its many varieties, peculiar requirements and preferences; advance deliveries, postpone them, make exchanges, go into long commitments, grant credit facilities and thus facilitate, ease, encourage the use of silk in every avenue of manufacture.

Some people have too long confused this type of trade and service organization with the gamble or speculation occasionally indulged by outsiders.

The Government Agency counters that to fix a price today is not feasible; that an international agreement would be a slow procedure to arrive at; that the Agency cannot set an arbitrary price because subject to criticism and challenge at one or more points.

Mr. Edwin M. Martin

-3-

March 29, 1946

This is true enough and while recognizing the fact we must, while not abandoning the ideal, come to the only other practical solution for the moment. Let the trade and industry say what the price should be.

Two methods are open - The sealed bid method; the open auction method.

Having seen the results of the sealed bid method in the recent surplus sale with its extremes of prices and heard the justified criticism, we can come to the conclusion that the open auction is the only feasible thing to adopt. These buyers face each other and with full knowledge of what is going on, make their bids.

The mechanics of this are available to the USCC at a moment's notice. The Silk Section of the Commodity Exchange, Inc., is prepared to go into action upon request and, for a small fee to cover expenses, can render USCC a great service: assume responsibilities, police, so to say, the distribution to strictly trade channels, conduct periodic auctions in its own establishment admirably suited for the purpose and, through its clearing house, bill, accept payment for account of USCC, and deliver to the buyer. Having established and accepted quality standards it can set methods, restrictions and regulations in accord with USCC, and I can assure you of a smooth and satisfactory performance. It would relieve USCC of one big headache.

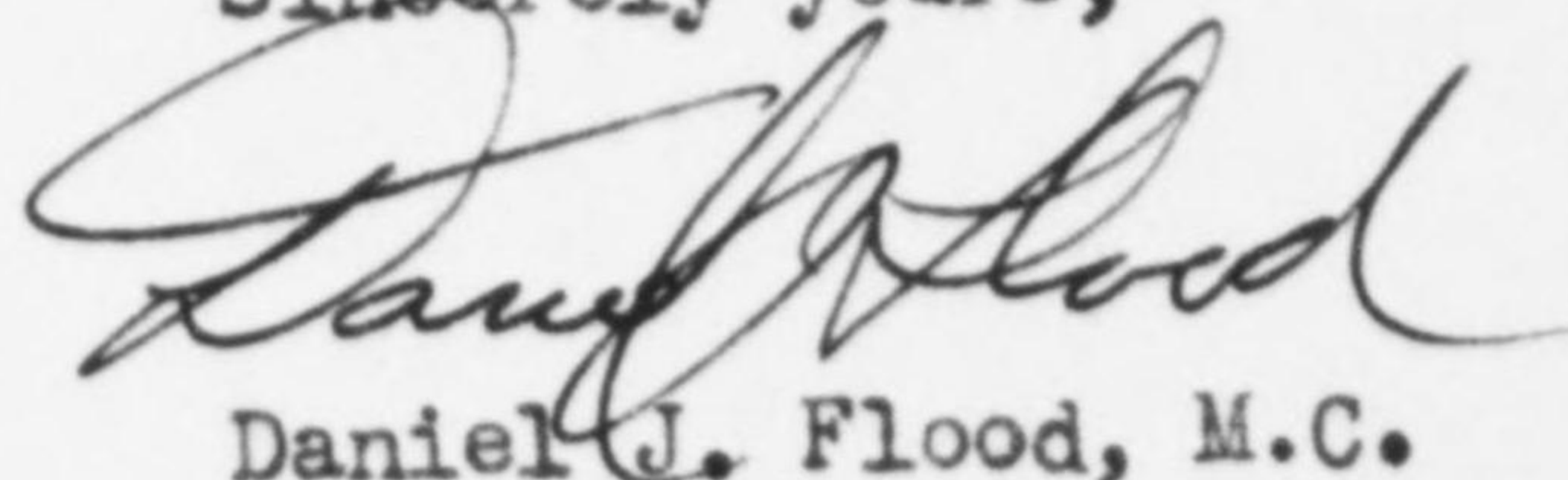
If this is accepted in principle, the details of a program to follow can be easily and quickly established.

I now hope that this idea can be put across to USCC. It is my sincere conviction that USCC should grab at it. If they do not, then the chances are the leading minds of the silk industry to whom we must all look for a renaissance of the silk in this country, will hibernate while the wreck and ruin goes on.

There is a great deal more could be said on this subject as to the details; but it would be useless in this memorandum at this time to discuss these details unless first the principle of the open auction is accepted, but predicated upon the principle submitted here and above. For instance, to sell at auction would be advisable only when at least 10,000 bales are available here in this country. I might add further that only bona fide silk people should be permitted to participate in the bidding. Further, the government and the trade should establish some maximum quantity and quantity should be kept flexible enough in order that the USCC would get the most out of the auction. These last two or three factors I mention only to point out that considerable more is to be said on the details of this plan.

My association with you and your office on this entire problem has been such that I felt sure you would welcome these suggestions.

Sincerely yours,



Daniel J. Flood, M.C.

DJF: jc

APR 12 1946

In reply refer to
JK

My dear Mr. Flood:

This is in answer to your letter of March 29, 1946, discussing the problem of disposing of Japanese silk in the United States. I understand that Mr. Acheson has answered a similar communication and I have nothing to add to his reply.

I wish to thank you, however, for keeping me in touch with developments and you may be sure of my continued interest in the development of a stable market for Japanese raw silk.

Sincerely yours,

Edwin M. Martin, Chief,
Division of Japanese and
Korean Economic Affairs.

The Honorable

Daniel J. Flood,

House of Representatives.

6-11-949

894.6552/3-2946

APR 12 1946
ITP Unit
JK:RHWhitman:aw
[Handwritten signature]

4-5-46

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[Stamp]

894.6552/3-2946
CS/VJ

APR 5 1946

In reply refer to
JK.

My dear Mr. Kirpalani:

The Government of India has expressed interest in obtaining silk fabrics from Japan. As a result of inquiries in Tokyo, we are informed that there is now available for export the following:

- "4M/M 52,400 yards white,
- 5M/M 7,300 yards white,
- 6M/M 3,251,500 yards white,
- 10M/M 3,108,500 yards white,
- 12M/M 1,365,750 yards white,
- 14M/M 1,429,300 yards white,
- 19M/M 95,050 yards white,
- 20M/M 292,900 yards white,
- Dress twill 392,250 yards navy and green,
- Mosquite net 3,243,650 yards green and white,
- Total 23,238,600 yards"

If the Government of India is interested in obtaining all or part of these fabrics, the matter of price and method of payment can be discussed at your convenience.

Sincerely yours,

Edwin M. Martin, Chief,
Division of Japanese and
Korean Economic Affairs.

To: *JB*
 Re: *JB*
 Cmt: *2*
 Dist:

Mr. L.K. Kirpalani,
 C.I.E.I.C.L.,
 India Government Trade Commissioner,
 630 Fifth Avenue,
 New York 20, N.Y.

APR 5

RJW

JK:RHWhitman:me

3/27/46



JE
IR

CP

JAR

JA
HRB

894.6552/4-546

CS/VJ 894.6552/4-546

AMERICAN SILK COUNCIL, INC.

468 FOURTH AVENUE
NEW YORK 16, N. Y.

TELEPHONE
MURRAY HILL 4-5738
ROOM 160

April 8, 1946

RECEIVED
DEPARTMENT OF STATE
1946 APR 12
ANCH

INTERNATIONAL RESOURCES
APR 15 1946
DEPARTMENT OF STATE
file
HR
CP
JA

My dear Mr. Secretary:

Your Reference: JK

With your letter of March 29, 1946, you have been good enough to convey to us the text of a communication which the State Department has directed to the USCC, in connection with the latter's program of importing and distributing here raw silk originating in Japan.

The Silk Council not only appreciates the courtesy which you have thus extended to it, but also views, with a great deal of satisfaction and pleasure, the keen interest which the State Department thus evidences in the entire program of reviving raw silk imports from Japan and the emphasis which the State Department lays on the procedure designed to be of the greatest benefit to the silk industry here and the Japanese producers over there.

The Silk Council does wish that the matter were entirely in the hands of the State Department, in which case, we are sure, serious mistakes which the USCC persists in making, would be avoided. As the matter stands now, it would appear, from a lengthy meeting which we and other silk interests have had with officials of the USCC, in the evening of April 4th, that the strenuous objections raised by all of the people present and representing the industry, notwithstanding, the USCC insists on distributing the silk by means of closed bids.

Again, my dear Mr. Secretary, we appreciate the sincere interest and the understanding which you have evidenced in our problem. If the USCC nevertheless wants to go its own way, then we can only wish them luck and await the moment when they will see the errors of their way, though that may take quite a while and only after irreparable damage has been done to the silk industry.

We are, dear Mr. Secretary,

Sincerely yours,

AMERICAN SILK COUNCIL, INC.

Max Wehrlein, President

Hon. Dean Acheson
Acting Secretary
Department of State
Washington, D. C.

DIVISION OF JAPANESE AND KOREAN
ECONOMIC AFFAIRS
DEPARTMENT OF STATE

APR 16 1946

DIVISION OF COMMERCIAL POLICY
APR 15 1946
DEPARTMENT OF STATE

DIVISION OF JAPANESE AFFAIRS
APR 29 1946
DEPARTMENT OF STATE

894.6552/4-846

894.6552/4-846
CS/IA

JTB
CEP

DANIEL J. FLOOD
11TH DIST. PENNSYLVANIA

HOME OFFICE:
1015 MINERS NATIONAL BANK
WILKES-BARRE, PENNSYLVANIA

COMMITTEE:
FOREIGN AFFAIRS

Congress of the United States
House of Representatives

Washington, D. C.

April 11, 1946

DIVISION OF JAPANESE AND KOREAN
ECONOMIC AFFAIRS
DEPARTMENT OF STATE

Replied previously 4-4-46
APR 10 1946 R.H. Whitman

Whitman

Mr. Edwin M. Martin, Chief
Division of Japanese & Korean Economic Affairs
State Department
Washington, D.C.

File

My dear Mr. Martin:

I thought you might be interested in the enclosed copy
of a letter received by me from Mr. Charles B. Henderson, of the
United States Commercial Company, in answer to my inquiry of
March 29, 1946 having to do with the disposal of Japanese raw
silk by the USCC. 894.6552/3-2946

A copy of my letter to the USCC was forwarded to you
on March 29, 1946.

Sincerely yours,

Daniel J. Flood
Daniel J. Flood, M.C.

DJF:ah
Encl.

DCR - ITP Unit
m.k.
JB
Dist

APR 18 1946

894.6552/4-1146

CS/A

894.6552/4-1146

U. S. COMMERCIAL COMPANY
811 Vermont Avenue, NW
Washington 25, D.C.

April 9, 1946

Honorable Daniel J. Flood
House Office Building
Washington, D.C.

Dear Mr. Flood:

Receipt is acknowledged of your letter of March 29, 1946 addressed to Mr. DeWitt C. Schreck concerning the disposal of Japanese raw silk by U.S. Commercial Company.

The procedure for disposing of this silk has been given the most careful consideration and, while we agree that the sealed bid basis is probably not the best basis for disposing of silk over a long period of time, we feel that the circumstances which prevail today and which probably will continue in effect for a little while longer make the sealed bid basis preferable over the open auction method. We believe that during this period of extreme shortages it is incumbent upon us to obtain as wide a distribution as possible and to give everyone an equal opportunity to purchase silk. We are in a much better position on sealed bids to achieve this objective than we would be under the open auction method.

We are remaining open-minded on the subject and the results of the sales will be given careful consideration and as soon as it is apparent that some other method of disposing of the silk should be adopted the change will be made.

With regard to your suggestion that silk be sold in 10,000-bale lots, we feel that, due to the critical shortage of silk in this country today and the uncertainties of shipping, etc., we should have our first sale as soon as we have accumulated about 5,000 bales. We presently have 2,500 bales in this country and we understand that an additional 5,000 bales are now afloat. It is presently contemplated that the bidding will be opened to all. This we believe necessary because of the difficulty of establishing qualifications for bidding on any restricted basis and because we feel that there are many persons, including former members of the armed services, who are interested in getting into this business. The successful bidders will be allowed a minimum of ten bales and a maximum to be set based upon the quantity of silk available at the time of sale.

We very much appreciate your expressions and suggestions in this matter and we want you to know that we are doing everything possible to the best interest of all concerned to handle this matter on a basis which will be fair to everyone.

