

Level of Economic Life In Jap
C2-242 - Policy Towards Jap Industry &
C2-242/4 Shipping

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Policy Towards Jap Industry

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STATUS OF POSITIONS OF DELEGATIONS ON
LEVEL OF ECONOMIC LIFE IN JAPAN:
POLICY TOWARDS JAPANESE INDUSTRY
(FEC-242/32)
as of 5 November 1948

Australia	favours (with reservations on certain points; see cover page of FEC-242/32)
Canada	favours
China	reserved
France	favours
India	favours
Netherlands	favours
New Zealand	favours (with reservation on one point; see cover page of FEC-242/32)
Philippines	favours
U.S.S.R.	reserved (see /37)
U.K.	favours
U.S.	reserved

*New folder*C2-242FEC-RESTRICTEDC2-24214 July 1947FAR EASTERN COMMISSIONCOMMITTEE NO. 2: ECONOMIC AND FINANCIAL AFFAIRS

LEVEL OF ECONOMIC LIFE IN JAPAN:
POLICY TOWARDS JAPANESE INDUSTRY AND SHIPPING
(References: FEC-058 series; FEC-059 series; FEC-083/5;
FEC-106/1, -218, -218/1; C1-001 series;
C2-027 series)

Note by the Secretary General

1. The enclosure, a report by Subcommittee No. 2: Level of Economic Life in Japan, on FEC-218, Reparations Removals of Industrial Facilities and Merchant Shipping from Japan, and related documents, is circulated herewith for the consideration of COMMITTEE NO. 2: ECONOMIC AND FINANCIAL AFFAIRS.
2. Enclosure "A" contains a general statement on the papers under consideration and the assumptions made in drawing up the report.
3. Enclosure "B" contains discussion of specific recommendations.
4. Enclosure "C" contains a proposed policy statement.
5. Enclosure "D" contains reference material.

NELSON T. JOHNSON
Secretary General

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FEC-RESTRICTEDENCLOSURE "A"LEVEL OF ECONOMIC LIFE IN JAPAN:
POLICY TOWARDS JAPANESE INDUSTRY AND SHIPPING

1. The following papers dealing with the above subject have been referred to the Subcommittee:

<u>No.</u>	<u>Title</u>	<u>Submitted by</u>	<u>Date of Paper</u>	<u>Date Referred to Subcommittee</u>
FEC-058	Policy towards Japanese Industry	U. K.	10 May '46	12 May '46
C1-001/4	Interim Reparations Removals	U. K.	10 Jun '46	24 Jun '46
C1-001/6	" " "	U. K.	24 Jun '46	1 Jul '46
C1-001/9	" " "	Neth.	28 Jun '46	1 Jul '46
C1-001/11	" " "	Neth.	7 Aug '46	7 Aug '46
FEC-218	Reparations Removals of Industrial Facilities & Merchant Shipping from Japan	U. S.	9 Apr '47	10 Apr '47

In addition the following reports of the Subcommittee have been referred back for reconsideration along with FEC-218:

C2-027/1	Level of Economic Life in Japan: Iron and Steel, Light Metals, Synthetic Oil, Synthetic Rubber		6 Jan '47	
C2-027/2	Level of Economic Life in Japan: Metal Working Machinery		14 Jan '47	
C2-027/3	Level of Economic Life in Japan: Railway Equipment		29 Jan '47	
C2-027/4	Level of Economic Life in Japan: Ball and Roller Bearings		10 Feb '47	

A further report, C2-027/5, Level of Economic Life in Japan: Chemical Industry, was not on the Committee's agenda when the other reports were referred back but the Subcommittee has assumed that it was the Committee's intention that this report should also be reconsidered.

In addition to the above, the Subcommittee has also considered FEC-218/1, Reparations Removals of Industrial Facilities and Merchant Shipping from Japan, which contains the statement referred to in paragraph 2 of the cover page of FEC-218.

The present report embodies the views of the Subcommittee on all the above papers.

2. The general aim of the Subcommittee has been to fix levels for industry and shipping such as would, in its view, permit Japan an economy sufficient to meet her peaceful needs as at present defined by the Far Eastern Commission (FEC-106/1) and which at the same time would be consistent with the provision of the Potsdam Declaration that Japan shall not be permitted to retain those industries "which would enable her to re-arm for war." No provision has been made for the delivery of goods for reparations from current production. Should it be decided that goods from current production are to be made available for reparations the proposed figures may require revision.

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3. It is the understanding of the Subcommittee that, if a policy such as is suggested in Enclosure "C" is adopted by the Commission, the existing policies on Interim Reparations Removals (FEC-059 series) will be superseded. The majority of the Subcommittee also considered that such a policy would supersede the policy on Assured Production Capacity Levels (FEC-083/5), but several members did not consider that this would necessarily be so. The U. S. Member desired it recorded that his Government intended FEC-218 to be considered as a proposal regarding that industrial capacity and merchant shipping to be retained in Japan to meet Japan's peaceful needs (as defined in FEC-106/1) during the occupation of Japan (as defined in FEC-084/12). Capacity surplus to those levels would be considered available for reparations removal and the Far Eastern Commission decision to this effect would be final. Adoption of FEC-218 would supersede the FEC policy decisions previously adopted dealing with interim removals and with assured production capacity levels for Japan. The U. S. Member had made these points clear when FEC-218 was presented for the consideration of the Far Eastern Commission, and, had requested that the policy proposal be negotiated on that basis. It was the understanding of the Chinese and Netherlands Members that the report in its present form was not complete as to the categories of industry to be made available for reparations. Moreover, it was their view that the level of each industry as proposed herein was not final, because the Subcommittee could not take into account some factors relevant to the economic life and needs of Japan as a whole nor of the needs of the claimant countries.

4. In the view of the majority of the Subcommittee the policy adopted, taken in conjunction with FEC-084/12, Reduction of Japanese Industrial War Potential (which the Subcommittee has assumed will be adopted substantially in its present form) should constitute a comprehensive policy for the reduction and limitation of Japanese industrial capacity and shipping. It was suggested that the levels proposed in Enclosure "C" be considered from this point of view.

5. Attention is called to the fact that the recommended levels of industrial capacity to be retained in Japan are stated throughout this paper in terms of capacity required to produce a certain quantity and not in terms of rated or designed capacity.

FEC-RESTRICTEDENCLOSURE "B"DISCUSSION OF SPECIFIC RECOMMENDATIONS1. Size of Merchant Vessels

Paragraphs 2.a.(1) and 9.a.(1) of FEC-084/12 require the Far Eastern Commission to determine the size of merchant vessels, above which the facilities for their construction shall be regarded as primary war facilities. Merchant vessels for this purpose include all vessels other than naval combatant vessels.

The Subcommittee had before it the U. S. proposal contained in FEC-218 that this size should be 3,000 light displacement tons and proposals by the Netherlands and United Kingdom members that it should be 5,000 gross registered tons. The other members felt that they could not usefully discuss these proposals without instructions and it was therefore agreed to pass both proposals on to the Committee without comment rather than delay the submission of the report.

The Subcommittee proposes, if it is thought desirable by the Committee, to keep the subject of shipping and shipbuilding on its agenda and to issue a supplementary report as soon as practicable.

2. Iron and Steel Industry, producing pig iron, steel ingots and basic shapes

The Subcommittee has already submitted a report covering the iron and steel industry (C2-027/1), the conclusions of which, so far as concerns the total amount of capacity to be retained in Japan, are substantially in agreement with those contained in the proposal submitted by the U. S. representative in FEC-218.

After discussion of the amount of steel used for castings and the ratio between steel ingots and basic shapes in Japanese steel-making practice, the majority of the Subcommittee favored revising the figure which it originally proposed for basic shapes and accepting the United States proposal of 2.65 million metric tons per annum.

In connection with paragraph 5. of C2-027/1 the Chinese member desired to submit for the information of the Committee a discussion on steel used for military purposes. This is contained in Enclosure "D", section 1.

The interim reparations removal program provided that Japanese capacity for making steel in electric furnaces should be reduced to 100,000 metric tons per annum, made up as far as possible of furnaces of individual charge capacity of 1-1/2 metric tons or less; and that no Bessemer capacity should be removed. The U. S. proposal contains no such provisions and, if accepted, would mean a modification of the interim decision.

The Far Eastern Commission has already agreed that Japan should retain an additional 300,000 metric tons per annum of electric furnace capacity at least until 30 June 1947. It seems that the conditions which prompted this decision are likely to continue for some time and the majority of the Subcommittee therefore considered that it would be necessary to permit Japan to retain more than 100,000 metric tons per annum after 30 June 1947. After consideration of the arguments contained in FEC-218/1 the majority of the Subcommittee favored the United States proposal that it should be left to SCAP to

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decide the relative amounts of open hearth and electric furnace capacity to be retained.

Although not objecting to the U. S. proposal that there should be a better balance of types of steel-making facilities for reparations, the minority was of the opinion that the final decision as to the relative amounts of open hearth and electric furnace to be retained in Japan should be made by the Far Eastern Commission on the basis of relevant data to be submitted by SCAP.

The majority of the Subcommittee considered that it should be specifically stated that no Bessemer capacity should be removed.

3. Coal Carbonization Industry

The Subcommittee considers that Japan should be permitted to retain sufficient coke-oven capacity to supply the needs of her iron and steel and other industries using high-temperature coke, at the levels determined under the over-all program of industrial reduction. The Subcommittee does not consider that it is necessary to attempt to fix an exact level for the industry, since coke-oven facilities are almost always integrated with the facilities which use the coke.

The Subcommittee therefore agreed that it would be sufficient to indicate to the Supreme Commander that coke-oven facilities related to the coke-consuming industries which are made surplus by reductions in the latter should also be made available for reparations.