With kind personal regards,

Sincerely yours,

/s/ Charles B. Henderson

CHARLES B. HENDERSON
Chairman of the Board

APR 18 1946

In reply refer to
JK

My dear Sir Girja:

We understand that the Indian Government is interested in securing silk piece goods from Japan. The following information as to quantities and types of goods available has recently been received:

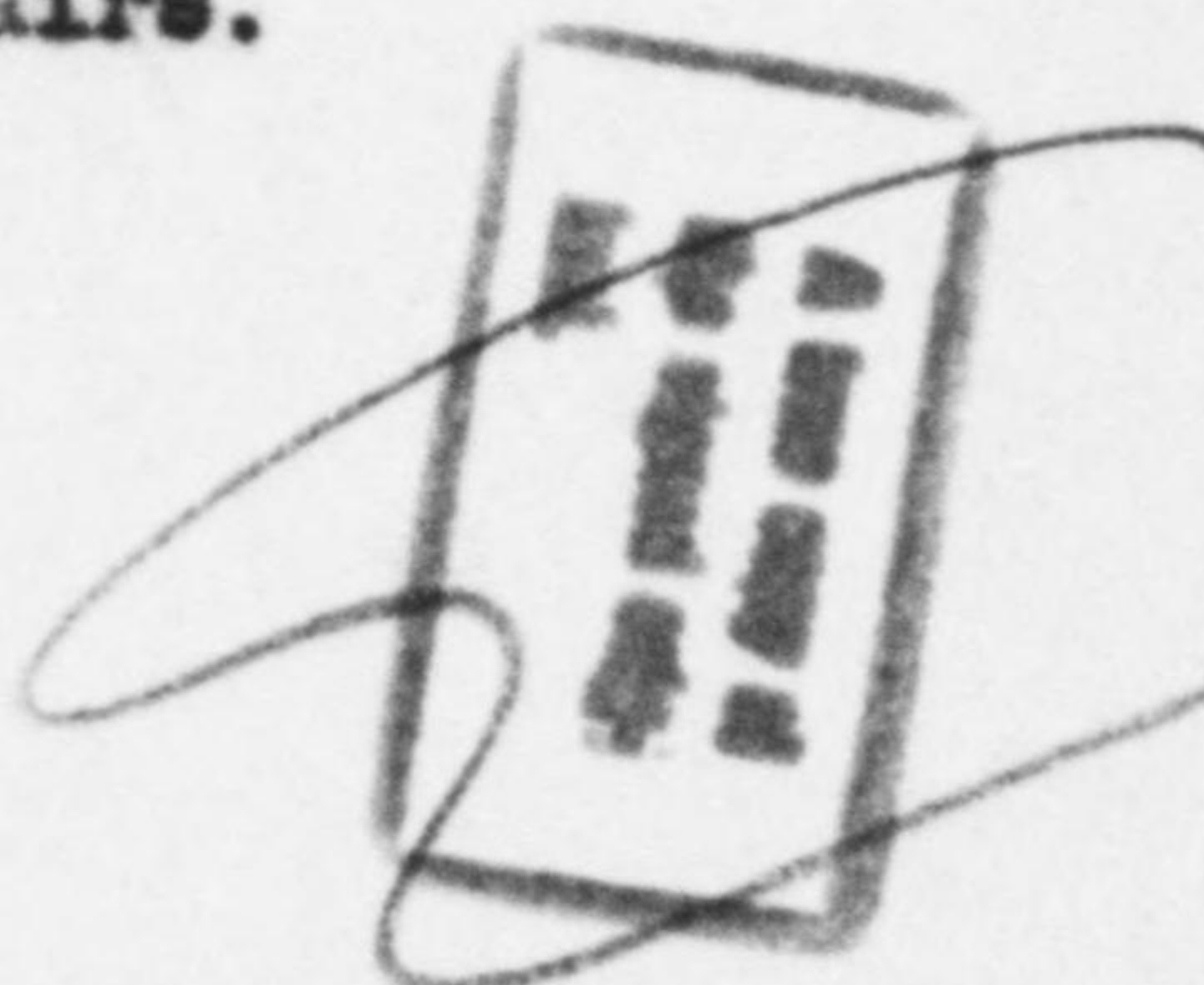
Types of piece goods	<u>Griege</u>		<u>Finished</u>	
	No. of pieces	Yards	No. of pieces	Yards
Garment lining	120,129	1,880,642	607,089	17,987,650
Habutae	291,044	7,520,588	839,724	25,635,386
Umbrella cloth	2,976	74,673	490,666	12,266,743

I would be interested to know as soon as possible whether the Indian Government is interested in this merchandise.

Very sincerely yours,

Edwin M. Martin, Chief
Division of Japanese and
Korean Economic Affairs.

The Honorable
Sir Girja Shankar Bajpai,
K.C.S.I., K.B.E., C.I.E.,
Agent General for India.



Anal JK:RHWhitman:aw 4-10-46

APR 16 1946

APR 18 1946

Unit

Handwritten initials and signatures are present over the typed text.

LB
ME

894.6552/4-1846

CS/A

~~dw~~ ~~ITP Mr. Wilcox~~
~~BS~~ DC/R
AS
IEL

DEPARTMENT OF STATE
Memorandum of Conversation

DATE: May 2, 1946

SUBJECT: Sales of Silk from Japan by United States Commercial Corporation (USCC)

PARTICIPANTS: Mr. Schieck, USCC; Mr. Edelman, Textile Workers of America; Mr. Smith, American Federation of Hosiery Workers; Mr. Lang, President, Full-Fashioned Hosiery Manufacturers Association; Mr. Kleinbard, Attorney for the Full-Fashioned Hosiery Manufacturers Association; and Mr. Holland, ILH, Department of State.

COPIES TO:

ITP - Mr. Wilcox
ILH - Mr. Mulliken

OFFICE OF
INTERNATIONAL TRADE POLICY

MAY 3 1946

DEPARTMENT OF STATE

894.6552/5-246

CS/WJ

894.6552/5-246

1-1403

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XR
811.5017

Upon invitation of John Edelman, I went to lunch today at the Raleigh Hotel with the above named people. The meeting had been arranged by Mr. Edelman to give the union and manufacturing representatives an opportunity to present their views to Mr. Schieck of the USCC. Beginning very shortly, the USCC will be selling silk from Japan and the arrangements have already been made for the first of these sales which will amount to about 5,000 bales. The hosiery people are disturbed about the method that the USCC will be using to dispose of this silk, which is by sealed bids. The hosiery people claim that this leaves them at a serious disadvantage because they have no idea of a proper price for silk. They point out that before the war they were using perhaps 90% silk. The method that the USCC will be using will give the minority users an opportunity to buy up a disproportionate amount of the supply. However, the hosiery people agree that the use of nylon now makes the continued use of silk very problematic, but despite this they do want to get as much silk as they can because they feel that there will still be a profitable market for stockings made of silk. They want the USCC to fix a price and then allocate the supply among the purchasers. This is their first choice, but if USCC won't go along, as second choice they would be content to have the silk disposed of at open bids. Mr. Schieck argued at some length that the method the USCC had adopted was the best one under all circumstances. He pointed out that USCC had no past experience

to go

DCB - ITP Unit

APR 11 1946
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- 2 -

to go on and that the method they had adopted of closed bids seemed to be the method best calculated to get a proper price. He also said that it was essential that the USCC secure an adequate price for the silk because if they did not, it would be necessary for the American taxpayer to finance the feeding of Japan. Also, if the price fixed turned out to be too low, the American consumer would be imposed upon because the manufacturers would not charge any less for their finished products these days even if they got their silk at bargain prices. Mr. Schieck said that during the next year the USCC would probably be selling up to 120,000 bales of silk, of which the first sale is about to be made of approximately 5,000 bales. He thinks that after they have had some experience in selling the first couple of lots, they will be in a much better position to decide what method of disposing of the silk is best. In other words, the closed bid method is regarded as experimental and necessary in view of the lack of experience in selling silk under present conditions. It may well be, Mr. Schieck says, that the USCC would adopt some other method if their experience shows it to be desirable.

TWID

ILH:TW Holland:mmw

1800 K STREET, N. W., WASHINGTON 6, D. C.



TELEPHONE EXECUTIVE 2020

file silk exp

BRITISH EMBASSY (RAW MATERIALS SECTION)
BRITISH RAW MATERIALS MISSION

May 13, 1946

DIVISION OF JAPANESE AND KOREAN
ECONOMIC AFFAIRS
DEPARTMENT OF STATE

no reply sent
MAY 13 1946 5/20/47
file

Dear Mr. Whitman,

JAPANESE SILK

May I confirm our telephone conversation.

As I told you, we have received a telegram from the Board of Trade in which they suggest that in respect of the Japanese silk which will be shipped to the U.K., H.M.G. would prefer to make payments after the shipments actually received in the U.K. have been sorted into categories and graded by G.H. Heath & Co. They suggest that the prices for the grades thus established should be the sterling equivalent of the U.S. market prices prevailing for similar grades of Japanese silk at the time the testing in the U.K. is completed by G.H. Heath & Co. This would mean that the U.K., like the U.S.A., will be paying for the silk when it is directly available to consumers and should ensure that the markets in the two countries will be at the same level at the same time.

894.6552/5-1346

You said that this method of pricing would be agreeable to the U.S.A. provided you are able to agree to inspection in the U.K. by G.H. Heath & Co. I understand that this last point is being discussed among the U.S.G. departments concerned and I hope that you will be able to give us a definite answer very soon.

1

The Board of Trade also referred to AG423 and enquired whether it would be necessary for the U.K. to appoint someone to take delivery in Japan and arrange consignment of the material to the U.K. and, if so, whether this representative would need to be a government official or whether H.M.G. could appoint a business firm (possibly Swiss) to act on their behalf. They also asked through what channels U.K. demands should be put.

m

You informed me that it would be necessary for the U.K. to have a representative in Japan for this purpose but that there would be no objection to H.M.G. being represented by a private firm provided that firm is officially acting on behalf of H.M.G. You said that requirements should continue, for the time being, to be placed with you through our Embassy here.

CS/R

2

With regard to the detailed specifications requested by SCAP, you said that there is no intention of holding up shipments to any particular country until full specifications from all claimant countries have been received but that the detailed specifications for the next 12 months have been requested in order to assist SCAP in planning Japanese production.

894.6552/5-1346

/The

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MAILED
MAY 13 1946

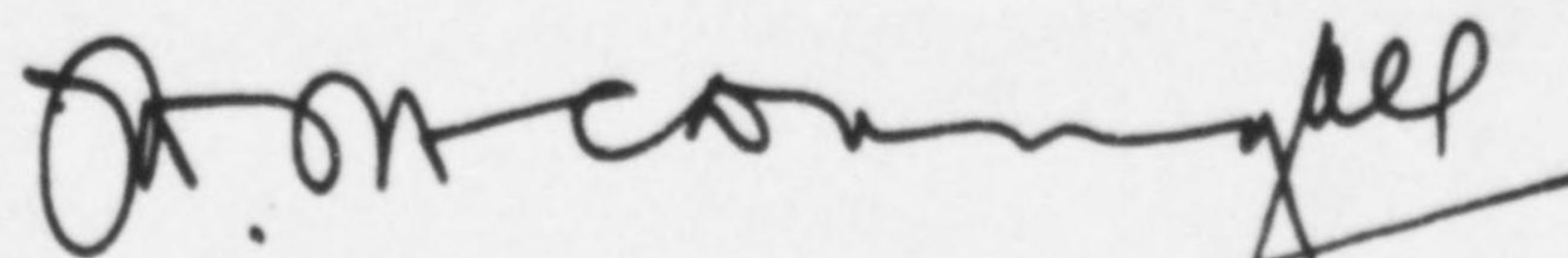
CONTINUATION SHEET

- 2 -

The Board of Trade have promised to cable further very shortly the specifications for the first shipment to the U.K. of 300 bales. They point out that U.K. consumption over the next 12 months is still very uncertain owing to uncertain supplies of labour and they doubt whether they will be able at this stage to give useful figures in detail. They have, however, promised to cable on this point as soon as possible.

I should be grateful if you will say whether I have set down correctly the substance of our telephone conversation.

Yours sincerely,



M. McDougall

MMcD:ms



Mr. R. Whitman,
State Department,
901 - 1818 "H" St. N.W.,
• Washington, D.C.

cc: Mr. Everson
Mr. Christelow

DC/R

MAY 18 1946

In reply refer to
JK

My dear Mr. Schieck:

I understand that the U.S. Commercial Company has received inquiries from nationals of other countries as to the possibilities of purchasing and exporting Japanese silk to be offered at auction by that company. The U.S. Commercial Company has asked our guidance as to the position to take with regard to these foreign purchasers.

The United States Government has tentatively proposed to the members of the Far Eastern Commission a plan for allocating Japanese silk to the principal pre-war purchasers. If finally adopted, this plan would call for the following percentage distribution of silk:

United States	-	84.6
United Kingdom	-	6.0
France	-	6.5
British India	-	1.6
Australia	-	1.3
Total		100.0%

Sales would be made at the average United States price and the silk probably would be picked up in Tokyo, except that France

may

Mr. D. C. Schieck,

U.S. Commercial Company,

Temporary "T" Building,

14th and Constitution Avenue,

Washington, D. C.

DOR - ITP Unit

Eff

JK

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CS/LF

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- 2 -

may obtain it in New York. Other countries which formerly purchased silk in the New York market rather than in Tokyo, such as Canada and possibly Switzerland, are not provided for in this allocation procedure.

It would not be in accord with U.S. commercial policy to prevent foreign purchasers from acquiring silk in the New York market, unless export controls have been established by the Department of Commerce on supply grounds. However, it should be pointed out to prospective purchasers from France and the United Kingdom, that their countries will undoubtedly purchase silk directly and that they might find it preferable to procure their supplies from the amounts allocated to their governments. If it develops that purchases by non-United States interests are heavy, particularly by countries already receiving allocations, it may be necessary to revise the allocation procedure or take other steps to assure equitable distribution.

It is hoped that at a later date a completely free silk market can be established both in Tokyo and in New York, permitting the abandonment of all allocation procedures.

Sincerely yours,

William L. Clayton

Assistant Secretary

CR
MAY 17 1946

RJM

JK:RHWhitman:lmc

5-16-46

 A.C.
~~AKK~~

Cleared by IR, CP,
ITP, + FM on draft of
4-25-46 attached

market, unless export controls have been established by the Department of Commerce on supply grounds. However, it should be pointed out to prospective purchasers from France and the United Kingdom, that their countries will undoubtedly purchase silk directly and that they might find it preferable to procure their supplies from the amounts allocated to their governments. If it develops that purchases by non-United States interests are heavy, particularly by countries already receiving allocations, it may be necessary to revise the allocation procedure or take other steps to assure equitable distribution.

It is hoped that at a later date a completely free silk market can be established both in Tokyo and in New York, permitting the abandonment of all allocation procedures.

Sincerely yours,

Willard L. Thorp,
Deputy to the Assistant Secretary
for Economic Affairs.

[Handwritten signature]
JK:RHWhitman:aw 4-25-46 IR *[Handwritten initials]* CP *[Handwritten initials]* ITP *[Handwritten initials]* FX
MAY 8 1946 P.M. *[Handwritten initials]* pnc6

FOREST PRODUCTS
LUMBER
POLES AND PILING
BUILDING MATERIALS

PAPER
PULP
TEXTILES
MACHINERY

CABLE ADDRESS:
MATKER. SEATTLE

TELEPHONE:
SENECA 0777

MATHEUS-KERRY COMPANY
WHITE BUILDING
SEATTLE, 1. WASHINGTON, U.S.A.

May 21, 1946

Bran

Mr. Ed Martin
Economic Division
State Department
Washington, D. C.

Dear Mr. Martin:

On the 16th of May, I wired you as follows:

OUR AGENT FOR INDIA HAS CABLED US FOR A QUOTATION ON JAPANESE VISCOSE RAYON YARNS AND JAPANESE RAW SILK UNDERSTAND THESE ARE SOLD THRU OCCUPATION AUTHORITY PLEASE WIRE PROCEDURE NECESSARY TO NEGOTIATE FOR PURCHASE THESE MATERIALS FOR SHIPMENT FROM JAPAN TO INDIA

We have not yet had a reply from you in regard to this wire, and are anxiously awaiting information regarding the procedure in purchasing rayons and silks from Japan for shipment to other countries. If this is not in your department, would you please refer it to the proper authorities so that we may be guided accordingly. We would appreciate it if you would wire us collect. Mr. Cole of the International Statistical Bureau referred you to us.

Very truly yours,

MATHEUS-KERRY COMPANY

H. E. Kerry

H. E. Kerry

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EDMS
DIVISION OF JAPANESE AND KOREAN
ECONOMIC AFFAIRS
DEPARTMENT OF STATE
MAY 27 1946

FILED
JUN 7 1946

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PREPARING OFFICE
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PREPARING OFFICE WILL
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Department of State

PLAIN

Charge Department:

Washington

Charge to

JUN 3 1946

MATHEUS-KERRY COMPANY

WHITE BUILDING

SEATTLE 1, WASHINGTON, ~~U.S.~~

Refer your wire and letter recent dates inquiring procedure for Indian purchasers negotiate purchase Japanese rayon yarns and raw silk. All Japanese exports must be handled by Govt agencies, which will then re-sell to private firms. Suggest your agent negotiate directly with Indian Liaison Mission Tokyo, indicating grades and types. Prices not yet determined, but price silk to other countries will be set by prices realized in sales U.S. Also suggest you contact U.S. Commercial Company Washington, which is official U.S. agency handling exports.

894.6552/5-2146

CS/H

*RH Whitman
acting Chief, Div. Japanese and
Korean Economic Affairs
(RAM)*

*PCR - ITP Unit
[Signature]*

*R1 [Signature]
JK:WMBrown:bc
5/29/46*

IR
cm.

CR *[Signature]*
JUN 3 1946 P.M.

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DIVISION OF
CENTRAL SERVICES

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DIVISION OF
COMMUNICATIONS AND RECORDS
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ACTION COPY

DEPARTMENT OF STATE

INCOMING TELEGRAM

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July 7
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Com for
CPA - J. [unclear]
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No paraphrase necessary.

Tokyo via War

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Rec'd July 6, 1946
6:30 p.m.

FC

DC/R

From: SCAP Tokyo.

To: War Department for COS

Er: C 62735 4 July 1946

This is NAP 56. Subject is market for raw silk. SCAP advisor recommends that you send samples of all types and grades of raw silk now stored in the US to the Silk Guild, the National Federation of Textiles, the National Association of Hosiery Manufacturers and the Commodity Exchange, all located in New York and to any other organizations or groups that represent potential users of raw silk. Representative samples of Japanese stocks, grades below E and odd sizes not at present scheduled for shipment will be forwarded for similar distribution, if you request. SCAP silk advisor believes 42 denier silk acceptable to American market and desires reopen question of quantity and kind of silk required by US and other markets.

End

ACTION: USCC

INFO: CG AAF, D/I (State), D/SSP, D/PO, CAD, Mr. Petersen

CM IN 929

(5 July 46) DTG 040843Z ee

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

AUG 1 1946

BRITISH EMBASSY,

WASHINGTON 8, D. C.

July 22, 1946

Dear Mr. Whitman,

Japanese Silk

A U.K. firm has reported that the U.S. Government are importing large quantities of silk yarn from Japan and offering it for sale in Argentina. The Board of Trade in the U.K. might possibly be interested in importing some part of the Japanese thrown silk exports and I should be grateful, therefore, if you would say whether there is any accuracy to the foregoing report. I should also be interested to learn what quantities of thrown silk are likely to be available for export from Japan and at what prices.

Yours sincerely,

M. McDougall
M. McDougall,
Raw Materials Section

MMcD:ms

Mr. R. Whitman,
State Department,
901 - 1818 "H" St. N.W.,
Washington, D.C.

ITP Unit
[Handwritten initials]

DIVISION OF JAPANESE AND KOREAN
ECONOMIC AFFAIRS
DEPARTMENT OF STATE

JUL 24 1946

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AUG 1 1946

In reply refer to
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My dear Mr. McDougall:

You asked in your letter of July 22, 1946 if there were any truth to the rumor that the United States is importing silk yarn from Japan and selling it in Argentina. The answer is no. Raw silk, as you know, has been imported from Japan, and the Argentines could obtain an export license and buy it in the same manner as any one else, but that is as far as the matter goes.

I believe that thrown silk will be imported from Japan in the future, but at present only the raw silk from existing stocks is coming over.

Sincerely yours,

DOB ITP Unit

[Handwritten signature]

Roswell H. Whitman
Associate Chief
Division of Japanese and Korean
Economic Affairs

CS 1A

Mr. M. McDougall,
Raw Materials Section,
British Embassy,
Washington 8, D.C.



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AUG 1 1946

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16 P.M.

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Silk*

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*Says
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May 26, 1946

TO Major-General Marquat
FROM Edwin M Martin
SUBJECT Magagna and the Japanese Silk Program

At your request I submit my conclusions with respect to the principal points at issue between ESS and Magagna, particularly with respect to the Japanese silk program. These conclusions are personal views without any official status. They are based on documents provided by you and Magagna, on conversations with you and Mr. May of your staff, and with Magagna both in Tokyo and Washington. General Schulgen has read this memo as well as several of the basic documents, including your comments on my first draft. He had no changes to suggest.

The points made by Magagna in his conversation and memos may, for purposes of discussion, be classified as follows:

1. "ESS is staffed by personnel completely unfamiliar with silk problems, and lazy, incompetent, and corrupt to boot. Therefore their proposals are to be disregarded without discussion"

These charges are always so general that they cannot be checked in any specific way. I have seen no evidence to substantiate them. What I have seen refutes them. In any case they are irrelevant to the problems at issue - and by the same token to Magagna's mission in Japan - namely the development of a sound silk program for Japan. However their effect on ESS morale and their potential nuisance value if publicized unscrupulously in the United States cannot be overlooked.

2. "Japan is bankrupt and inflationary collapse is imminent unless drastic measures are taken promptly, primarily production and importation of large quantities of food, clothing, etc."

This charge is also usually in such vague and confused terms that it is difficult to discuss it. It is also relevant only indirectly to the silk problem. Inflation tends to retard all types of production, including silk, and silk imports at maximum levels will help to pay for needed imports. There is no issue here. The responsible authorities in ESS, the Japanese Government, and in Washington are fully aware of the situation and doing everything possible along these and many other lines to correct it.

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3. "Present wholly unsound policies with respect to the distribution and sale of Japanese silk must be changed".

This demand centers on three points:

- a. The use of the USCC to sell silk in the United States
- b. The method adopted by the USCC to dispose of silk in the United States.
- c. The lack of arrangements for shipping silk to other countries.

At present decisions on each of these points is the responsibility of a Washington agency and not of SCAP. Strictly speaking Magagna as a SCAP employee has no responsibility in these matters, but if he wishes to attack present arrangements he should direct his fire at the State and War Departments and not at SCAP.

4. "The SCAP program for production and export of silk is unsound at three points.
- a. Not as much silk has been made available for export as should have been because of the assumption that the U. S. market would follow the pre-war pattern with only a limited market for the lower-grade fabric types of raw silk, whereas in fact anything can be sold in the present seller's market for textiles of all kinds, and because of too much concern for the Japanese weaving industry and not enough for that of the U.S.
 - b. The Japanese industry, in so far as it has received any direction at all as to the longer-range requirements of the U. S. for silk, has been directed to guide its output by grades and types on the basis of pre-war use patterns which are in fact obsolete as a result of the great wartime expansion of capacity for the production of nylon and other synthetics.
 - c. The Japanese should export over the longer-term future all possible silk as raw silk, using as little as possible for weaving for either the domestic or export markets."

When the wheat is separated from the considerable volume of chaff, these are the only issues left, in my judgment, on which there can be real issues between the silk programs of Magagna and ESS. In several respects even on these points ESS is not always a free agent but is dependent on other agencies, especially the USCC.

These three points are closely related. For example, the answer to "a" must in the end come from the USCC which is ~~xxxxxxx~~ responsible for sales in the U.S. It can be expected to authorize export only of that silk which it thinks it can sell. On the other hand, what it is offered for sale by SCAP is affected directly by the answers given in the field to "a" and to "c", and in the longer run by the directions given to the Japs under "b".