4. Non-ferrous metals industry producing pig ingot and basic shapes

a. Nickel smelters

The Subcommittee accepts the view expressed in FEC-218 and FEC-218/1 that all nickel smelters in Japan should be made available for reparations claim.

b. Copper

FEC-218 does not propose any specific level for the copper industry. The majority of the Subcommittee considered, however, that such a level should be fixed.

The consumption of copper in Japan during the period 1930-1934 averaged 66,800 metric tons per annum. Allowing for increased population, Japan would on this basis require about 80,000 metric tons of copper in "1950". It has not been possible to make an estimate of consumption of copper for military uses during the period 1930-1934. The Subcommittee has therefore not made any adjustment on this account, but has assumed that this factor is roughly counterbalanced by increased requirements due to technological changes, e.g. increasing electrification.

Mine production of copper in Japan was incompletely reported until 1940. Available figures of pre-war production are given in the following table:

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<u>Year</u>	<u>Thousands of metric tons</u>	
	<u>Mines reporting in each year</u>	<u>Total production</u>
1935	55.4	?
1936	54.8	?
1937	52.2	?
1938	53.3	?
1939	52.4	?
1940	49.6	73.9
1941	47.1	77.0

The above figures suggest that total production in the years 1935 to 1939 was probably at least as great as in 1940 and 1941. It therefore appears likely that Japan will be able to produce 80,000 metric tons of copper per annum from domestic mining.

It is the view of the majority of the Subcommittee that Japanese capacity to smelt, refine and fabricate copper in excess of an amount sufficient to deal with 80,000 metric tons per annum of copper metal should be made available for reparations claim, subject to the provision that any surplus capacity in the rolling industry may, if necessary, be used in the aluminum industry under the terms of paragraph 2.c.(1).(b) in Enclosure "C".

c. Other non-ferrous metals

Owing to the conflicting data regarding the present capacity in other non-ferrous metal plants and in view of their relative unimportance in the Japanese industrial structure, the Subcommittee considers that any capacity in the lead, zinc, tin and ferro-alloy industries surplus to Japan's peaceful needs should be dealt with by the application of the general principle contained in paragraph 7 of Enclosure "C".

5. Light metals industry producing alumina, primary aluminum and magnesium, rolled, drawn or extruded shapes

The majority of the Subcommittee is doubtful about the statement contained in FEC-218/1 to the effect that, if Japan is to reprocess scrap so as to produce a satisfactory grade of aluminum for civilian purposes, she will need to retain primary aluminum facilities, i.e., facilities of the type which must be used in the manufacture of virgin aluminum from bauxite, because she has no separate secondary aluminum facilities, i.e., facilities especially adapted to the reprocessing of aluminum scrap. It is thought possible that facilities other than primary aluminum facilities would be available in Japan that could be used for reprocessing at least the major part of the existing scrap into aluminum which is satisfactory for producing civilian goods. Until evidence is available to the contrary the majority of the Subcommittee does not feel that it can support the proposal that Japan should retain primary aluminum facilities.

The Subcommittee considers that some aluminum rolling capacity should be left in Japan. The majority of the Subcommittee favored the provisions of the interim program with regard to rolled, drawn and extruded aluminum shapes (FEC-059/9).

The Subcommittee accepts the proposal contained in FEC-218 that all magnesium capacity in Japan should be made available for reparations claim.

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FEC-RESTRICTED6. Metal working machinery industry, producing machine tools, cutting tools and secondary metal working machinerya. Machine tools

The Subcommittee has already submitted a report covering the metal working machinery industry (C2-027/2) the conclusion of which so far as the machine tool industry is concerned is the same as that contained in the proposal submitted by the U.S. representative in FEC-218. The Subcommittee therefore recommends that Japan be allowed to retain capacity to produce a balanced type-size aggregate of 10,000 machine tools per year.

b. Cutting tools and secondary metal working machinery

The U. S. proposal (FEC-218) makes no reference to cutting tools and secondary metal working machinery, the intention being that this equipment should be covered by the general provision contained in paragraph 2. of FEC-218. The majority of the Subcommittee, however, adheres to its recommendation in C2-027/2 that Japan be allowed to retain capacity to produce sufficient cutting tools and secondary metal working machinery to maintain the inventory of this equipment at a level appropriate to the proposed inventory of machine tools (See paragraph 18).

7. Ball and roller bearing industry

The Subcommittee has already submitted a report covering the ball and roller bearing industry (C2-027/4) the conclusions of which are the same as that contained in the U. S. proposal (FEC-218), which the Subcommittee therefore accepts.

8. Chemical industry

The Subcommittee has already submitted a report covering the chemical industry (C2-027/5) the conclusions of which are the same as those contained in the U. S. proposal in FEC-218 in the case of the nitric acid and the soda ash, caustic soda and chlorine industries. In the case of sulphuric acid the level proposed by the U. S. is 3.5 million metric tons (62% acid equivalent) whereas the Subcommittee proposed 3.4 million metric tons. In addition the Subcommittee recommended levels for industrial explosives and calcium carbide, whereas the U. S. proposal contains a clause (paragraph 1.b)(1) of FEC-218) that capacity which would otherwise be removable should be retained, if necessary to achieve essential production of fertilizers in Japan.

After considering the points of difference, the Subcommittee has come to the following conclusions:

a. Industrial explosives

The majority of the Subcommittee considered that a specific level should be fixed for this industry, and, at the request of the United Kingdom member, the Subcommittee reconsidered the figure of 20,000 metric tons per annum which they had put forward in C2-027/5. The United Kingdom member pointed out that the figures on which the Subcommittee had based their previous recommendation included some production for export and that capacity for export was, by the terms of FEC-084/12, not to be allowed

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to Japan. He proposed that the figure be reduced to 10,000 metric tons per annum.

The U. S. member said that the reasons for fixing the level originally proposed by the Subcommittee still appeared to him to be sound. Rehabilitation of the coal mines would take a considerable time and it appeared certain that Japan would have to depend much more on domestic sources of metallic ores than in 1930-1934, with a consequent relative increase in demand for industrial explosives. The fixing of an exact level was admittedly difficult but he was unable to see that there was any very strong security reason for imposing such a severe restriction that Japan might have to import industrial explosives. He said that the Subcommittee was agreed that Japan would have to retain capacity for manufacturing the basic chemicals involved and their conversion into industrial explosives consisted of little more than the addition of inert material, for which relatively simple equipment was required.

After discussion in the Subcommittee, the majority agreed that the level should be fixed at 10,000 metric tons per annum but that it should be stated that if additional capacity was required to meet temporary needs it should be open to the Supreme Commander, after informing the Far Eastern Commission for the reasons for so doing, to retain such additional capacity pending a decision by the Far Eastern Commission.

b. Sulphuric acid

Further examination of the statistical basis for the calculation of sulphuric acid required for fertilizer production in 1950 shows that 100,000 metric tons more will be required for the purpose than the Subcommittee allowed. The majority of the Subcommittee therefore recommends that Japanese capacity to produce sulphuric acid in excess of an amount sufficient to produce 3.5 million metric tons (62% acid equivalent) should be made available for reparations claim.

c. Soda ash, Caustic soda and chlorine

The U. S. proposal is identical with that of the Subcommittee and the majority of the Subcommittee therefore recommends that it be adopted.

The minority pointed out that the 1930-1934 average consumption figure of chlorine (38,000 metric tons annually) which the Subcommittee had projected to "1950" already included some production for sanitation and insecticide purposes. The majority recommendation to leave an additional amount of 20,000 metric tons for sanitation and insecticides and possible export, in their opinion, constitutes at least a partial double counting.

The minority also cannot accept the reasoning that the additional 20,000 metric tons, representing a 52% increase compared to the base period consumption figure, is required for new uses due to technological developments. The phrase "technological development", as used in "Determination of the Peaceful Needs of Japan" (FEC-106/1) cannot be interpreted to allow net addition to the productive capacity of Japan over and above what is necessary to meet the peaceful needs of Japan as defined by the FEC. It is their understanding that such factors as technological developments can only be taken

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into account to compensate for the decline of productive capacity in one industry, such as cotton textiles, since the base period by the development of another industry, such as rayon.

If the Far Eastern Commission decides that there should be more chlorine capacity left in Japan for some additional new uses, the quantity should be decided on the merits of each specific case, but it is not within the competence of the Subcommittee to decide on such quantity based on technological argument.

The minority, therefore, could not agree to the figures recommended by the majority of the Subcommittee.

d. Chemical nitrogen

The U. S. proposal for nitric acid is in line with that of the Subcommittee and the majority of the Subcommittee therefore recommends that the U. S. proposal be adopted. The Chinese and Netherlands members desired to fix a level for synthetic ammonia.

e. Calcium carbide

The majority adhered to the Subcommittee's proposal that Japanese capacity to manufacture calcium carbide in excess of an amount sufficient to produce 430,000 metric tons annually should be made available for reparations claim.

f. General clause

Because of the need for the maximum fertilizer production to enable the Japanese to produce as much of their food requirements as possible., the majority of the Subcommittee were prepared to accept the clause proposed by the U. S. in paragraph 1.b.(1) of FEC-218 on condition that its application is limited to the sulphuric acid and calcium carbide industries.

The minority noted that the proposed general clause relating to the chemical industry contained in FEC-218 was to be applicable only to the sulphuric acid and calcium carbide industries. On the basis of the data available to the Subcommittee the figures recommended for these industries would be sufficient for Japanese fertilizer requirements in "1950". In view of the importance of fertilizer in connection with Japan's food problem the minority requested additional data with a view to reconsidering the levels proposed for these two industries. As no additional data was produced, the minority suggested the substitution of the following for the proposed general clause:

"If, in the view of the Supreme Commander for the Allied Powers, the above levels of capacity are insufficient to meet Japan's peaceful needs for fertilizer in "1950", he should inform the Far Eastern Commission and supply additional data in order to enable the Commission to review the levels if it should consider it necessary to do so."

9. Railway equipment industry

The U. S. proposal in FEC-218 contains no specific reference to the railway equipment industry, the U. S. view being that this industry would be covered under the general provision of paragraph 2. of FEC-218. It is the view of the

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majority of the Subcommittee, however, that it is both possible and desirable to specify a level in this industry, and it adheres to the proposal contained in Enclosure "B" of C2-027/3.

10. Automotive industry

In the view of the majority of the Subcommittee the reduction in the inventory of machine tools (proposed in paragraph 18. below) and in the capacity for manufacturing machine tools (proposed in paragraph 6.g. above) gives sufficient assurance against undue expansion in this industry. The Subcommittee considers that in effecting the reduction in the machine tool inventory, attention should be paid to reducing capacity in the automotive industry to a level no higher than is necessary to meet the peaceful needs of Japan. The proposal contained in paragraph 5 of Enclosure "C" has been drafted accordingly.

11. Electric power industry

The majority of the Subcommittee is in agreement with the views expressed in FEC-218/1.

12. Cement and abrasives industries

a. Cement

(1) The U. S. proposal in FEC-218 contains no specific reference to the cement industry, although it is listed in FEC-084/12 as one of the war-supporting industries which are to be reduced. The majority of the Subcommittee favoured the fixing of a definite level rather than leaving to SCAP the determination of the amount of capacity to be retained.

(2) The Subcommittee has examined the "Preliminary Study of Japanese Requirements in the Cement Industry, 1950" (FEC-058/2), submitted by the U. S. representative, together with such other information on the cement industry of Japan as it has been able to obtain.

(3) The 1930-1934 average consumption of cement in Japan, according to the statistics of the Ministry of Commerce and Industry, was about 3 million metric tons annually. It is believed, however, that these statistics did not take account of all production of cement in Japan during this period (See note "C" to table 1 on page 8 of FEC-058/2). On the other hand, no reports of consumption for military purposes during this period are available. The majority of the Subcommittee has arbitrarily assumed that the unreported production and the cement used for military purposes roughly offset each other. For this reason no deduction has been made from the figure of 3 million metric tons for military uses. Allowing for population increase requirements in "1950" would be about 3.6 million metric tons.

(4) The Subcommittee considers that in order to meet the peaceful needs of Japan some capacity for manufacture for export purposes should be retained.

(5) Exports of cement from Japan during the period 1930-1934 averaged 677,000 metric tons annually. Assuming that the pattern for the cement industry in

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"1950" will be the same as in 1930-1934, exports in "1950" would be about 800,000 metric tons.

(6) The Subcommittee considers, however, that, since cement manufacture is one of the few potential export industries for which the raw material requirements may be met in normal times almost entirely from domestic sources, it is desirable to leave an export capacity somewhat higher than 800,000 metric tons annually. In 1936 Japan attained an export figure of 1,109,000 metric tons. After taking into consideration the extent to which exports were used by the Japanese in later years for military purposes on the Asiatic continent, and also the probably effective demand for Japanese cement in "1950", the majority of the Subcommittee has reached the conclusion that an allowance of 900,000 metric tons a year for exports would be reasonable.

(7) The majority of the Subcommittee therefore concludes that Japan should be allowed to retain capacity sufficient to produce about 4,500,000 metric tons of cement annually, of which about 3,600,000 metric tons would be for domestic consumption and about 900,000 metric tons for export.

b. Abrasives

In the view of the majority of the Subcommittee any reduction in this industry for security reasons should be limited to equipment manufacturing artificial abrasives, i.e., those which are produced by a process of chemical change of the raw materials, since it appears that no purpose would be served by restricting facilities for producing natural abrasives, even if it were practicable to do so.

Some information regarding abrasives is to be found in Report No. 44 of the Natural Resources Section of the Supreme Commander for the Allied Powers. The majority, however, considered that the available information was insufficient to fix an exact level and also considered that the implementation of any policy based on exact figure presented great difficulties. The majority was therefore willing to leave to the judgment of the Supreme Commander the question of how much capacity needed to be retained to meet Japan's peaceful needs.

The minority argued that the paper on Reduction of Japanese Industrial War Potential (FEC-084/12) imposes an obligation on the Subcommittee to determine what portion of the abrasives industry is necessary to meet the peaceful needs of the Japanese people as defined by the Far Eastern Commission, and that the insufficiency of data and difficulties of policy implementation are not much greater for abrasives than for some other industries studied by the Subcommittee. As production of aircraft and military weapons is not possible without adequate supply of abrasives, and in view of the fact that no proposal was made for natural abrasives, the minority considers that the fixing of a level of artificial abrasives is highly desirable. A reduction of productive capacity to that required for Japan's peaceful needs will provide a ready means of checking upon Japanese compliance with the machine tool program and will not greatly increase unemployment or demands for foreign exchange in view of the small size of the industry.

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The minority proposed, therefore, that that portion of Japan's capacity for the production of artificial abrasives which is in excess of the capacity required to produce 3,200 metric tons per year should be made available for reparations claim, based on the following facts: Until 1942 Japan relied substantially on imports for grinding and polishing substances. A small artificial abrasives industry was started in 1933 but remained relatively unimportant until the war. The average imports in 1930-1934 period amounted to 3,200 metric tons per year, covering both natural and artificial abrasives. Since there are no available breakdown figures of imports and since the domestic production of artificial abrasives was almost negligible in that period, it is reasonable to presume that 1930-1934 total domestic consumption of artificial abrasives could not be greater than 3,200 metric tons. So far as the consumption for military purposes during that period is concerned, no reports are available. It is assumed that the allowance necessary to meet increase of population and technological changes and the artificial abrasives used for military purposes roughly offset each other.

13. The steel, merchant shipbuilding and repair industry

The Subcommittee had before it the U. S. proposal contained in FEC-218 and proposals submitted by the Netherlands and the United Kingdom members. The Netherlands member proposed that the figures of 150,000 gross tons and 3,000,000 gross tons in paragraph 1.e.(1) of FEC-218 be reduced to 80,000 gross registered tons and 2,200,000 gross registered tons respectively, and that the figure of 3,000 light displacement tons in paragraph 1.e.(1).(a) be changed to 5,000 gross registered tons. He also proposed the substitution of the following for paragraph 1.e.(1).(c):

"One drydock of 15,000 gross registered tons and two drydocks of 5,000 to 10,000 gross registered tons should be retained for purposes of servicing world shipping touching at Japanese ports. No other drydocks larger than 5,000 gross registered tons and no floating docks should be retained."

The United Kingdom member proposed the substitution of 5,000 gross registered tons for the figure of 3,000 light displacement tons in paragraph 1.e.(1).(a). In addition the Netherlands and United Kingdom members proposed that the following be added as 1.e.(2):

"During the period in which this policy is in force, Japan should not be allowed to build ships of a size greater than 5,000 gross registered tons or a maximum speed greater than 12 knots."

As already indicated in paragraph 1. (size of merchant vessels), the other members of the Subcommittee thought that they could not usefully discuss these proposals without instructions and it was, therefore, agreed to forward the above proposals to the Committee without comment.

14. The merchant marine, fishing, whaling and cannery fleet, including publicly and privately-owned vessels of 100 tons or over

The Subcommittee had before it the U.S. proposal contained in FEC-218 and proposals submitted by the Netherlands and United Kingdom members. The Netherlands member proposed

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that a figure of 5,000 gross registered tons be substituted for the figure of 3,000 light displacement tons in paragraph 1.i.(1).(a) of FEC-218 and that the figure of 15 knots in the same sub-paragraph be reduced to 12 knots. He also proposed that not more than 150,000 gross registered tons of oil tankers should be retained. He calculates that this tonnage would be more than sufficient to meet Japanese peaceful needs. The United Kingdom member proposed that a figure of 5,000 gross registered tons be substituted for 3,000 light displacement tons in paragraph 1.i.(1).(a) and that the definition be extended to cover whale factory ships, if that was not already the intention.

The proposal in FEC-218 includes wooden ships, whereas paragraph 5.b.(1).(m) of FEC-084/12 refers only to steel ships. The Subcommittee agreed with the U. S. proposal in FEC-218 to include wooden vessels in the aggregate figure of the merchant fleet which Japan is to retain. After discussing the United Kingdom proposal to extend the definition the Australian, Netherlands and United Kingdom members agreed to put forward the following alternative:

"Defined as all vessels of more than 100 gross registered tons other than naval combatant vessels."

As already indicated in paragraph 1. (size of merchant vessels) the other members of the Subcommittee thought that they could not usefully discuss proposals on shipping without instructions and it was therefore agreed to forward the above proposals to the Committee without comment.

15. Oil refining and synthetic fuel industry and storage

a. Synthetic fuel

The majority of the Subcommittee accepts the proposal contained in FEC-218 for the Japanese synthetic oil industry, which is the same as the interim removal decision. A minority of the Subcommittee opposed the inclusion of an escape clause (FEC-218, paragraph 1.b.(1).(a)) on the same grounds as those on which it opposed a similar escape clause for sulphuric acid and calcium carbide in the proposal on chemicals (See paragraph 8.f.).

b. Petroleum refining

(1) The majority of the Subcommittee considered that the level proposed for petroleum refining was too high, for the following reasons:

(a) Japanese oil refining was built up to a high level almost solely for the purpose of preparing for war. Even in the period 1930-1934, when such preparations were already being made, the major part of Japanese imports of oil was in the form of finished products.