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My personal conclusions as to the policy issues raised by these three points are as follows:

1. For the short-run present only the USCC can specify what grades and types of raw silk they can sell and therefore what can be exported.
2. Every effort should be made to export as raw silk or fabric all silk produced in Japan, making the Japanese depend on other textiles for domestic needs. The purpose is to maximize foreign exchange proceeds of Jap exports. This injunction applies to the USCC, to SCAP, and to the Jap Government and producers. As applied to SCAP, the USCC should be given an opportunity to sell if it can all the raw silk available, rather than confining the offers made to them to types and grades marketed in the pre-war years as was apparently done at one time (See May memo of March 26, subject "Magagna Silk Report", par. 3, and May memo of April 3, subject "Magagna Memo for Record, 29 March 1946", page 2.). Of course until the USCC with full information on all grades and types available currently has had an opportunity to test the U.S. market and tell you what it can sell, you have no better guide. But it is a guide to be abandoned in favor of something better as rapidly as possible. I am not qualified to say that too much of too little silk is going into Japanese consumption at present; I merely urge that it is an important point which the experts should continue to watch carefully.
3. The Japanese must be permitted to export fabric as well as raw silk, partly because it employs labor in Japan and brings them more foreign exchange, partly because in some countries like India and probably even the U. S. there is a demand for Japanese fabrics. I am not impressed by the tariff argument under present high price and shortage conditions. What portion of Japanese raw silk should be woven in Japan I cannot say - one might start negotiations with prospective purchasers on the assumption that raw silk will be allocated on a pre-war basis between export as such and as fabric.
4. So long as we forbid contact between the Japs and the outside world, we must give them guidance as to what kinds of raw silk they should plan to produce over the next several years. Originally I think Washington expected that Magagna's main contribution would be that sort of guidance. It is clear to me now that that was a mistake. It is even clearer that in view of what has happened since his arrival in Tokyo it would be an even more serious mistake to proceed from here on out on that basis. The right man might have corrected to a large extent the original Washington error if he had gone at his job with an adequate sense of its bigness and drawn fully on all the talent available in

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Office of
FAR EASTERN AFFAIRS
AUG - 8 1946
DIRECTOR
Department of State

House of Representatives U.S.
PUBLIC DOCUMENT
FREE

Daniel J. Flood
M. C.

Mr. John Carter Vincent, Director
Office of Far Eastern Affairs
Department of State
Washington, D. C.

PENNSYLVANIA

DANIEL J. FLOOD
11th DIST. PENNSYLVANIA

HOME OFFICE:
1015 MINERS NATIONAL BANK
WILKES-BARRE, PENNSYLVANIA

COMMITTEE:
FOREIGN AFFAIRS

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

August 6, 1946

Honorable Dean Acheson
Acting Secretary of State
Department of State
Washington, D. C.

Dear Mr. Secretary:

You will recall our earlier conversations with and about Mr. Peter F. Magagna, who subsequently went to Japan to join the staff of General MacArthur as a silk expert and advisor.

You will recall that I suggested to Mr. Magagna that he feel free to write me of his experiences during the course of his volunteer work in the Japanese occupation.

From time to time, I have heard from Mr. Magagna, and after his early trials and tribulations, which I have mentioned to you from time to time and to attaches of the State Department here in Washington, Mr. Magagna, in association with General Marquat of General MacArthur's staff, proceeded to devote himself to the textile problems of the occupation government, with special reference to silk. To that end, I am enclosing a copy of a plan or program prepared by Mr. Magagna, dealing with the silk and textile economy of the Japanese under the present circumstances.

Needless to say, Mr. Magagna's communications to me by letter and cable and several telephone calls from Tokyo since his arrival in Japan the latter part of February of this year, indicated clearly that he was experiencing many of the difficulties I felt sure would be encountered. Some of these were quite natural and to be expected under the difficult circumstances to be experienced in the military occupation of an Army country; other of his difficulties apparently were the result of the actions and reactions of various individuals of the Army and Civilian personnel associated with the Japanese Occupation Government. Apparently an immediate and very important matter calling for re-examination is that of the relationship between the United States Commercial Company, the War Department and the State Department. Unquestionably, necessity being the mother of invention, the United States Commercial Company was properly created to fill a very important need and to perform a vital service. Especially was this so with reference to the economy of enemy-occupied territories.

August 6, 1946

Honorable Dean Acheson

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This is not intended in any way as a criticism of the fine work done by United States Commercial Company under the presidency of the distinguished Mr. DeWitt C. Schieck. The problem, rather, is whether or not under all of the circumstances, United States Commercial Company, at this time, has served its purpose with reference to the Japanese occupation - more particularly with reference to that part of the Japanese economy which concerns the silk industry both in Japan and in the United States.

In view of the recognized abilities of Mr. Magagna as an expert on problems dealing with the silk industry, and in view of the additional fact that he was accredited by the Army to General MacArthur's staff for the purpose of advising on silk, I feel that I should transmit to you, at this time, copies of letters recently received by me from Mr. Magagna dealing with this problem. I am attaching, as well, copies of communications bearing directly upon this particular subject which you may have already received through channels; but which I am attaching nevertheless as a matter of convenience.

I am sending copies of this letter to you and all of the other matters attached hereto to General Hilldring, in view of the fact that he was Chief of the Army Civil Affairs Section at the time Magagna was assigned to General MacArthur's staff; to John Carter Vincent of the State Department, since he had some conversations with Magagna before he left for Japan; to Edwin Martin of Mr. Clayton's Economic Section, since he, as well, participated in these earlier conversations with Magagna; to the Secretary of War; and to General Echols, since he is now Chief of the Civil Affairs Section, and with whom I had some conversations with reference to Magagna's duties; and to Mr. DeWitt Schieck, who is aware of the entire situation as the result of a recent conversation I had with him and one of his associates in his Washington office.

I felt that a careful reading of Magagna's letters and the supporting attached documents, plus information I have obtained with reference to the silk industry's market and production in the United States, especially from Mr. Paolino Gerli, would indicate very strongly that a conference of the officials directly concerned of the War Department, State Department and United States Commercial Company should be held without further delay to consider whether or not Magagna's opinions and conclusions have sufficient merit to warrant eliminating of the United States Commercial Company in the Japanese silk trade at this time and the substitution of some other method, either that suggested by Magagna or some other in order that the declared objects of the Japanese occupation can be best served. Needless to say, I am greatly impressed by the case made out by Mr. Magagna. I feel that a conference of the State Department, War Department and United States Commercial Company should call in representatives of the silk industry of the United States and get their reactions on the problem of testing, shipping and disposal, either by sealed bids, open auctions, et cetera, and, as well, obtain the views of the industry on silk generally.

I understand, of course, that neither the Army or the State Department, or both together, have any desire to become merchandisers. That is commendable.

Honorable Dean Acheson

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August 6, 1946

Hence the United States Commercial Company. But, by the same token, the United States Commercial Company may no longer be the proper agency, and it is entirely possible that neither the State Department nor the War Department, under the circumstances, can be the best judge, at this time, of the textile economy, especially in silk, of the present and future Japanese-United States economic relations. It is, of course, impossible to separate this element from the political problems involved.

I am aware of your intense interest in this situation and, as you know, I have implicit confidence in your understanding of this one phase of this extremely involved Far Eastern picture.

I would like to reiterate that, in my judgment, Mr. Magagna is intensely sincere in his desire to serve his Country in the field in which he is best qualified - as a silk expert and advisor to SCAP. I feel any statements or reports he makes will be made honestly to further the work being done by General MacArthur in the difficult task of the Japanese occupation. I am sure the various Government departments concerned will welcome any information that will aid them in executing the policy of our Government with reference to the Japanese economy and if and when the facts warrant it, to revise that policy accordingly.

If, in the opinion of the silk industry and the advice of the experts and textile people with General MacArthur's staff, the United States Commercial Company has served the purpose for which it was created, as far as this item of silk, at least, is concerned, and possibly other items, than I believe Mr. Schieck of the United States Commercial Company, for whom I have a very high regard and who has been very courteous and cooperative with me, would be the first to agree to the cessation of activities of that organization. If the contrary is concluded, that is all very well; but it seems the situation is such, at the moment, that the problem should be most carefully re-examined and determined.

But, under no circumstances, should the opinion of Mr. Magagna be ignored because of the clashing of personalities which may have resulted during associations in the past several months in the occupation government.

Magagna is able and experienced in the silk field, and what is most important, has been on the ground in Japan since February; he has lived in Japan for years heretofore and is reasonably conversant with that nation's economy. Keeping in mind our conversations to the same point of view - it is the long range program with reference to the Japanese economy and its relationship to our own which must be paramount and take precedence from time to time as these difficulties arise.

The silk industry in the United States has the right to a renaissance and the people in the industry, both management and labor and the communities chiefly affected, to profit reasonably when it is consistent with the high

Honorable Dean Acheson

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August 6, 1946

policy of our Government. At the same time, the relationship of the silk industry in Japan to the entire Japanese economy is historically and traditionally of major importance. It is, therefore, necessary and immediate that this problem be considered acute in contributing to the rebirth of the Japanese nation as a country that can live among the free democratic nations of the world.

Sincerely yours,

Daniel J. Flood

Daniel J. Flood, M.C.

DJF:ah

Enclosures

CC: General John H. Hilldring, Department of State
John Carter Vincent, Department of State
Edwin Martin, Department of State
General Oliver P. Echols, War Department
DeWitt C. Schieck, U. S. Commercial Company
Hon. Robert P. Patterson, Secretary of War

COPY

COPY OF CABLEGRAM SENT TO MAGAGNA

AUGUST 3, 1946

MR. PETER F. MAGAGNA
HEADQUARTERS, SUPREME COMMANDER ALLIED POWERS
ADVANCE ECHELON
APO 500, C/O POSTMASTER
SAN FRANCISCO, CALIFORNIA

GERLI SEND THIS MESSAGE STOP QUOTE STEADILY DECLINING PRICE TREND STIFLING
DEVELOPMENT EXPERIMENTATION RECONVERSION BACK TO SILK STOP FEAR COMPLEX
MAIN FACTOR STOP ADDITIONAL BOTTLENECK OF SITUATION IS LIMITED THROWING
CAPACITY THEREFORE USELESS TO FORCE QUANTITIES UPON MARKET UNABLE TO
ABSORB THEM QUICKLY STOP MANY TRYING TO RESET ALLOTMENTS FIRST SEALED
BID INEVITABLY EACH SUCCESSIVE OFFERING WILL GO FOR LESS ADDING TO FEAR
COMPLEX STOP WHOLE METHOD PROCEDURE NEEDS RESTUDY REVISION IMMEDIATELY
OTHERWISE INVITING COLLAPSE WITH ECONOMIC REPERCUSSIONS CHINA ITALY
AS WELL AS OUR POLICY WITH JAPAN STOP DELICATE SITUATION SHOULD BE HANDLED
BY SYMPATHETIC EXPERIENCED PEOPLE WITH COMPLETE KNOWLEDGE WORLDWIDE SILK
PICTURE IF IT WERE POSSIBLE PERMIT DIRECT CONTACT JAPANESE REELERS UNDER
SUPERVISION CONTROL SCAP BELIEVE COULD ACHIEVE EASY ORDERLY FLOW AND SOUND
PLANNING STOP EXPERIENCE NOT UNLIKE ITALIAN SITUATION LAST WINTER STOP
REAL MARKET FLOW OF ITALIAN SILK BUSINESS STARTED WHEN USCC WITHDREW STOP
END OF QUOTE

CONGRESSMAN DANIEL J. FLOOD

11TH PENNA. DISTRICT

GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS

Tokyo, Japan
2 July, 1946

Congressman Daniel Flood
Old House Office Building
Washington, D. C.

Dear Dan:

This is the first chance I have had to write you a typed letter in quite some time. As you know I hold no brief for any illegibility and unfortunately the last letter I wrote you was given in such a hurry that it was perhaps not as clear as it might have been.

In your letter of 14 June you asked me to write you a long letter. I am doing so now. I see no reason, however, why you cannot take excerpts from it if you want to pass some of these ideas along for further consideration.

Personally, of course, I think it is reprehensible that so little thought is devoted to this theatre. We have literally spent billions in the Philippines. We have now liberated them as of this July 4th but in the same way have liberated them with free trade which will mean entry of their products duty free and on a gradually rising scale. For many years American industry and agriculture will have to foot the bill. Candidly this whole set up in the Philippines, since we the American people are so generous, has given me food for thought in the nature of manufacturing enterprises to manufacture on the Philippine low wage scale and ship to the United States under little or no duty.

At any rate to carry my thought further as regards this theater we have literally spent billions in China and have lost many thousands of lives in attempting to help these people, and I refer to our many conversations, I still maintain they will never be able to reconcile their viewpoint no matter what we do, even if give them this loan or grant of many hundreds of millions of dollars such as is now being contemplated. Apparently somebody in our national and political life in the United States feels that this field in the Philippines and China should be held or else these billions of dollars would not be spent. Now the only thing that we can think of is to keep the communistic influence as far away from our shores as possible.

If that is the case then we certainly must give greater consideration to the complex situation in Japan because in reality this country is really the dividing line between the Russians here and the Anglo Americans and, therefore, most certainly deserves much greater consideration than has been given.

In my opinion and obviously if we had followed the concept of the democratic principles that we have spent many millions of dollars in broadcasting to the several nations of the world, if we had followed the concept of the Potsdam Agreement and had maintained the principles of the

-2-

Joint Chiefs of Staff's operating instructions to General MacArthur, JCS 1380/15 there is no doubt in my mind that we would have demilitarized this country not only in actuality but in spirit. We would have broken up gradually and without undue hardship or bloodshed the feudal system.