(b) There is considerable doubt as to whether there exists at the present time a workable capacity of refining equipment as great as 12 million barrels a year. Estimates vary but the Mining Bureau of the Japanese Ministry of Commerce and Industry, on 28 January 1947 claimed a working capacity of 7,674,000 barrels a year, of which 3,170,000 barrels was in the indigenous oil field zone. The latter figure is dubious, since in the same report a figure of production of only

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1,572,500 barrels from domestic sources is mentioned and production from indigenous resources has never exceeded 2.5 million barrels. The majority considered that to fix a figure of 12 million barrels a year in these conditions would constitute an inducement to the Japanese to reconstruct the industry on a scale which past experience shows to have been uneconomic and which could probably only be maintained behind a barrier of protection and government aid. In view of the importance of oil in war, the Subcommittee considered it highly undesirable to encourage such a development.

(c) If the Japanese were allowed to retain capacity to refine 12 million barrels of oil a year (40,000 barrels a day) and this capacity were fully used, there would be a surplus of fuel oil and kerosene in Japan and this could only be disposed of by export. This does not appear from the table given on page 7 of FEC-218/1 because requirements of kerosene, diesel oil and fuel oil are lumped together. It seems undesirable on security grounds that Japan should become an exporter of refined oil products.

(d) On the basis of information available for the pre-war period and for present and anticipated future production it is considered that the allowance for refinery fuel and losses in the figures given in FEC-218/1 is too low. During 1946 on a total intake of indigenous and imported crude of just below 2 million barrels, refinery fuel and losses amounted to 23.7%. Furthermore, the Japanese estimate refinery fuel and losses at 16.5% in 1948, if they are permitted to distill about 4.5 million barrels of Californian crude in their best Pacific Coast refineries.

(e) No allowance is made in the calculation in FEC-218/1 for the fact that there is insufficient cracking capacity as compared with distilling capacity in Japan. According to the latest figures obtained by the Petroleum Advisory Group, there is only cracking capacity for an intake of 1,560,000 barrels a year of reduced crude, which is equivalent to 3,300,000 barrels of Persian Gulf crude.

(f) The calculation of the savings to Japan in foreign exchange is affected by the factors mentioned above and on the basis of current prices of crude oil from the Persian Gulf and refined products from the United States and current freight costs, it is estimated that the saving would amount to only about 2 million dollars rather than the figure of 7 million dollars a year estimated in FEC-218/1, even if no account is taken of the possible loss that would arise owing to the necessity of disposing of a surplus of kerosene and fuel oil (See table in Enclosure "D", Section 2). It seems reasonable to assume that when the refineries in the Netherlands East Indies resume large scale production Japan will be able to draw the greater part of her refined oil products from the N.E.I. as she did before the war and this would probably decrease the cost of imports of refined products and consequently the saving obtained through the importation of crude oil.

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(2) In reply to the foregoing majority report the U. S. member put forward the following additional comments:

"The U. S. Government has presented data, (FEC- 218/1, paragraph 6) which indicate that retention in Japan of oil refining capacity of 40,000 barrels per day would result in a substantial saving in foreign exchange (approximately \$7,000,000 per year). Data presented by the Netherlands representative confirm this conclusion. The smaller saving in exchange shown in the Netherlands member's data is accounted for by the use of lower prices for refined products, a higher price for crude oil, and a different schedule of yields of refined products. The figures for yields of refined products (FEC-218/1) were prepared by expert U. S. petroleum technologists who are familiar with the types of crude oil produced in the Persian Gulf Area and with Japanese refinery methods and practice.

"There is considerable overlap in the specifications, nomenclature and use of kerosene, diesel oil, gas oil, fuel oil and heavy oil. Because of this overlap it is not possible to make accurate estimates of the Japanese requirements for each of these products. For these reasons the products in this range have been grouped and the total requirements estimated at 11,100,000 barrels annually. The assertion by the Netherlands member that Japan will have an exportable surplus of fuel oil in "1950", if the Japanese are permitted to retain refining capacity of 40,000 barrels a day, is not necessarily true. There are strong indications to the contrary. During the period 1931-1936 civilian consumption of fuel oil rose very rapidly from 124,000 barrels in the first year to 1,191,000 barrels in 1936. Consumption in 1936 was more than double that of 1935 indicating a turn to the use of fuel oil during a period when it was necessary to import this product and at a time when coal production was in excess of 41 million tons per year. It is reasonable to assume that this trend may continue (particularly in view of less favorable long-run coal production prospects in Japan) and fuel oil will be used in greater quantities in fishing, industrial operations, railroad transportation and in ship bunkering, particularly in coastwise and near seas shipping. In such case, Japan will probably require all of the estimated production of 2,591,000 barrels of fuel oil (FEC-218/1) and may even exceed the very high estimate of more than 4,000,000 barrels yield made by the Netherlands member. Japan's requirements of fuel oil for the next twelve months are estimated to be 1,362,000 barrels for industrial purposes. This estimate does not include requirements for shipping or other normal peacetime uses which will increase as normal economic activity is resumed.

(3) The Netherlands representative submitted a reply to the above comments of the U. S. member which is contained in Enclosure "D", Section 3.

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(4) After considering a proposal that Japanese oil refining capacity should be reduced to an amount necessary to process its indigenous crude only, the majority of the Subcommittee felt that this would be too severe a reduction and agreed to recommend that Japan be allowed to retain capacity to process 4.5 million barrels of crude oil annually provided that not more than half of this capacity was in the Pacific Coast area. This would permit Japan to manufacture sufficient fuel oil for her needs but would not allow any capacity for export. (See table in Enclosure "D", Section 2).

c. Oil storage

(1) The majority of the Subcommittee considered that the figure of 10 million barrels for oil storage proposed in FEC-218 was too high for the following reasons:

(a) It is claimed in FEC-218/1 that 10 million barrels, which represents less than seven months supply, is only half as much storage capacity in relation to annual consumption as Japan had in 1931. This argument is misleading as figures published by the U. S. Strategic Bombing Survey indicate that nearly 90% of the 1931 figure represented nearly 10 years consumption, both naval and civilian, at the 1931 rate.

(b) The Japanese Petroleum Law of 1934 required the oil companies to keep at all times reserve stocks equal to six months commercial consumption in addition to current working stocks. This law had the effect of forcing both Japanese and foreign oil companies to increase their storage capacity considerably. This was avowedly a measure to increase Japan's preparedness for war and had nothing to do with peacetime civilian requirements.

(c) For the fiscal year 1947-1948 the Petroleum Advisory Group shows estimated stocks at the beginning and end of the period of 35 to 40 days consumption on the basis of a total consumption of 10.8 million barrels. On the assumption that the tankage would be half full, this would amount to 70 to 80 days consumption.

(d) On the basis of the information available to it, the majority of the Subcommittee considered that for a country like Japan which has to rely for the major part of its oil products on imports, a figure of 75 to 90 days storage capacity would be normal and would not be too low for peaceful activities. This would amount to between 3.75 million and 4.5 million barrels.

(2) In reply to the foregoing majority report the U. S. member put forward the following additional comments:

"In order to introduce some factual information as a basis for discussion of the level of petroleum storage to be retained in Japan, data on stocks of petroleum in the United States during the period 1925-1944 were made available to the Subcommittee. These data include all supplies of

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oil for all purposes in the U. S. held by producers. Not included in these stocks are bulk supplies held by distributors in the distribution system. The average stocks of all oil, at the year end, for the period 1925-1944 was 179 days supply. The period 1931-1940 shows the same average. Total storage capacity was, of course, considerably in excess of this figure. Supplies for export and military use are included in the total stock figures. However, export demand for the period averaged only 11.4 percent of the total supply and military use of petroleum by the U. S. prior to 1940 was a very small part of the total consumption. If Japan is permitted to maintain stocks comparable to that of the U. S. average shown above, a storage capacity of 10,475,000 barrels will be required. Japan's geographical location with respect to the major oil producing areas, and dependence upon tanker supply and a relatively poor internal distribution system, would indicate a need for relatively larger storage capacity than would be required in an oil producing country with a highly developed distribution system. With regard to the assertion by the Netherlands representative that the U. S. would be expected to have extraordinarily large stocks because of a difference in the basic laws of the U. S. and other petroleum producing countries, the Chief of the Petroleum Division, U. S. Department of State has made the following statement in which Mr. Max Ball, Director, Oil and Gas Division, U.S. Department of Interior, a recognized petroleum authority, concurs:

"While it is true that in the early phase of the development of the American oil industry the "law of capture" governed oil field practice and that therefore above-ground storage was constructed in the volume necessary to accommodate the frequently excessive rates of production, this is no longer the case. Relatively little ~~new~~ above-ground tankage has been constructed in the U. S. in recent years and at the same time the level of production has increased. Consequently at the present time the volume of above-ground storage in the U. S. in the opinion of all experts is quite closely related to the level of consumption and the requirements of the distribution system. Accordingly, the ratio obtaining for the U. S. between tankage capacity and consumption is considered to be a reasonable ratio for any area of the world."

The Netherlands member presented a commentary on the U. S. statement which is contained in Enclosure "D", Section 4.

(3) In the light of the information submitted, the majority of the Subcommittee agreed to recommend that Japan be allowed to retain 5 million barrels of oil storage capacity, which the majority considered to be a reasonable compromise between the conflicting proposals before it. Some discussion arose as to whether special provision should be made for underground storage but it was agreed that, if the above figure of 5 million barrels is accepted, decision on this point could be left to SCAP.

FEC-RESTRICTED16. Synthetic rubber industry

The proposal of the Subcommittee on this industry contained in C2-027/1 agrees with the U. S. proposal in FEC-218, and the Subcommittee recommends its adoption.

17. Heavy electrical equipment industry

The Subcommittee considered a proposal submitted jointly by the Chinese, Netherlands and Philippine members that Japanese facilities to produce heavy electrical equipment (defined as generators above 5 KVA, electric motors above 5 hp, transformers above 5 KVA, and converters) in excess of an amount sufficient to manufacture annually the following balanced type-size aggregate capacities should be made available for reparations claim: Generators, 450,000 KVA; electric motors, 225,000 hp; transformers, 1,800,000 KVA; and converters, 60,000 KW. The statistical basis for the determination of these figures is contained in Enclosure "D", Section 5.

The majority of the Subcommittee had doubts as to the administrative feasibility of the proposal but agreed to forward it to the Committee for consideration. The members who submitted the proposal did not agree that its administrative feasibility was doubtful.

18. Inventory of metal-working machinerya. Machine tools

The Subcommittee has already proposed in C2-027/2 that Japan should be allowed to retain a machine tool inventory of 175,000 units. It is argued in FEC-218/1, however, that the retention of a larger number is desirable in view of the temporary need for machine tools in repairing damaged plants, and the problem of relocating the supply of tools after plant removals.

The majority of the Subcommittee was not fully convinced by the U. S. arguments and, for the time being, preferred to adhere to the proposal it had already made.

b. Cutting tools and secondary metal-working machinery

The Subcommittee considers that it is unnecessary to fix any specific level for cutting tools and secondary metal-working machinery and that the decision on the quantity to be retained should be left to SCAP.

19. Primary war facilities

The majority of the Subcommittee considered that paragraph 1.h. of FEC-218 was covered by paragraph 2. of FEC-084/12 but thought it desirable to mention specifically in its proposal in Enclosure "C", the limitation referred to in paragraph 1.h.(1).(a).

20. Industrial facilities not specified above

The majority of the Subcommittee accepted the general principle contained in paragraph 2. of FEC-218, but considered that it needed redrafting, more particularly to provide for the industries listed in paragraph 5.b. of FEC-084/12 which were not otherwise specified in the policy proposal contained in Enclosure "C".

FEC-RESTRICTEDENCLOSURE "C"LEVEL OF ECONOMIC LIFE IN JAPAN:
POLICY TOWARDS JAPANESE INDUSTRY AND SHIPPING

1. In accordance with paragraphs 2. a. (1) and 9. a. (1) of FEC-084/12, the Far Eastern Commission determines that the size of merchant vessels, defined as all vessels other than naval combatant vessels, above which plants and establishments for building them are defined as primary war facilities, should be

- * 3,000 light displacement tons (US proposal)
- * 5,000 gross registered tons (UK and Netherlands proposal)

2. Japanese capacity in the following war-supporting industries in excess of the amounts stated below should be disposed of in accordance with paragraphs 5. a. and 6. of FEC-084/12.

a. Iron and Steel Industry

(Defined as plants and establishments primarily engaged in the production of pig iron, steel ingots and basic shapes.)

(1) Pig Iron

Capacity to produce 2,000,000 metric tons annually.

(2) Steel Ingots

Capacity to produce 3,500,000 metric tons annually, including all existing Bessemer capacity.

(3) Basic Shapes

Capacity to produce 2,650,000 metric tons annually.

b. Non-Ferrous Metals Industry

(1) Nickel Smelting Industry

(Defined as plants and establishments primarily engaged in the smelting of nickel from its ores).

Nil

(2) Copper Industry

(Defined as plants and establishments primarily engaged in smelting copper ore or concentrates, refining the product of the smelters, and fabricating copper or its alloys).

Capacity to smelt and refine 80,000 metric tons annually of copper metal and capacity for fabricating copper or its alloys sufficient to utilize 80,000 metric tons annually of copper metal. Any capacity in the copper fabricating

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industry required to carry out the provisions contained in subpara. c. (1) (b) below should be additional to this amount.

c. Light Metals Industry

(Defined as plants and establishments primarily engaged in the production of alumina, primary or secondary aluminum and magnesium, and in rolling, extruding and drawing of aluminum and magnesium and their alloys).

(1) Aluminum(a) Alumina and primary aluminum

Nil

(b) Rolled, drawn and extruded shapes

Capacity to produce 15,000 metric tons of shapes annually. Such equipment should be of a general purpose character and can be obtained from any surplus available in other branches of the non-ferrous metals industry.

(2) Magnesium

Nil

d. Metal Working Machinery Industry(1) Machine Tool Industry

(Defined as plants and establishments engaged in the production of non-portable power driven machines designed to shape metal by the progressive cutting away of stock in the form of chips, shavings or by abrasive action).

Capacity to produce a balanced type-size aggregate of 10,000 machine tools annually.

(2) Cutting Tools and Secondary Metal Working Machinery Industry

(Defined as plants and establishments engaged in the production of secondary metal forming and cutting machines and equipment).

Capacity to produce sufficient cutting tools and secondary metal working machinery to maintain the inventory of this equipment at a level appropriate to the permitted inventory of machine tools. (See subpara. n below)

e. Ball and Roller Bearing Industry

(Defined as plants and establishments engaged in the manufacture or assembly of complete ball and roller bearings or their major component parts, namely, balls, rollers, races and cages).

Capacity for the production of ball and roller bearings to the value of 32,500,000 yen annually at 1943-44 average prices.

FEC-RESTRICTEDf. Chemical Industry(1) Industrial Explosives Industry

(Defined as plants and establishments engaged in the production of industrial explosives).

Capacity to produce 10,000 metric tons annually, provided that, if additional capacity is required to meet temporary needs, the Supreme Commander for the Allied Powers may, after informing the Far Eastern Commission of the reasons for so doing, retain such additional capacity pending a decision by the Far Eastern Commission.

(2) Sulphuric Acid Industry

(Defined as plants and establishments engaged in the production of sulphuric acid).

Capacity to produce 3,500,000 metric tons of 62% acid equivalent, provided that no facilities should be removed which are needed to achieve essential production of fertilizers in Japan.

(3) Soda Ash, Caustic Soda and Chlorine Industry

(Defined as plants and establishments engaged in: (a) the production of soda ash including integrated facilities for the conversion of soda ash to caustic soda; and (b) the production of caustic soda and chlorine by the electrolytic process).

(a) Capacity to produce 500,000 metric tons of soda ash annually.

(b) Capacity to produce 282,500 metric tons of caustic soda annually, of which 200,000 metric tons should be produced from soda ash, and the remaining 82,500 metric tons by the electrolytic process.

(c) Capacity to produce 75,000 metric tons of chlorine annually by the electrolytic process.

(4) Nitric Acid Industry

(Defined as plants and establishments engaged in the production of nitric acid.

Capacity to produce 30,000 metric tons of nitric acid annually (as 100% acid).

(5) Calcium Carbide Industry

(Defined as plants and establishments engaged in the production of calcium carbide).

Capacity to produce 430,000 metric tons annually, provided that no facilities should be removed which are needed to achieve essential production of fertilizers in Japan.

FEC-RESTRICTEDg. Railway Equipment Industry

(Defined as plants and establishments primarily engaged in the production of steam, electric and diesel locomotives, passenger cars and freight cars.

Capacity to produce 255 steam, electric and diesel locomotives; 870 passenger cars; and 3,200 freight cars annually.

h. Thermal Electric Power Industry

(Defined as plants and establishments primarily engaged in the production of electric energy through the use of fuel as the basic energy source).

Capacity to produce and deliver to the line at the power plants an aggregate of 2,100,000 kilowatts.

i. Cement Industry

(Defined as plants and establishments engaged in the production of Portland cement, blast furnace cement and similar types of cement).

Capacity to produce 4,500,000 metric tons annually.

j. Steel Merchant Shipbuilding and Ship Repair Industry

(Defined as ship yards and docks, including all facilities, plants and establishments located within their confines, primarily engaged in the building, repair, or maintenance of steel ships over 100 gross registered tons).

(1) Capacity required to service a merchant fleet of

*3,000,000 gross tons (U. S. proposal)

*2,200,000 gross registered tons (Netherlands proposal)

and to build

*150,000 gross tons (U. S. proposal)

* 80,000 gross registered tons (Netherlands proposal)

of new shipping annually subject to the following limitations

(a) All facilities for building vessels of over

*3,000 light displacement tons (U.S. proposal)

*5,000 gross registered tons (Netherlands and U. K. proposal)

should be disposed of in accordance with paragraphs 5a and 6 of FEC-084/12.

(b) Immovable installations in yards made available for reparations claim, should be destroyed, except for buildings usable for other purposes.

(c) *Two 20,000 tons drydocks should be retained for purposes of servicing world shipping touching at Japanese ports. (U. S. proposal)

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*One drydock of 15,000 gross registered tons and two drydocks of 5,000 to 10,000 gross registered tons should be retained for purposes of servicing world shipping touching at Japanese ports. No other drydocks larger than 5,000 gross registered tons and no floating docks should be retained. (Netherlands proposal)

k. The Merchant Marine, Fishing, Whaling and Cannery Fleet

*(Defined as cargo vessels, passenger-cargo vessels and tankers of more than 100 gross tons including both wooden and steel ships). (U. S. proposal)

*(Defined as all vessels of more than 100 gross registered tons other than naval combatant vessels) (Proposal of majority of Subcommittee)

An aggregate of

- *2,000,000 gross tons (U. S. proposal)
- *2,000,000 gross registered tons of which not more than 150,000 gross registered tons should be tankers (Netherlands proposal)

subject to the limitation that all vessels of more than

*3,000 light displacement tons or with a maximum speed of more than 15 knots (U. S. proposal)

*5,000 gross registered tons or with a maximum speed of more than 15 knots (U. K. proposal)

*5,000 gross registered tons or with a maximum speed of more than 12 knots (Netherlands proposal)

should be disposed of in accordance with paragraphs 5a and 6 of FEC-084/12

l. The Oil Refining and Synthetic Fuel Industry and Storage.

(1) Synthetic Oil Industry

(Defined as plants and establishments engaged in the manufacture of liquid fuels from coal, whether by high-pressure hydrogenation, the Fischer-Tropsch process, or low-temperature carbonization.)