However, unfortunately because of methods and actions of War Department, State Department and SCAP, this is not true and we are pushing them into communism. On May first there was a parade here celebrating May Day. It was engineered by the Russians and 250,000 people marched. It was orderly but certainly the whole situation as they marched by MacArthur's Headquarters gave one a great deal of concern for the future.

In the first place this whole theater is treated at such subnormal low level in the War Department, State Department and Navy Department in the States, that it is just pathetic and it reflects itself in the controls exerted under the policies of SCAP. Apparently the whole question of occupation here is a football with none of the respective governmental departments wanting to hold on to the ball. Consequently it is being passed from one to the other and the whole situation has bogged down.

Of course no one seems to realize that when Japan was stripped of her territories and islands that she depended upon for so much of her raw products and foodstuffs, and she was pushed back into the confines of the four islands of Japan we were pushing 75 to 80 million people or roughly 58 per cent of the population of the United States into territories 4. plus per cent of the area of the United States. Most of this country is of such a nature that it absolutely cannot be used for agriculture. In addition to this after five years of war what little supplies they had stored up have been completely used up. Consequently, and very definitely take my word for it only 60 per cent of the people are getting nearly enough food the other 40 per cent are just existing. There are many deaths from starvation and the situation grows worse daily with little or no hope for any respite. Don't be deluded by what you read or hear from these brainstormers who come out here and in two days size up the situation in this country even though they had never been here before. Now on the other hand since last November we have been telling them that terrific shipments of food and raw cotton would be made to help them over the bad period we are now coming to. Of course this was a false promise. The MacArthur group is resentful that these promises have not been kept by the War Department and nobody outside of myself and I have been doing it ever since I arrived here, has taken the time to tell the SCAP officials from General MacArthur down that the fund that the War Department had been using to buy essentials had been depleted and they they could buy nothing else and further that the War Department had gotten in so deeply they were afraid to go any further. On the basis of these promises of War Department to SCAP and SCAP to the Japanese Government and Japanese Government to the Japanese people and consequently non-fulfillment of these promises has made everybody doubt the other in this series so that anything the Japanese Government tells the Japanese people is not believed and the same thing goes from SCAP to the Japanese Government and instead of operating along the lines of the Potsdam Agreement and J.C.S. 1380/50, people of no business or economic experience are setting up policies and ideas of their own and even within the ranks of the higher-up generals of SCAP no one keeps the ship pointed in the right direction and utter confusion results.

-3-

Added to that the stupid arrangement of selling through U.S. Commercial Company has in the one case throttled the national economy of Japan and in the other case in the United States has throttled the export economy. I wired you to review my program and memorandums and the record and you will see that unfortunately what I had predicted has actually come to pass. Now make no mistake about all of this we can either reverse our footsteps and our actions immediately or else we can and should get the hell out of here and let the Russians take over because eventually we will have to get out.

The Japanese themselves are shocked at the type of people we are sending over here in key positions. Don't forget the Japanese ran an economy that was so well run that it built up the largest textile business in the world. Their banking system was built up on international trade. We will grant that it was built up at the expense of the majority of the people of Japan but let us first face facts, the same thing was done in the early days of the United States. To be concrete they had a man here who was revising the entire financial banking structure of Japan. This man was the second or third assistant manager of the Yokohama Branch of the National City Bank. Now contrast the ridiculousness of this situation with actual reality. In addition an education mission came over here and in thirty days were going to change everything and the same thing goes on and on. Nobody seems to take into consideration that this country built up an economy, particularly in textiles that could supply their so called empire, most of Latin America and even jump over the tariff barriers into the United States. That is how big it was and that is the ridiculous situation that exists here where we have a group of communistic civilians who are here in positions of responsibility and at salaries that they have never before come anywhere near approaching. Then we have a group of former officers and officers who all of a sudden branch out as tycoons without the slightest knowledge of what it is all about. The majority of these are staying on because as I told you in previous letters they could not stand the competition and are afraid to meet it in the United States.

Now if you will review, as I hope you will all of my letters, program and memos to you in order to refresh your mind these facts should be of some importance to you. The Import-Export Division of Economic and Scientific Section of the Supreme Commander for the Allied Powers has operated without any control or without any rhyme or reason. Goods have been shipped to various countries of the world and there has been no settlement as to payment or contemplated payment, goods has been shipped to the United States but actually as of today not one dollar has been realized from these shipments. The way my silk program has been butchered makes it doubtful just what sums will be realized.

As I have told you previously the Russians are arriving and infiltrating in greater numbers daily. There are now about 500 here and more coming daily, in addition you have other nationals coming in. They are all intelligent and actuated by the desire to take care of their own country first which is so strangely in contrast with the attitude of our people here. At any rate they are travelling throughout the theater getting information and they are now beginning to ask very pointed questions at the Allied Council meetings. If you remember I sent you a newspaper clipping relating to the charges made by the Russians that we were systematically looting the country. I feel that the contention of the Russians had a great deal of merit, because we are seizing or having caused to be seized assets and commodities of Japanese individuals. These commodities such as silk, rice, wheat, etc., that are

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seized by SCAP directives to the Japanese Government and the Japanese Government by force if necessary takes these things for export abroad. No fair basis of remuneration back to the producer has been made. These producers constitute the mass of the Japanese people. I have stated repeatedly that we preach democracy but are practicing nationalism and socialism because in seizing these things we are definitely doing it at ruinous prices to the producers and farmers. You will remember that under no conditions was there to be a seizure or implied seizure of such things without proper arrangements and fair remuneration to the owners. Now these seizures are not to be confused with anything belonging to the former Japanese Government or its militarists.

To get back to the Allied Council meeting held recently. At this meeting the Russians delegate wanted to know just what Import-Export Division of Economic and Scientific Section was doing and what the situation was. Mr. Lee Fleming, Chief of Import-Export Division, the gentleman whom I asked you to investigate gave a statement at the open meeting before all of the delegates which at any rate portrayed the fact that there was a twenty-three million balance in the SCAP-Japanese account. I had questioned Mr. Fleming about this previously as well as General Marquat, now after diligent questioning the following are the facts. There are no twenty-three million dollar balances but rather a huge deficit. As I told you before materials were shipped to other countries of the world and no payments had been made and I doubt if they ever will be made. Now these amounts are set up as assets but the most amazing phrase of this phoney bookkeeping is that 5,200,000 pounds of silk has been shipped to the United States and also not one pound of it was sold as of the day of the meeting. Nevertheless they used the figure of ten dollars per pound as the selling price and promptly put fifty-two million dollars on their balance sheet as if it were already there. Nor did Mr. Fleming or anyone else take into consideration the fact of the deficit of the special fund of the War Department not of the terrific and mounting cost of the occupation which in reality is being paid by the American taxpayers and the Americans of any type here in SCAP.

I called Acheson the day before the meeting because I knew the above questions were going to be asked and I wanted to warn him and I gave him the actual status of things but he did not seem to be over anxious and stated he was busy and it was arranged I would meet him on Thursday but when I saw the newspaper article I saw there was no point in discussing it as he had already made the statement to the newspapers and it was already broadcast to the world and I assure you that the Russians are not dropping the subject and this question will arise again because it is simply a series of misleading statements made deliberately and with full knowledge. Now candidly I doubt very much if the American people want to lose face by such actions of this type. Certainly I can't think the average American, the average Congressman and Senator will uphold such actions on the part of mediocre employees of State Department and War Department. Based on this premise I am preparing a memo with factual evidence for General MacArthur. My honest opinion is that General MacArthur does not realize nor does he have the slightest conception that these statements are absolutely untruthful and that these facts were fictitious in every respect.

Naturally to me the pity of the whole thing is that if the program I had advocated had been put in operation and these small opportunistic petty

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characters had not hamstrung me in my efforts there would not have been five million pounds in the United States now but at least twenty millions. You talk about thirty-five thousand bales of silk. There could have been shipped on the program I advocated about fourteen thousand bales in April and twenty thousand bales monthly thereafter. Do you realize that added to everything else and in spite of the drastic shortages of fibers in the United States there hasn't been any samples of forty-two denier and sixty-two denier and various other types of raw silk that I know could have been used and would have been very readily by American manufacturers and it is criminal, particularly, when you think of the low grades of silk from China and Italy and from Brazil that have been flowing into the United States at fabulous prices. Why the lowest possible grades of silk that they consider only fit for domestic use here are far superior to silks of the above three countries. Nevertheless, U.S. Commercial Company, SCAP and the U.S. Testing Company in their little tie up together have arbitrarily ruined what should come into the United States from Japan and what should be kept out. A great deal of silk has been released here for domestic use that should have been exported. And what makes me laugh it that it was your work and my work that gave SCAP the opportunity to export the silk and because of our joint work they can place this fictitious price of ten dollars per pound on silk. Incidentally I have definitely determined that Mr. Doty gave instructions to ship the silk to the United States for testing because of the fact and he stated that the American purchasers would not use the silk unless U.S. Testing Company made the tests. This is entirely erroneous because U.S. Testing Company received only a small segment of the testing in the United States and most of that was rechecking. The tests of the Japanese testing companies were accepted on the Commodity Exchange. And further by this method silk was bottlenecked in the United States much to the detriment and possibility of rehabilitation of the industry.

Can you show rare perception in any case and in a spirit of candor and no ill temper I must say I am amazed at the lack of your follow-through on these most vital things. Since I have sent back enough factual evidence that time has proven me right on I am surprised that you have not followed through to a greater extent than you have. I am surprised you would let the small petty people disrupt and destroy an economic rehabilitation that would have materially assisted the peace of the world and from its downright sound business principle would produce a continuing outlet by the use of the dollar exchange created in the United States by silk for the products of our agriculturists and cotton growers and rest assured that within two years both of these commodities will be surplus.

I have by, you might say, brute force of continually punching out here driven into the heads the fact that they are jeopardizing their own position by not giving consideration to the strangle hold that U.S. Commercial Company has on their attempts to do anything concrete. The enclosed are some drafts and radios to the War Department that we are getting out on this U.S. Commercial Company question. I have already been asked to make a recommendation on something to replace U.S. Commercial Company. I have proposed that well-financed selling and buying organizations be placed in various countries of the world. These organizations to be civilian groups well financed with stringent control placed upon them. Perhaps somewhat of a group that Gerli suggested last December and which proposal I placed before General Hilldring. Only at that time they had already signed with U.S. Commercial Company. If

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not this above method then SCAP should have its own selling organizations and buying organizations in three or four strategic parts of the world being operated by civilians who would do it in a business like way. There is so much that can be done by direct sale of raw silk and silk goods on world markets as well as by barter for badly needed things. All of the countries of the world would take raw silk on some basis or another. These matters should not be handled by War Department or State Department but by somebody who knows raw silk markets and the balance should be settled in American dollars or the equivalent of other products based on average world market prices.

A program of silk piece goods for export to the United States was embarked upon by State Department and Import-Export Section here. Millions of yards of goods have been made. I have repeatedly stated as you will not in my program that silk piece goods cannot come into the United States under the tariff barriers. It is only now at this late date that I was able to dispatch officially a radio to War Department asking them to discuss this matter and solve the problem with the Treasury Department. I know that we can't get very much of this silk cloth into the United States but I know that any businessman could barter this cloth in Russia for wood pulp so necessary to try and get the rayon industry going. Salt from North China also is necessary and you could go on throughout the world and you would find the various things that are so badly needed here in Japan that we could get on a fair and equitable basis by bartering fabrics. As it is everything is at a standstill and industrial activity is between 8 and 10 percent. In other words just as low as it was on the day of occupation. The yen is worth about 120 to a dollar. SCAP is operating on the fictitious theory of 15 yen to a dollar. Why something isn't done about this is beyond my comprehension. In addition to all of the above the whole country is in a chaotic state and because of the lack of judgment in setting up a formula for taking over commodities and products a vicious circle has been started which causes so that everything including silk is tied up at the source. Even the Japanese producers have enough sense not to produce at ruinous bankrupt prices.

I have asked you to talk to various people. Bogden could give you a great deal of information. I have asked you to secure the Inspector General's report. I wanted you to send me a newspaper clipping as to graft. Nobody questions that there was thought in this report which perhaps very conveniently disappeared. Some heads will be chopped off but fundamentally the old order carries on.