Nil, subject to the following limitation:

(a) Any machinery or equipment in such plants, which is suitable for use in the production of synthetic ammonia and which, in the judgment of SCAP, should be transferred for use in the production of synthetic ammonia for fertilizer manufacture, should be exempted from claim.

FEC-RESTRICTED(2) Petroleum Refining Industry

(Defined as plants and establishments for the processing of crude petroleum and alcohol (but excluding synthetic crudes derived from coal), including all straight run distillation plants and natural (casing-head) gasoline plants, thermal cracking units, vacuum distillation plants for the manufacture of ordinary and high grade lubricating oils, and iso-octane plants, including any isomerization, polymerization or alkylation equipment.)

Capacity to process 4,500,000 barrels of crude oil annually, of which not more than half should be in the Pacific Coast area.

(3) Oil Storage

(Defined as all tankage, whether surface or underground, connected with tank farms or refineries, used primarily for the storage of petroleum and petroleum products in bulk.)

Storage capacity of 5,000,000 barrels.

m. Synthetic Rubber Industry

(Defined as plants and establishments primarily engaged in the production of synthetic rubber.)

Nil.

n. Inventory of Metal Working Machinery(1) Machine Tools

(Defined as the existing stock in Japan of non-portable, power-driven machines designed to shape metal by the progressive cutting away of stock in the form of chips or shavings, or by abrasive action.)

A total inventory of 175,000 units of a balanced type-size.

3. *During the period in which this policy is in force, Japan should not be allowed to build ships of a size greater than 5,000 gross registered tons or a maximum speed greater than 12 knots. (Netherlands and U. K. proposal)

4. Coal Carbonization Industry

(Defined as plants and establishments primarily engaged in the production of high-temperature coke.)

Capacity related to the coke-consuming industries and made surplus by reductions in these industries should be disposed of in accordance with paragraphs 5a and 6 of FEC-084/12.

5. Automotive Industry

(Defined as plants and establishments primarily engaged in the manufacturing of engines and chassis of standard size

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passenger cars and trucks and in the assembly of finished vehicles of these types.)

In effecting the reduction in the inventory of machine tools under the terms of paragraph 2 n (1) above, special attention should be paid to reducing capacity in the automotive industry to a level no higher than is necessary to meet the peaceful needs of Japan.

6. Primary War Facilities

Those facilities, attached to primary war facilities as defined in paragraph 2a of FEC-084/12, which have been engaged in the production of military supplies essentially similar in character to such consumer goods as textiles, clothing, processed foods, fertilizers, fuels, pharmaceuticals and related and dependent industries should be retained in Japan, if in the judgment of the Supreme Commander for the Allied Powers they are needed to meet the peaceful needs of the Japanese people.

7. Industrial facilities not specified above but which are made superfluous because of reparations removals prescribed herein should be made available for reparations claim unless new essential peaceful uses for them can be found in Japan. Decisions as to availability of such facilities should be made by SCAP. In applying the policy in this paragraph special attention should be paid to facilities for the production of non-ferrous metals other than copper and nickel, abrasives and heavy electrical equipment^ø, and to the inventory of cutting tools and secondary metal working machinery, and any facilities in these industries not removed as reparations should be disposed of in accordance with paragraph 6 of FEC-084/12.

8. This policy taken in conjunction with FEC-084/12 supersedes the policies contained in FEC-059, -059/4, -059/6, -059/13, -059/15, -059/21, -059/29, -059/34, and FEC-083/5.

*Denotes proposals which the Subcommittee agreed to send forward without comment.

ø The majority of the Subcommittee had doubts as to the administrative feasibility of the following proposal but agreed to forward it to the Committee for consideration. If adopted, it would become paragraph 2. 6. and the words 'heavy electrical equipment' would be deleted above:

2. c. Heavy Electrical Equipment Industry

(Defined as generators above 5KVA, electric motors above 5 Hp, transformers above 5KVA and converters.)

Capacity to manufacture annually the following balanced type-size aggregate capacities:

Generators	450,000 KVA
Electric motors	225,000 hp
Transformers	1,800,000 KVA
Converters	60,000 KW

ENCLOSURE "D"Section IFinished Steel Consumed by the Japanese
Army and Navy in the 1930-1934 Period

(Submitted by Chinese Member of Subcommittee 2)

No adequate statistical data are available on military uses of steel by Japan during the 1930-1934 period. The Chinese member of the Subcommittee has made a study of the finished steel consumed by the Japanese Army and Navy in that period and has found that it is possible to arrive at an approximation by projection of the steel distribution figure for the years 1938 through 1943 as follows: (see table attached)

(a) It is assumed that steel distribution to the Army and Navy was in direct relation to their respective indices of ordnance production; this assumption is not unreasonable since ordnance production indices after 1938 do follow the same trend as the steel distribution. Therefore, in order to estimate pre-1938 steel distribution to the Army, the average quantity of steel distributed to the Army during the year 1938-1943 was compared with the average of Army ordnance production indices for the same period. With this ratio as a starting point, the steel distribution to the Army for the 1931-1937 period was estimated from the ordnance production indices for those years. (Column 3).

(b) Steel distribution to the Navy was projected in the same way, on the basis of naval ordnance production indices (Column 4).

The steel distribution figures for the Japanese Army and Navy derived by this method takes us only as far back as 1931, with the average annual consumption from 1931 to 1934 amounting to 192,600 metric tons. Since we know the active strength of Japanese armed forces from 1930 to 1937, we can easily interpolate the steel distribution figure for 1930 and obtain the figure of the average steel distribution to the Japanese Army and Navy in the 1930-1934 period approximately amounting to 180,000 metric tons annually, or 7.5% of the average annual total consumption.

The Chinese member regrets that he has failed to figure out the quantity of finished steel consumed by the Japanese Air Forces and that used for indirect war purposes, because of the lack of adequate information for such calculations, though he wishes to point out that in the paper "Proposed Amendment to C1-001, Presented by U. S. Delegate" the amount of steel used for direct and indirect war purposes was once estimated as not less than 25 per cent of the total consumption in the 1930-1934 period.

Year	Ordnance Production by years		Steel Distribution by Year 1,00 Metric Tons		
	(1) Army Adjusted Production Indices	(2) Navy Adjusted Production Indices	(3) Army	(4) Navy	(5) <u>Total</u>
1930	.....	.....	.....	.....	.....
1931	100	100.0	43.3	152.0	195.3
1932	117	52.6	50.7	79.9	130.6
1933	192	78.9	83.3	119.9	203.2
1934	206	100.0	89.3	152.0	241.3
1935	240	110.5	104.2	167.9	272.1
1936	281	126.3	122.7	191.9	314.6
1937	444	168.4	192.5	255.9	448.4
1938	1,020	210.5	433.5	593.8	1,027.3
1939	1,125	236.8	594.8	615.5	1,210.3
1940	1,440	321.1	716.3	760.3	1,476.6
1941	1,945	526.3	970.8	1,047.8	2,018.6
1942	2,350	826.3	891.5	1,122.3	2,013.8
1943	2,925	1,405.3	1,071.0	1,208.5	2,279.5
1931-1934	.....	.....	.....	.....	770.4
1938-43	10,805	3,526.3	4,677.9	5,348.2	.. .. .

Column (1): Taken from The Effects of Strategic Bombing on Japan's War Economy, Appendix Table C-153, prices for 1931-194 adjusted in accordance with wholesale price indices of the Bank of Japan. (National Income of Japan, p. 84, for 1931-1943, and The Effects of Strategic Bombing on Japan's War Economy, p. 96 for 1943.

Column (2): Taken from ibid., Appendix Table C-055, basic year changed from 1941 to 1931.

Columns (3 & 4): Figures after 1937 taken from ibid., Appendix Table C-24; Converted from a fiscal year to calendar year basis by assuming that steel distribution in any calendar year was approximately equal to 3/4 of quantities in the corresponding fiscal year plus 1/4 of those in the previous fiscal year, since the Japanese fiscal year runs from 1 April to 31 March.

SECTION II

ESTIMATED PRODUCTION JAPANESE OIL REFINERIES (IN BARRELS)

YIELDS IN VOLUME %

	Domestic crude	Persian Gulf crude full cracking	no cracking	Only Domestic crude	Domestic (max. cracking)	
TOTAL YEARLY INTAKE				2,300,000	3,000,000	4,000,000
TOTAL DAILY INTAKE) based on 300 working) days per year)				7,700	10,000	
Gasoline	14.0	40.0	20.0	322,000	602,000	1,200,000
Kerosene	13.0	10.5	12.5	299,000	372,500	700,000
Diesel oil	17.0	14.5	14.5	391,000	492,500	900,000
Fuel oil	20.0	20.0	45.0	460,000	600,000	1,200,000
Lube oil	16.0	-	-	368,000	368,000	700,000
Asphalt	5.0	-	-	115,000	115,000	200,000
Refinery fuel & loss	15.0	15.0	8.0	345,000	450,000	800,000
TOTAL	100.0	100.0	100.0	2,300,000	3,000,000	4,000,000

Enclosure "D"

SECTION II

JAPANESE OIL REFINERIES (IN BARRELS)

Only Domestic crude	Domestic plus Persian Gulf crude (max. cracking capacity 5200 bbl/day)				Estimated 1950 needs
	3,000,000	4,500,000	6,000,000	12,000,000	
2,300,000	3,000,000	4,500,000	6,000,000	12,000,000	
7,700	10,000	15,000	20,000	40,000	
322,000	602,000	1,202,000	1,712,000	2,912,000	5,200,000
299,000	372,500	530,000	696,500	1,446,500	
391,000	492,500	710,000	927,500	1,797,500	10,200,000
460,000	600,000	900,000	1,312,500	4,012,500	900,000
368,000	368,000	368,000	368,000	368,000	1,500,000
115,000	115,000	115,000	115,000	115,000	-
345,000	450,000	675,000	868,500	1,348,500	-
<u>2,300,000</u>	<u>3,000,000</u>	<u>4,500,000</u>	<u>6,000,000</u>	<u>12,000,000</u>	<u>17,800,000</u>

ESTIMATED IMPORT REQUIREMENTS IN 1950 (in bbls)

	Estimated 1950 consumption		T o b e i m p o r t e d	
Total yearly intake (bbls)		2,300,000	3,000,000	4,500,000
Total daily intake (bbls) based on 300 working days a year		7,700	10,000	
Gasoline	5,200,000	4,878,000	4,598,000	3,900,000
Kerosene/Diesel Oil	10,200,000	9,510,000	9,335,000	8,900,000
Fuel Oil	900,000	440,000	300,000	
Lube Oil/Asphalt	1,500,000	1,017,000	1,017,000	1,000,000
Persian Crude Oil	-	-	700,000	2,200,000
TOTAL	17,800,000	15,845,000	15,950,000	16,100,000

* Exports
 Ø Net imports

Enclosure "D"

ESTIMATED IMPORT REQUIREMENTS IN 1950 (in barrels)

T o b e i m p o r t e d				
2,300,000	3,000,000	4,500,000	6,000,000	12,000,000
7,700	10,000	15,000	20,000	40,000
4,878,000	4,598,000	3,998,000	3,488,000	2,288,000
9,510,000	9,335,000	8,960,000	8,576,000	6,956,000
440,000	300,000	-	- 412,500*	- 3,112,500*
1,017,000	1,017,000	1,017,000	1,017,000	1,017,000
-	700,000	2,200,000	3,700,000	9,700,000
<u>15,845,000</u>	<u>15,950,000</u>	<u>16,175,000</u>	<u>16,368,500</u> ∅	<u>16,848,500</u> ∅

SAVING IN IMPORTING PERSIAN CRUDE OIL INSTEAD OF FINISHED PRODUCTS
(BASED ON ESTIMATED 1950 CONSUMPTION)

	Product prices in U.S. \$		Cost of Imported	
	cif	Japan		
Total yearly intake (bbls)			2,300,000	3,000,000
Total daily intake (bbls) based on 300 working days a year			7,700	10,000
Gasoline	4.192		20,141	18,985
Kerosine/Diesel Oil	3.485		33,142	32,532
Fuel Oil	2.868		1,262	860
Persian Crude Oil	2.871		-	2,010
Aggregate Cost (excluding lube oil/asphalt)			54,545	54,387
Saving				158

* Omitting lubricating oil and asphalt the cost of which is unchanged throughout.
 Ø On the assumption that the proceeds of fuel oil exports are the same as the landed cost

Enclosure "D"

CRUDE OIL INSTEAD OF FINISHED PRODUCTS
(BASED ON 1950 CONSUMPTION)

Cost of Imported Products* (\$ U.S. 000)

300,000	3,000,000	4,500,000	6,000,000	12,000,000
7,700	10,000	15,000	20,000	40,000
20,141	18,985	16,508	14,402	9,447
33,142	32,532	31,226	29,887	24,242
1,262	860	-	- 1,183 ϕ	- 8,927 ϕ
-	2,010	6,316	10,623	27,849
54,545	54,387	54,050	53,729	52,611
	158	495	816	1,934

is unchanged throughout.
 are the same as the landed cost in Japan.

FEC-RESTRICTEDSECTION IIIGENERAL REMARKS BY THE NETHERLANDS MEMBER ON THE ADDITIONAL
COMMENTS ON LEVEL OF JAPANESE PETROLEUM REFINING INDUSTRY
BY THE UNITED STATES MEMBER
(ENCLOSURE B, para. 15 b (2))

"Data presented by the Netherlands representative confirm this conclusion" i.e. that retention in Japan of oil refinery capacity of 40,000 barrels per day would result in a substantial saving in foreign exchange. (page 14, 1st subpara., 2nd sentence)

According to the Netherlands calculations the saving in foreign exchange will not amount to more than \$2,000,000 in the case of shipping finished products from the West Coast of the U. S. A. However, when using the assumption made by the U. S. experts in their calculation (refined products will come largely from the N. E. I.) instead of a saving of foreign exchange, a loss of foreign exchange of over \$1,000,000 a year was calculated.

"Smaller saving shown in Netherlands data accounted for by use of lower prices for refined products and higher price for crude oil and a different schedule of yields of refined products." (page 14, 1st subpara. 3rd sentence)

Netherlands prices are based on actual costs in producing areas and actual costs for shipping both of which are regularly published in the U. S. A. The prices used in U. S. calculation are incorrect and show no proper relation to actual prices.

The Netherlands figures of yields for refinery products are more in line with actual conditions in Japan than the U. S. figures.

The basis for the calculation of a saving in foreign exchange in the U. S. proposal FEC-218/1 is therefore not in accordance with the facts, both as to the prices of products and to yields of products on crude oil.

"Figures for yields of refined products in FEC-218/1 were prepared by expert U. S. petroleum technologists who are familiar with the types of crude oil products in the Persian Gulf area and with Japanese refinery methods and practice." (page 14, 1st subpara., 4th sentence)

The U. S. experts have used in their calculations a cracking capacity three times as high as actually exists in Japan and have taken for refinery fuel and loss a figure of 11.3% on domestic crude as against 23.7% obtained under actual practice in 1946 and of 12 0% on Persian Gulf crude while Japanese estimates for 1947/8 for U. S. crudes in their best Pacific Coast refineries is 16.5%.

The Netherlands figures although still rather optimistic are in line with actual conditions in Japan.

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Because of considerable overlap in specifications, nomenclature and use of kerosene, diesel oil, gas-oil, fuel oil and heavy oil, it is not possible to make accurate estimates of the Japanese requirements of each of these products and therefore the products in this range have been grouped together. (page 14, 2nd subpara., first 3 sentences)

The oil experts of SCAP have made and are still making separate estimates for kerosene gas-oil, diesel oil and fuel oil consumption and when ordering these products apparently have no difficulty in knowing what they want.

Explanation to show that Netherlands statement, that Japan will have an exportable surplus of fuel oil for "1950" if the Japanese are permitted to refine 40,000 barrels a day, is not necessarily true. (page 14, remainder of 2nd subpara.)

The American estimate of 2,591,000 barrels of fuel oil in FEC-218/1 is based on an incorrect assumption for cracking capacity (three times as high as what exists at the moment).

The Netherlands figure of 4 million barrels is not "a very high estimate" but is an estimate based on existing cracking capacity.

Japan's requirements of fuel oil for the next 12 months are estimated by the Petroleum Advisory Group of the Area Petroleum Office of SCAP in February 1947 at 1,094,300 barrels as against an American figure in the present paper of 1,362,000 barrels.

According to the Petroleum Advisory Group, had the Japanese wished, they could have restricted their consumption to less than 12,600,000 barrels in 1934 without any serious effects on their over-all economy. This would correspond with a consumption of 15,000,000 barrels in "1950", instead of the U. S. estimate in FEC-218/1 of 17,800,000 barrels.

The above mentioned consumption of 1,094,300 barrels of fuel oil in the next 12 months includes 1,018,800 barrels of fuel oil for use in the steel industry where according to the PAG: "It is questionable whether the import of oil for this purpose will continue to be financed after coal-production has reached a more satisfactory level."

FEC-RESTRICTEDSECTION IVGENERAL REMARKS BY THE NETHERLANDS MEMBER ON THE ADDITIONAL
COMMENTS ON OIL STORAGE BY THE UNITED STATES
MEMBER (ENCLOSURE B, para. 15 c (2))

U. S. argument trying to show that a stock of 179 days supply is normal for the USA and that the ratio obtaining for the USA between tankage capacity and consumption is considered to be a reasonable ratio for any area of the world. (pages 15 & 16)

The table showing that the supply of all oils at the end of the year for the period 1925-'44 and 1931-'40 is 179 days supply shows other pertinent stocks which have to be taken in consideration. The table shows that the supply of crude oil at the end of the year for the period 1925-'44 was 109 days consumption, and for the period 1931-'40 106 days consumption. Therefore, the storage needed for finished products is only 70-73 days consumption. The figures give no reason to believe that bulk supplies held by distributors in the distribution system are excluded and the figures do include supplies for export and for military and naval use.

The export demand alone over that period is given by the U. S. member in his additional comments as 11.4% of the total supply.

The stocks of motor gasoline are given in the same book as 52 days consumption for the period 1921-'25 and 36 days for 1926-'30.

The logical conclusion by taking into account all figures and by not leaving out an important item like crude oil (which amounts to more than 60% of the total stocks and for which there would appear to be little need in a country like Japan, which produces practically no crude oil) is that the figure of 75-90 days storage on consumption proposed by the Netherlands member after consulting oil experts in Holland, London and the United States with long experience in the Far East is correct.

The statement of the Chief of the Petroleum Division of the U. S. Dept. of the Interior and the Director of the Oil & Gas Division of the Dept. of the Interior confirms the remarks of the Netherlands representative about excessive crude oil storage before the U. S. started to conserve the underground crude oil reserves and that therefore we should not go too far back when looking at U. S. stock figures. Stocks of all oils excluding crude but including exports and military and naval stocks were 69 and 54 days for the periods 1936-'40 and 1941-'44 respectively.