All of this leads up to the point that when I came out here I went to Dean Acheson, Hilldring, and it was agreed that I would have full cooperation. You have preached it time and time again. If you are all serious about this matter and that Japan means anything to the United States, which I am seriously beginning to doubt beyond that it is occupying it, then I make this statement flatly and irrevocably that the Economic and Scientific Section of SCAP should be taken out from under Army domination and should be operated by a civilian with a great deal of leeway, and it should be operated by a businessman, to coordinate it with the occupation an officer of general rank with some knowledge of civilian affairs and business should be placed on General MacArthur's staff to handle just these things and to coordinate a civilian economy with the military occupation. And I urge that you take steps to do this at once. I have talked it over with General Marquat who incidentally is in the States for a few weeks but it is my opinion that he should be placed on the staff to

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coordinate the economic side of the occupation which will be operated by civilians with the military side. Otherwise it is pointless. Every division in Economic and Scientific Section has a different idea and when the idea has been forwarded and battled around in Economic and Scientific Section and goes up through the staff of General MacArthur it never gets to MacArthur usually except in a palliative form because this staff who hasn't the slightest concept of economic rehabilitation or, in plain words, of business procedures tosses it around and usually discards it.

I have told you that 80 percent of the economy of Japan both internally and in the foreign trade angle will depend upon textiles of every type and kind. Don't forget that these people have been stripped of everything but their four islands. It is because of the fact that these textiles are the keynote that I feel there should be a place on the Far Eastern Committee for someone that knows textiles and the economy of the rest of the South Pacific.

of Japan and the economy

Now I am through punching at you. You are a Congressman of the most powerful committee in Congress. Apparently you haven't had the courage to tell me that to take this appointment you have given up foreign relations which of course I think is a damn shame that you did.

You have stated that you hear I am doing a good job. I presume that the fact that we have actually sent a pound of silk through this mess of red tape is a good job but unfortunately my nature is not of the kind that can rest on such nebulous laurels. I feel that a good job can be done here. I feel that we can erect a bulwark of influence against the Russian influence by the simple expedient of using good judgment. This occupation could not only pay out occupation costs but reparations if handled properly. The job is so far simpler than that of Germany, here you have vast potentials that are available and badly needed on world markets that can create dollar credit of many hundreds of millions. These for the most part are non-competitive to the industry or agriculture of the Allied Nations, and just some plain common business ideas could carry it through. These people are thrifty, industrious, disciplined, and need very little to live on while they rehabilitate and pay these necessary debts. Contrast this to Germany with the complexity of Allied control and where anything you might export from Germany will run contra to the industrial activities of the Allies.

This idea of becoming a professor in economy and business administration to the people I have mentioned is fast becoming irksome. The job of brute force punching ideas into the heads of general officers down is very trying. The fact of trying to drill home to you things that you, I am sure, are fully aware of is also a burden. I have never worked harder and believe brother I have arraigned against me damn near every general officer down in the theater. Fortunately not having any axes to grind I could take them apart and I did. You have accused me of a lack of diplomacy and tact. Personally I think it was a wonderful thing I lacked those two characteristics because if I had been delicate you would not have the fictitious two million dollars even.

Incidentally, I told some of these high ranking officers in Economic and Scientific Section about the proposal Gerli had made and authorized me to make for him last December. However, this proposal would now have to take in more than silk. If Gerli is interested I might re-make the Proposal to you.

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By the way you know that Japan cannot trade freely, China has been trading freely since the first of the year and she has sold all of her junk silk at fabulous prices. Somebody engineered the deal here to export to China ten million pounds of cocoons where they would have produced 1,400,000 pounds of silk. Now the idea that I tried to promote was that they were old cocoons and therefore should not be used to produce silk for American markets. In the first place if you gave China the best cocoons in the world they would produce the worst silk. In the second place no matter how bad these cocoons were the silk they would have produced would have been for the United States. The only reason China wanted the cocoons was because she has dumped in the United States all of her available silk at high prices and this would have been a fine little steal for her. Because obviously the United States was the only market that she would have reeled this silk for, and God knows what kind of silk it would have been. The Japanese silk industrialists were demoralized when the thing came up. Fortunately I was able to put a stop to it and I am trying to find out who started this thing and why. This should give you a pretty good idea of what goes on out here.

Sincerely,

Pete
(Peter F. Magagna)

COPY

GENERAL HEADQUARTERS

SUPREME COMMANDER FOR THE ALLIED POWERS

(No date on letter)

Dean Dan,

I am getting this off in a hurry as my friend Captain Conaway is flying to the States this afternoon and will mail it.

f
Dan, something must be done about the USCC matter, it is a grave mistake to continue the contracts between War Department and USCC. As you know, USCC is a throwback from FEA the give away boys most of them are on the pink side or reds but they are by their methods stifling the industrial and economic life of Japan.

Now ESS is bad enough the Lord knows but USCC setup is disgraceful. Do you realize nothing can be exported out of Japan unless USCC gives the word. On the silk picture this is particularly bad. USCC in Washington are with the United States Testing Company so when SCAP asks for information on silks instead of USCC contacting industry in the U.S. it contacts Mr. Douty who never manufactured a pound of silk in his life. They have a closed corporation and nobody can break through.

Before the war Japan exported yearly about one billion dollars of goods, 1,000,000,000 valued in U.S. currency. Today, eleven months after the end of the war, industrial levels are less than 10 percent. Economic life is at a standstill, the SCAP account has a fictitious sum of \$83,000,000, eighty three million, actually it has \$23,000,000, twenty-three million, and that not from exports but from funds and liquid assets seized from the Japanese all over the world. The other \$60,000,000 is an estimate of silks receipts if and when the silk now in the States is sold, with the testing production of 200 bales daily.

At any rate contrast this above with the \$1,000,000,000 exports normally. Now we have here about 30,000 bales of 42 denier frozen by us in SCAP. USCC has not sampled world markets that badly need silk fibers and all they say is use it domestically. Every pound of silk used domestically in Japan is a terrible waste, it could be converted, so dollar exchange can be accumulated for necessary food stuffs, etc. Also frozen here are millions of yards of silk piece goods that I know can not be exported because of high duties, and here it lays.

Now remember the fictitious credit account of \$83,000,000 says nothing about the cost of occupation to the United States. Over \$400,000,000 or the fund in War Department that is broke but at any rate amounted to many millions.

Further look at what tremendous disadvantage Japan our responsibility is placed under, China who deals direct is and has been exporting goods from the first of January to the U.S. and these here have given to China exportable potentials that could have been used to export to the United States for Japanese credits.

too
Now because General Killdring and State and War Department are/tied up to properly run this occupation, and want to foist the job of running the

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export economy of 80,000,000 over on USCC a bunch of rank amateurs and pink teas and the internal economy over on a group of third rate civilians and Army officers, all of this I say is a rank and poor excuse and certainly reprehensible to say the least. That these 80,000,000 people should be tossed all over hell's creation. It violates all decent principles of democracy and should be stopped.

Either let us do the job under the concept of true decent Christianity and democracy or let's give it back to the Japanese who made a good job of running their own economy. The American Army would be the first to raise hell if it was proposed to get rid of all higher officers and let civilians run the Army. Then why do they think they can run business.

First make the USCC sample the American markets particularly with the 42 denier. Second get rid of USCC. I have already been asked what I suggest and I am sending or taking rather a memo to MacArthur. I feel either a setup as Gerli suggested, the same as the Chinese have done, a group of businessmen here export under the government control of SCAP to a group such as Gerli suggested in the States, probably headed by Gerli who would sell on a Commission basis all goods consigned to the States and the World, or a group such as Amtorg which handled all Russian business in the U.S. At any rate get Gerli and others working on it and have him cable me ideas and write them also ideas on silk prices and quantities, etc.

Now as to running ESS do you as an American of your intelligence want to do this job right or not. ESS under an Army officer wants to operate on army basis. The same red tape, same negative approach, same delays, same fear of higher ranking officers. Let Marquat operate as head to coordinate but myself as his deputy to take care of the business end. If this is not done all collapses. Marquat is home in the States. You had better get word to him that he will accept that principal or you will move to get rid of military in ESS. I am suggesting this same plan to MacArthur.

The only reason I want to stay is because of the hard work and battle I've put up and because I do feel I know more about the economy of the Far East than anybody around here. This is not the time for modesty but for facts. The eyes of MacArthur and all the other generals are on me. I've got a new textile division sponsored by MacArthur. Everybody is watching out here to see if I am just a lot of talk or if I'll make good. You realize my nature. I feel I can right this situation. I wish I had never come but after this battle I hate to run. I wish you would impress all of this on my family.

Inflation continues to rise as it would with 10 percent industrial activity. The foolish business of the yen at 15 to \$1 when it should be 100 to \$1 gives us all hell and disturbs the picture. The SCAP policy preaches democracy but actually practices and forces socialism. We by indirect methods force the Japanese people to turn foodstuffs and commodities to the government for distribution to other classes. The producers do not get anything for their efforts but yen of little or doubtful value. But they cannot buy anything.

Sincerely,

Pete

(Peter F. Magagna)

GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS

20 March 1946

SUBJECT: Report and Recommendations on Rehabilitation of
Japanese Raw Silk Industry

TO: Supreme Commander for the Allied Powers

1. The rehabilitation of the Japanese raw silk industry with a view to regaining some portion of her former export markets, has not been given the consideration or careful planning that it properly merits. For some strange reason, this industry, which was the foundation of Japan's economic growth and which is the only non-warlike, non-competitive potential export commodity of any great magnitude, has been relegated to a minor and insignificant position in the general overall plans of reconstruction of Japan and as outlined and agreed upon at Potsdam.

2. It is obvious there is lacking to date in SCAP a full and comprehensive understanding of the vital part the raw silk industry assumed in the general overall national economy of Japan, both from the standpoint of employment and revenue. The industry employed directly or indirectly more than 12% of the total population and from 1918 to 1940 exported on an average of over THREE HUNDRED FIFTY MILLION (\$350,000,000) DOLLARS annually of raw silk, with 85% of the total taken by manufacturers in the United States.

3. Further, raw silk is the only major export commodity of Japan which is not produced or processed from imported raw materials, but is all produced within her own economy, and the proceeds from raw silk exports represent a clear gain in foreign exchange. Therefore, it is apparent that this industry should be given first consideration in future planning and immediate firm energetic steps should be taken to rehabilitate it with emphasis placed on the long range

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viewpoint so as to insure a continued economy. The industry has been allowed to drift and too much time has been lost already.

4. It might as well be recognized here and now by all concerned that it improper planning or administration jeopardizes rehabilitation of the raw silk industry, there is no other economy of any size for Japan to fall back upon in order to create the foreign exchange necessary to pay for badly needed foodstuffs, raw cotton, etc., and to pay reparations. Raw silk is non-competitive in most countries and, therefore, enters most countries dutyfree as, for example, the United States. Anything else Japan might attempt to export - silk, rayon or cotton fabrics, or any combination fabric, will not only have to jump high tariff barriers, but because they enter competitive fields will tend to encroach upon the textile exports of other manufacturing countries, especially those of our Allies. There is bound to be tremendous opposition to any plans to export fabrics from Japan. We have a historic background for the above statement. In the Thirties, violent unwarranted speculation in raw silk in Japan caused such great fluctuations that American consumers turned to synthetic fibers more and more because of price stability, and Japanese silk exports declined. In turn, Japan expanded its rayon and cotton industries and because of low labor costs, flooded world markets with cheap rayon and cotton fabrics, causing tremendous disallocation of employment in the other textile manufacturing countries.

5. To SCAP has been given the task of advising and directing Japan in its effort to rebuild that portion of its economy that will not at some future time emerge as a danger to the people of the world. Nevertheless, SCAP has permitted the Japanese to embark on a plan to rebuild its most logical non-war industry, raw silk, without any attempt to bring to the Japanese a realistic picture of what confronts them.

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6. The Japanese raw silk producers have been allowed to resume operations just where they stopped them at the time the United States broke off relations with Japan in July, 1941. Field surveys and independent research, coupled with a complete analysis of the files in the Economic and Scientific Section of SCAP, reveal the Japanese are thinking completely in terms of production of raw silk for the American hosiery industry and are concentrating their efforts in that direction. Further, reckless individuals in SCAP without the necessary training and experience have injected themselves into the situation and conducted meetings with raw silk producers and given ill-founded advice which, unfortunately, is being followed not only by Japanese producers, but by SCAP itself.

7. For some strange reason, SCAP has seen fit to follow the advice of these people who have never had any experience whatsoever in production, exportation or sales of raw silk on any markets. It would seem that the so-called program now in operation under SCAP has been set up by the above people, coupled with the advice of Japanese who were former office holders and large share holders in the big silk combines.

8. Various radios with regard to a silk program consistent with basic policy have been received from and dispatched to Washington in the past several days. Since there was no supporting evidence in the files of the Economic and Scientific Section of SCAP to indicate that directives were given establishing a properly coordinated silk program or silk export program, or to indicate just what the basic policy was, the Chief of the Section was asked to give some information on the subject. He first stated that there was no program. Later, he said that SCAP was working under the directives given in Radio WX 74059 of 11 October 1945, which also set forth the basic policy.

9. It would appear that the RadioZA 6846 of 12 October 1945, disproves

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this contention since this radio asked the War Department to send to Japan silk advisers to advise the basis upon which the silk industry in Japan should be re-established, discuss price and stabilization plans and types of silk to be produced, etc. A technical testing adviser did come in response to this request, but the other adviser did not come until later because it would have been an impossibility to advise on the other phases of the raw silk industry in an intelligent manner until the OPA had acted on the price of Japanese raw silk imported into the United States. The OPA did act on 16 January 1946, and lifted price restrictions on Japanese raw silk. Subsequently, the silk adviser selected by the War Department came to Japan to advise on the formation of a silk program. His advice to date has been by-passed, and badly conceived advice and plans given by persons not relevant to the situation were being followed with the result that all the ground work that had been laid to insure the continuance of a Japanese raw silk economy might well be destroyed.

10. In the United States, many advances in the field of textiles have been made since July, 1941, and these advances have not been explained to the Japanese producers of raw silk. The DuPont Corporation invented nylon in 1939. That corporation focused its attention on developing a fiber to compete with raw silk for hosiery markets. Up to 1941, their production was limited. However, the adaptability of nylon to so many vital war needs was so wide that our Government requested DuPont to increase drastically their production. Today, DuPont can produce about twenty-eight million (28,000,000) to thirty million (30,000,000) pounds of nylon yearly and they expect to restrict the greater portion of this production to the hosiery trade.

11. Actual tests show that nylon hosiery outwear silk hosiery by a two to one ratio, so economy will dictate and the average consumer will buy nylon hosiery. Forty eight million (48,000,000) pounds of silk was the largest con-

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sumption of Japanese raw silk in one year by American hosiery mills.

12. Taking into consideration the above facts and realizing that a portion of the nylon production will be sold as a matter of policy by DuPont to other trades, and allowing for an expansion of the hosiery manufacturers' business and the fact that a segment of the consumer will buy silk hosiery out of preference for silk or an allergy to nylon, the best the Japanese raw silk producers can hope for is a market of not over eight million (8,000,000) pounds yearly to American hosiery manufacturers, or about sixty thousand (60,000) bales.

13. Despite the urgent need of Japan for dollar exchange and the acute shortage of raw yarns necessary for American weaving and warp knitting mills necessary in the production of badly needed consumer goods in the United States, raw silks that could be used by these above manufacturers in the United States are arbitrarily set aside and classified as non-exportable and in many cases these silks are released for Japanese consumption, so the Japanese sacrifice a portion of the badly needed dollar exchange necessary to buy food, raw cotton, etc. All concerned seem to have lost sight of the fact that the exportation of these silks could help the American textile employee and the general buying public because these yarns would help in the operation of over five hundred thousand (500,000) weaving looms and thousands of knitting machines that are either idle or on a reduced working schedule. Insofar as the weaving manufacturers and warp knit manufacturers are concerned, they can look only to Japanese raw silk to relieve permanently the present acute fiber shortages.

14. It is not intended, nor would it be equitable, to ignore the American hosiery manufacturers. They are badly in need of Japanese raw silk and they should have it, and in the proper sizes and grades. However, their need on the whole is only temporary. The DuPont Corporation is daily converting more and more nylon from the war sizes to the finer sizes required by the hosiery manufacturers. At the same

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time, high tenacity rayon has been produced which is suitable for hosiery and will be used in that industry on a continuing basis. The American hosiery industry estimates their annual requirements on a permanent continuing basis will be about 25% to 30% of their pre-war annual consumption of Japanese raw silk. Therefore, the Japanese industry should be directed to produce sizes and grades of raw silk for hosiery on the above basis. To produce a greater percentage of raw silk in hosiery sizes and grades just to relieve a present temporary shortage does not contribute to the building of a sound continuing Japanese raw silk economy, and may militate against the building up of other permanent raw silk markets.

15. In the meantime, all stored raw silks of any type should be tested and graded and the records sent to Washington for release to raw silk purchasers in the various world markets so it can be determined just what silk should be exported and what silk released to the Japanese domestic consumer. This will help relieve the present fiber shortages now affecting operations of both weaving and hosiery manufacturers in the United States and also help relieve unemployment in certain textile centers of the United States and gain immediately for Japan as much foreign exchange as possible.

16. Raw silk speculation in Japan and the United States has done more to destroy and limit markets for Japanese raw silk than all other factors combined. The great losses sustained by manufacturers and distributors due to price fluctuations of raw silk caused mostly by speculation and unreliable statistics furnished by the Japanese Government agencies forced the American manufacturer to turn more and more to synthetic fibers because of price stability.

17. This above fact was explained to and understood by both the War and State Department so, although SCAP had since December 1945 frequently asked for and recommended clearances permitting shipments of raw silk from Japan to the United States, the War Department and the State Department were prevailed upon by Congressman

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Daniel J. Flood of Pennsylvania (Member of Foreign Affairs Committee, subcommittee for Far Eastern Affairs) to delay such action as he realized a chaotic situation rife with speculative danger would occur if shipments of raw silk were made prior to clarification of the Office of Price Administration price policy on raw silk, or before an orderly marketing program was agreed upon, and more particularly until a comprehensive silk program had been established in Japan.

18. Congressman D. J. Flood's efforts were responsible for the removal of the Office of Price Administration price limitation of \$3.08 per pound on raw silk as of 16 January 1946. In connection with his presentation on the subject of silk to the Office of Price Administration, he had gained a thorough and complete understanding of the Japanese raw silk economy through study and research of its past history. He was aware that price fluctuations caused by speculation could irrevocably damage or impede the efforts to reestablish the Japanese raw silk economy on a continuing basis. At recent meetings in Washington with General Hildring, War Department, and his aides and Under-Secretary Dean Atchison of the State Department and his aides, the following policy was enunciated with regard to the disposition of Japanese raw silk; namely, the United States Commercial Company which apparently will dispose of the silk in American markets, is a temporary agency created by the exigencies of war. The War Department and the State Department have been in existence since the start of our democracy and will permanently continue as policy making and functioning departments of the United States Government; and, therefore, since they have a vital interest in the rehabilitation of the economy of Japan, they should establish policy for the United States Commercial Company, under which the War Department and the State Department will have a continuing interest in the disposition of raw silk, realizing that the proper disposition will mean a continuing economy for Japan.

19. This policy was accepted by both the War and State Departments and,

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accordingly, they sent the above notification to the officers of the United States Commercial Company. Therefore, since SCAP is the recognized agency to carry out the policies of the War and State Departments in the field, it would be in order for SCAP to lend its weight and influence to the policy by conveying to United States Commercial Company officials in Washington its agreement with the policy. There is sound reasoning for advocating the above policy. The proposed method of the United States Commercial Company of selling raw silk with sealed bids is fantastic and unorthodox, and it is feared that the sales methods will cause wide fluctuations in price. This is the most important thing to control because it was the instability of price that drove many American manufacturers from the use of silk.

20. It was further proposed to State and War Departments that the United States Commercial Company be instructed to sell Japanese raw silk in the United States on a quota basis to former raw silk purchasers, the quota to be based on a percentage of the total purchases of raw silk over a selected base period. There is historical background for this above proposal. When raw silk was frozen and seized by the War Production Board in July 1941, the above method was used as a basis for War Production Board directives to rayon producing companies making rayon available to the raw silk users affected by the freezing and seizing order. Also the same method is contemplated by the State Department in determining quotas of Japanese raw silk stored and presently being manufactured to be allowed to other Allied Powers, who were pre-war purchasers of Japanese raw silk.

21. Thorough analyses of world markets for raw silk have been carried on for the past eighteen months by recognized silk authorities and reveals that a world market of THIRTY MILLION (30,000,000) pounds annually is possible with careful planning and orderly marketing. This production, based on the last quotation from New York, which is the leading market of the world, means a revenue in excess of THREE HUNDRED MILLION (\$300,000,000) DOLLARS. It is not to be assumed that this

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price will continue beyond the first year, but it is thought by the same authorities that if the distribution of the present stockpile here in Japan and this year's production of raw silk is orderly and well planned, then in a gradual orderly manner synthetic fibers will force silk to its proper level as a luxury item, somewhere at a range of FIVE (\$5.00) DOLLARS to SIX (\$6.00) DOLLARS per pound and, at that price, conceivable the consumption of raw silk may raise and compensate in revenues to some extent for the drop in price from present levels.

22. The methods embarked upon by SCAP of shipping silk to American markets without any thought as to proper combinations of sizes and qualities, further, without regard to insuring for continuity of shipments, coupled with contemplated unorthodox methods of selling by the United States Commercial Company in the United States can, with the very first shipments, cause such great fluctuations in price that it may conceivably destroy forever all chances of re-establishing the raw silk industry; and, consequently, badly needed revenues for Japan will not be available. This would be disastrous.

23. This proposed silk program aims not only at stability of price of raw silk in world markets so that a continuing raw silk economy for Japan will result, but it should be obvious to all that by the continuance of the Japanese raw silk economy we are creating a continuing market for American cotton and this market is badly needed by the cotton growers of the United States. We have a surplus of cotton now, and there is no doubt that we will have difficulty each year in disposing of raw cotton. The last large markets for cotton have been breached now that synthetic tire cord has replaced to a great extent cotton cord. What is more natural than the United States purchasing as they did formerly the bulk of the Japanese raw silk and selling to her former largest purchaser of cotton, namely Japan, that surplus cotton which we will have each year. It was recognized many years ago that a natural free exchange of trade existed between Japan and the United States. We

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purchased from her the non-competitive commodity of silk and sold to her the non-competitive commodity of cotton. For this reason we permitted raw silk to come into the United States duty free.

24. At this point serious attention should be given to the fact that long before the end of the war China was making strong representations to the other Allied Powers to the effect that she, China, should administer and control the Japanese economy, more particularly the silk economy. These representations were based on many strong factors. China herself was a producer and seller of raw silk and familiar with all phases of the silk industry. China's economy had been ravaged and destroyed by the Japanese. China had been longest in the war and her losses in men and material were greater than any of the other Allied Powers, and she had the largest and strongest claim of any of the Allied claimant nations. There is merit in China's representations. It is only the fact that the United States would be relegated to an inferior position that prevented acceptance of China's representations. China had always, as she now has in the United States, many friends. This group of influential American citizens constitutes a large bloc. This bloc has always been overzealous and oversympathetic to the many demands and needs of the Chinese. This bloc, if convinced that SCAP was not administering properly the Japanese silk economy, would give their support to a program that would permit the Chinese to take over and administer the Japanese silk economy, using our occupying forces as policing agents. The manner in which the silk economy of Japan is now being administered by SCAP, if continued, will open the door for China to again press these representations and this time possibly with success. If this should happen, American prestige would sink to a new low.

25. Fact after fact could be marshalled with statistical data from recognized authorities to sustain the above premises, and further recognition must be given that any other type of industry that might give production for export

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most likely would fall into the classification of a war potential. Further, the statement of Secretary Byrnes several days ago to the effect that no funds would be loaned to rehabilitate industrial plants in Japan makes it apparent that raw silk production must be concentrated upon. It is evident that this is not being done now. The reckless course now being pursued by SCAP threatens to destroy the well laid ground work for a continuing Japanese raw silk economy.

26. Therefore, in view of all of the above, and clearly realizing that an orderly, business-like program must be planned and put into effect immediately to rehabilitate the raw silk industry in Japan, and at the same time give confidence to the minds of potential customers that there will be a continuity of supply without violent price fluctuation, the following recommendations are made:

1. That SCAP immediately establishes a planned and coordinated program to reorganize the raw silk industry in Japan. This program should adopt a long-range policy to insure a continuance of the Japanese raw silk economy vitally needed by Japan to gain foreign exchange. Past history clearly shows that speculation and subsequent price fluctuation will destroy any chance of continuing raw silk export markets on a large scale. The program, therefore, should include stringent measures to keep speculation at a minimum.

2. The encroachment of synthetic fibers in the past six years has been so great that surveys of potential world markets for raw silk by leading authorities makes it doubtful if the Japanese raw silk exports can exceed thirty million (30,000,000) pounds yearly. The Japanese producers are concentrating on the production of much larger quantities of silk, as evidenced by the fact that they are building large quantities of reeling machines and contemplating increased mulberry acreage. To produce the thirty million (30,000,000) pounds for foreign markets, fifty-one thousand (51,000) reeling basins and two hundred thousand (200,000) chobu, or four hundred ninety thousand (490,000) acres, are sufficient. Reeling equipment

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presently in use together with those being prepared for operation in addition to those coming out of hiding, make it un-necessary to build any large additional quantities of reeling basins. The mulberry production should be increased slightly and intensively cultivated. Directives should be given immediately to discontinue the manufacture of reeling machines that will put in operation basins in excess of the fifty-one thousand (51,000) and to convert any mulberry acreage above the four hundred ninety thousand (490,000) acres to other agricultural products. In the event it is found that larger production of silk can be used in world markets, it will be an easy matter to increase mulberry production and arrange for the manufacture of additional reeling machines.

3. A planned controlled export program should be initiated. On the basis of pre-war quotas, approximately one hundred sixty thousand (160,000) bales of the silk presently stored in Japan and to be manufactured up to 31 December 1946, is available to the markets of the United States. The export program should be fourteen thousand (14,000) bales in April and approximately nineteen thousand (19,000) bales each month thereafter for the remaining eight months of 1946. Shipments should be made if possible in equal amounts at intervals of every two weeks and should contain a combination of sizes and qualities.

4. After the above shipping program is cleared and approved by the War and State Departments, it should be announced publicly in the United States and every effort should be made to keep this schedule of shipments. This will give necessary encouragement to manufacturers as to a continuity of supply and will curb speculation. My investigation discloses that the above program can be met if full cooperation is given by all concerned.

5. Immediate consolidation in the building of the Imperial Testing Company, Yokohama, of all present testing facilities now scattered throughout Japan at the following various points:

Kobe, Kyoto, Maebashi, Okaya and Kanazama.

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Sufficient equipment and personnel will then be available to test properly seven hundred (700) bales daily instead of the seventy five (75) to one hundred (100) bales now tested daily under unsatisfactory, time wasting, inefficient conditions. The Yokohama Testing Company building was especially built to test and store raw silk. It is fireproof and earthquake proof and can take care of present contemplated annual production.

6. Since dollar exchange is needed badly in Japan and it is doubtful that silk piece goods can be exported to the United States because of existing tariffs, domestic consumption of raw silk should be curtailed drastically and immediately. This curtailment should be extended to the short length silk spinning fiber industry because both the raw silk weaving and the raw silk spinning production reduces the quantity of raw silk that will be available for export. Over five hundred thousand weaving looms and hundreds of knitting machines in the United States are either idle or of curtailed production due to the lack of raw yarns. Consequently, this situation is producing considerable unemployment in the textile industry. The American factories can use practically all of the types and grades of the raw silk stored here and now being produced so that the benefits extend not only to accumulation of foreign exchange by Japan, but to employment and the production of badly needed consumer goods in the United States. It will be far better to ship from the United States to Japan raw cotton to be manufactured for clothing needs than to continue to waste and inefficiently utilize silk fibers now badly needed in the United States.

7. The arbitrary method now in use of determining which silk should be exported should be discontinued immediately and a sensible approach substituted, one that will take into consideration the urgent needs of all types of silk fibers in the United States, the current prices of silk in the United States, namely, TWELVE DOLLARS (\$12.00) a pound. These exportations of silk will bring foreign exchange immediately. The adoption of this program should stabilize raw silk

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prices at TWELVE DOLLARS (\$12.00) a pound. Then in a gradually orderly manner, synthetic fibers will force silk to its proper level as a luxury item.

8. Immediate steps should be taken to reach the recommended thirty million (30,000,000) pounds annual raw silk production as quickly as possible. Because of pre-war preparation, the war in Japan and its chaotic aftermath, all phases of the Japanese raw silk industry from the mulberry fields to the manufacturing equipment have been neglected badly. An immediate program must be planned and coordinated to remedy this condition at once.

9. Raw silk producers and everyone now connected with the silk industry are in a state of bewildered uncertainty as to the sizes, quantities and qualities of raw silk to be produced. Proper directives should be given to them at once. A meeting of the producers should be held as soon as possible so that the planned program of thirty million (30,000,000) pounds annually of raw silk production can be outlined and explained to them.

10. Conferences should be inaugurated at once with the other Allied silk-consuming nations to determine definitely their requirements in sizes and qualities and to settle the quantities to which they are presently and respectively entitled, and at the same time to determine if they are willing to meet the current prevailing prices in the United States for raw silk. It may be that they will recognize that for the current year they do not wish to meet these prices and they may waive their claims for this year in expectation of lower prices next year. This will allow larger quantities for export to the United States and result in a larger dollar balance for Japan. In turn, this would mean the first step of Japan to help herself externally. These questions should be settled here in the field.

11. Conferences should be held with claimant nations to determine the sizes and qualities of raw silk they require, the percentage of production to be allocated each, in order that proper directives may be issued to the raw silk

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producers. Also, the price to be allocated for silk for offset against their reparation claims should be determined.

12. With lack of funds and the inflationary trend in Japan, some basis of understanding in Japan must be reached at once. This understanding with the Government and silk industry of Japan must cover such fundamentals as to the method of equitably taking over the raw silk, arranging for interim payments or financing to enable manufacturers and farmers to commence or continue operation and to meet payrolls. This is a most important point for the mulberry grower. He will not continue to produce unless some equitable arrangement is provided since the growing of agricultural products for the black market presently offers him an immediate and lucrative profit. It is important to settle this question at once and in a manner which conforms with the Potsdam Agreement.

13. A new department of the Japanese Government should be created at once consolidating under one administrative head all phases of the silk industry in Japan from mulberry production to the final production of piece goods. This will permit proper control of the industry. Under the present Japanese Government organization, control is not efficient. Under the present system there is too much overlapping of bureaus, too much time and effort are lost in attempting to achieve results after plans are formulated.

14. Similarly, such a consolidation should be made in SCAP. A separate administrative head under ESS should be authorized to plan and direct all phases of the raw silk industry from mulberry production to piece goods. This is a highly technical subject in all its phases. Considering the importance of the raw silk industry in Japan, it needs a full time administrator representing SCAP who understands all the technicalities of the business and can build up a staff to handle and control the industry. It is quite obvious to date that because of the press of duties on the other administrators, it has been impossible to date to exercise proper control and

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checks over the industry.

15. While the simplicity and overall desirability of the present methods of giving directives to the Japanese Government is appreciated, the necessity for occasional exceptions thereto must be recognized. This is particularly true with regards to directives given the raw silk industry. It must be remembered that most of the mulberry farmers are peasants. The producers in the country are, themselves, not overly educated and it is hard for them to understand that they are taking orders and directives from the officials of the former silk combines who were the very people who brought them to their present plight. The silk combines, through ownership of branch banks throughout the country, financed the mulberry farmer, the silkworm producer and the silk producer at exorbitant rates of interest so that it was virtually impossible for the farmers or the independent producers of raw silk to exist and the silk reeling plants were taken over one by one and amalgamated into the combines. It would be well to give the SCAP silk administrator direct control to assure the farmer and the producer that we are not aiding the Zaibatsu to re-establish themselves at their expense. It is obvious from letters received in the United States, as well as letters in the files of the Economic and Scientific Section, that the silk combines are still thinking of control of the industry and operation on the New York market with their own control offices there. So it is not to be presumed that SCAP will receive full and sympathetic cooperation on this program from the former silk combines.

Peter F. Magagna
Silk Adviser
GHQ, SCAP

TO: CINCAFPAC ADV (MACARTHUR) FROM WASHINGTON NR: WX 74059

1. QUESTIONS RAISED IN URADS SEPTEMBER ZA 5509 AND ZA 5739 HAVE BEEN CONSIDERED WITH THE STATE DEPARTMENT WHICH ADVISES THE FOLLOWING POLICY TO BE FOLLOWED FOR JAPANESE SILK PRODUCTION:
2. EXCEPT FOR PLANTATIONS JBUTA FBRCNGCOR BUSHES ARE READY BECAUSE OF AGE OR FOR SOME OTHER REASON TO BE REPLACED, IT IS CONSIDERED ON BASIS INFORMATION AVAILABLE HERE THAT MULBERRY AREAS SHOULD NOT BE REDUCED EXCEPT IN CASES WHERE THEY OCCUPY LAND WHICH WOULD BE ESPECIALLY PRODUCTIVE IF USED FOR FOOD. WHILE A MAJOR AIM IS TO MAXIMIZE FOOD PRODUCTION, IT IS RECOGNIZED THAT SILK CONSTITUTES AN IMPORTANT FOREIGN TRADE ITEM AND THE MOST READILY ACCESSIBLE MEANS OF CREATING FOREIGN EXCHANGE TO PAY FOR IMPORTS AND, THEREFORE, SILK PRODUCTION SHOULD NOT BE REDUCED WITHOUT CORRESPONDING ECONOMIC BENEFITS.
3. WITHIN BROAD POLICIES LAID DOWN BY YOU, MAXIMUM RESPONSIBILITY FOR FORMULATING AND EXECUTING FOOD AND AGRICULTURE PROGRAMS SHOULD BE PLACED UPON JAPANESE AUTHORITIES. HOWEVER, THESE PROGRAMS, INCLUDING MULBERRY ACREAGE, SHOULD BE FORMULATED BY JAPANESE WITH THE ADVICE AND APPROVAL OF YOUR AGRICULTURAL EXPERTS.
4. UNTIL SUCH TIME AS FOOD IMPORT REQUIREMENTS ARE CALCULATED AND EXPERT TARGET FOR SILK ESTABLISHED, UNABLE TO GIVE DEFINITE POLICY GUIDANCE BASED ON RELATIVE CONSIDERATIONS OF NECESSITY FOR FOOD PRODUCTION AS AGAINST MULBERRY PRODUCTION. FURTHER, UNTIL EXTENT OF FULL IMPORT PROGRAM FOR JAPAN IS KNOWN, UNABLE TO REACH DEFINITE CONCLUSIONS BASED ON EVALUATION OF NECESSITY FOR SILK PRODUCTION AS MEANS OF CREATING FOREIGN EXCHANGE WITH WHICH TO PAY FOR IMPORTS. FOR THE PRESENT, IN VIEW OF GREATER AMOUNT OF DETAILED INFORMATION AVAILABLE TO YOU, SPECIFIC QUANTITY OF MULBERRY ACREAGE IS LEFT FOR YOUR DECISION WITHIN THE GENERAL POLICY OUTLINED ABOVE. REFER PART ABOVE.
5. DIRECTION TO CONTINUE PRICE STABILIZATION PROGRAM, REFER PART 4 URAD ZA 5509, IS NOT CONTAINED IN PRESENT DRAFT OF ECONOMIC DIRECTIVE DIRECTIVE NOW UNDER ACTIVE CONSIDERATION. IN ACCORDANCE WITH PARAGRAPH 3 ABOVE DETERMINATION CONCERNING REVIVAL PRICE STABILIZATION PROGRAM SHOULD BE MADE BY JAPANESE AUTHORITIES SUBJECT ADVICE AND APPROVAL YOUR AGRICULTURAL EXPERTS.
6. NOT YET POSSIBLE ADVISE CONCERNING QUANTITY AND TYPES SILK DESIRED AS TARGET FOR EXPORT. WILL BE TRANSMITTED TO YOU AS SOON AS POSSIBLE.
7. ADVICE ON CHANNELS TO BE USED FOR EXPORT WILL BE CONTAINED IN REPLY TO URADS SEPTEMBER ZA 5510 AND OCTOBER CA 52579. PRICES FOR SILK WILL BE FURNISHED YOU ON SPOT BASIS AT YOUR REQUEST.

11 OCTOBER 1945

EXHIBIT 1.

IN CLEAR

File 423

PRIORITY Econ & Sc RCK/lms
12 OCTOBER 1945

FM: SCAP

121213

TO: WARTAG (FOR JOINT CHIEFS OF STAFF) - PRIORITY

REQUEST PAOLINO GERLI CMA ONE NINETEEN WEST FORTY STREET
NEW YORK AND MISTER DOUTY OF UNITED STATES TESTING COMPANY HOBOKEN
BE REQUESTED TO COME TO JAPAN FOR THIRTY DAYS TO ADVISE ON BASIS
UPON WHICH SILK INDUSTRY IN JAPAN SHOULD BE DIRECTED EMA REESTAB-
LISH TECHNICAL STANDARDS SUITABLE FOR AMERICAN TRADE CMA DISCUSS
PRICE AND STABILIZATION PLANS CMA TYPES OF SILK TO BE PRODUCED PD
DEPARTURE FROM UNITED STATES SOONEST PD AIR PRIORITY

ZA - 6846

OFFICIAL:

Approved by:

/s/
R.C. KRAMER
Colonel, GSC
Chief, Econ & Sc Section

B. M. FITCH
Brigadier General, U.S. Army
Adjutant General

Copies to:

G-1
AG
C/S
ESS (Return 7 copies)

IN CLEAR

EXHIBIT 2.