The question involved is, whether for a country like Japan a storage capacity of 75-90 days supply (Netherlands proposal) or 205 days supply (the U. S. proposal in FEC-218/1) is more reasonable. As mentioned above, even the U. S. figures if interpreted correctly prove the first to be the case. In this connection attention is drawn to the fact that the average storage in Japan in the period 1930-'36 was as follows:

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M o t o r G a s o l i n e

	total yearly consumption barrels	total stock barrels	total stocks in days total con- sumption
1930-1931 average	5,185,000	424,750	30
1935-1936 "	7,387,000	572,500	28
Estimated 1950 consumption Total 17,800,000 barrels of which	5,200,000		

D i e s e l O i l

	total yearly consumption barrels	total stock barrels	total stocks in days total con- sumption
1930-1931 average	9,492,000	369,750	14
1935-1936 "	14,316,000	571,000	14½
Estimated 1950 consumption Total 17,800,000 barrels of which	10,200,000		

FEC-RESTRICTEDSECTION VDETERMINATION OF ANNUAL REPLACEMENT CAPACITY OF
HEAVY ELECTRIC EQUIPMENT IN JAPANItem I. Generators(a) Hydro-electric plants

Present generation facilities in 1493 plants (NRS Report No. 39) have a total licensed capacity of 6,154,815 KW or 7,700,000 KVA or which 758 plants of less than 1000 KW each represent less than 5% of the total. The average capacity of the remaining 735 plans is 8000 KW or 10,000 KVA.

Based on a life expectancy of 25 years (Mark's Mechancial Engineers' Handbook) the required annual generator replacement capacity will be 4% or 7,700,000 or 308,000 KVA.

(b) Thermal Electric Plants

The retention of 2,100,000 KW or 2,630,000 KVA of thermal electric plant capacity is proposed in FEC-218.

Allowing an average life of 20 years to the generators (Mark's Mechancial Engineers' Handbook), the annual replacement capacity will be 5% of 2,630,000 or 131,500 KVA.

The total annual generator replacement requirements for the hydroelectric and thermal electric plants is 439,500 KVA, say 450,000 KVA.

Item II. Electric Motors

During the period 1930-34, the average number of motors installed was 153,800 with an aggregate rated horsepower of 3,150,000 (Factory Statistics).

Allowing for population increase, the total horsepower needed in 1950 will be 3,780,000.

Based on an average life expectancy of 16 years (Mark's Mechancial Engineers' Handbook) for electric motors the annual replacement horsepower needed will be 5.85% of 3,780,000 equals 222,000, say 225,000 hp.

Item III. Transformers

There are no available data on the total installed capacity of transformers in Japan. However, this figure can be estimated by considering the ratio of installed transformer capacity to the installed generating capacity.

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The total electric generating capacity proposed to be retained is 10,330,000 KVA about 25% of which represent thermal electric generating capacity and the rest hydroelectric. An examination of Japan's electric power grid systems (Civil Affairs Handbook Nos. 31-357, -358, -367, and -387) show that the ratio of transformer to generator capacity in the hydroelectric plant systems is 4. In the case of the thermal electric plants which are usually located near the load supplied, the ratio is 2. It may be assumed, therefore, that the overall transformer to generator capacity ratio is 3.5. The estimated installed transformer capacity is 3.5 times 10,330,000 KVA equals 36,000,000 KVA.

Based on an average life expectancy of 20 years (Fowle's Electrical Engineers' Handbook), the annual transformer replacement capacity required will be 5% of 36,000,000 or 1,800,000 KVA.

Item IV. Converters

There are no available data on the installed capacity of converters in Japan. Neither are there any information regarding direct current consumption of the different industries requiring this type of electric energy. It is believed that a large portion of the direct current power requirements of Japan, especially for its electric railways, electrolytic equipment, etc. is handled by mercury-arc rectifiers and that no more than 15% of the total generating capacity to be retained, or 1,200,000 KW, represents the installed converter capacity.

Assigning a life expectancy of 20 years to converters, the annual replacement capacity required will be 5% of 1,200,000 or 60,000 KW.

FEC-058/13RESTRICTEDFEC-058/135 May 1947FAR EASTERN COMMISSIONLEVEL OF ECONOMIC LIFE IN JAPAN:
PRELIMINARY STUDY OF JAPANESE REQUIREMENTS
IN THE PRIME MOVER INDUSTRY, 1950Note by the Secretary General

1. The enclosure, a preliminary United States study of estimated Japanese peacetime requirements in the prime mover industry in 1950, is submitted by the United States Representative for the information of the Far Eastern Commission, and is referred to COMMITTEE NO. 2: ECONOMIC AND FINANCIAL AFFAIRS.

2. The United States Representative wishes to draw attention to the fact that any conclusions presented in this study have been formulated within the terms of reference indicated in the foreword and do not represent statements of United States policy.

3. Due to the limited number of copies available only three copies of the enclosure can be furnished each delegation.

HELSON T. JOHNSON
Secretary General

FEC-058/13

FEC-058/12RESTRICTEDFEC-058/125 May 1947FAR EASTERN COMMISSIONLEVEL OF ECONOMIC LIFE IN JAPAN:
PRELIMINARY STUDY OF JAPANESE REQUIREMENTS
IN THE RUBBER INDUSTRY, 1950Note by the Secretary General

1. The enclosure, a preliminary United States study of estimated Japanese peacetime requirements in the rubber industry in 1950, is submitted by the United States Representative for the information of the Far Eastern Commission, and is referred to COMMITTEE NO. 2: ECONOMIC AND FINANCIAL AFFAIRS.

2. The United States Representative wishes to draw attention to the fact that any conclusions presented in this study have been formulated within the terms of reference indicated in the foreword and do not represent statements of United States policy.

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Secretary General

FEC-058/12

FEC-058/11RESTRICTEDFEC-058/1122 April 1947FAR EASTERN COMMISSIONLEVEL OF ECONOMIC LIFE IN JAPAN: PRELIMINARY STUDY
OF JAPANESE REQUIREMENTS IN THE SHIPPING AND
SHIPBUILDING INDUSTRY, 1950Note by the Secretary General

1. The enclosure, a preliminary United States study of estimated Japanese peacetime requirements in the shipping and shipbuilding industry in 1950, is submitted by the United States Representative for the information of the Far Eastern Commission, and is referred to COMMITTEE NO. 2: ECONOMIC AND FINANCIAL AFFAIRS.

2. The United States Representative wishes to draw attention to the fact that any conclusions presented in this study have been formulated within the terms of reference indicated in the foreword and do not represent statements of United States policy.

3. Due to the limited number of copies available only three copies of the enclosure can be furnished each delegation.

NELSON T. JOHNSON
Secretary General

FEC-058/11

FEC-058/10RESTRICTEDFEC-058/1024 February 1947FAR EASTERN COMMISSIONLEVEL OF ECONOMIC LIFE IN JAPAN:
SUMMARY ESTIMATE OF FOREIGN TRADE BALANCE OF JAPAN IN 1950Note by the Secretary General

1. The enclosure, a preliminary United States study of the foreign trade balance of Japan in 1950, is submitted to the United States Representative for the information of the Far Eastern Commission, and is referred to COMMITTEE NO. 2: ECONOMIC AID FINANCIAL AFFAIRS.

2. The United States Representative wishes to draw attention to the fact that any conclusions presented in this study have been formulated within the terms of reference indicated in the foreword and do not represent statements of United States policy.

3. Due to the limited number of copies available only five copies of the enclosure can be furnished each delegation.

NELSON T. JOHNSON
Secretary General

FEC-058/10

FEC-058/9RESTRICTEDFEC-058/920 January 1947FAR EASTERN COMMISSIONLEVEL OF ECONOMIC LIFE IN JAPAN:
PRELIMINARY STUDY OF JAPANESE
REQUIREMENTS IN THE ROLLING STOCK INDUSTRY, 1950Note by the Secretary General

1. The enclosure, a preliminary United States study of estimated Japanese peacetime requirements in the rolling stock industry in 1950, is submitted by the United States Representative for the information of the Far Eastern Commission, and is referred to COMMITTEE NO. 2: ECONOMIC AND FINANCIAL AFFAIRS.

2. The United States Representative wishes to draw attention to the fact that any conclusions presented in this study have been formulated within the terms of reference indicated in the foreward and do not represent statements of United States policy.

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Secretary General

FEC-058/9

FEC-058/8RESTRICTEDFEC-058/810 January 1947FAR EASTERN COMMISSIONLEVEL OF ECONOMIC LIFE IN JAPAN:
PRELIMINARY STUDY OF JAPANESE
REQUIREMENTS IN THE ELECTRICAL EQUIPMENT INDUSTRY, 1950Note by the Secretary General

1. The enclosure, a preliminary United States study of estimated Japanese peacetime requirements in the electrical equipment industry in 1950, is submitted by the United States Representative for the information of the Far Eastern Commission, and is referred to COMMITTEE NO. 2: ECONOMIC AND FINANCIAL AFFAIRS.

2. The United States Representative wishes to draw attention to the fact that any conclusions presented in this study have been formulated within the terms of reference indicated in the foreword and do not represent statements of United States policy.

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Secretary General

FEC-058/8

Return to Mr. Trappanier

FEC-058/7

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FEC-058/7

12 December 1946

FAR EASTERN COMMISSION

LEVEL OF ECONOMIC LIFE IN JAPAN: PRELIMINARY STUDY
OF JAPANESE REQUIREMENTS IN THE IRON AND STEEL
INDUSTRY, 1950

Note by the Secretary General

1. The enclosure, a preliminary United States study of estimated Japanese peacetime requirements in the iron and steel industry in 1950, is submitted by the United States Representative for the information of the Far Eastern Commission, and is referred to COMMITTEE NO. 2: ECONOMIC AND FINANCIAL AFFAIRS.
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FEC-058/6

15 November 1946

FAR EASTERN COMMISSION

LEVEL OF ECONOMIC LIFE IN JAPAN:
PRELIMINARY STUDY OF JAPANESE
REQUIREMENTS IN THE MISCELLANEOUS MACHINERY INDUSTRY, 1950

Note by the Secretary General

1. The enclosure, a preliminary United States study of estimated Japanese peacetime requirements in the miscellaneous machinery industry in 1950, is submitted by the United States Representative for the information of the Far Eastern Commission, and is referred to COMMITTEE NO. 2: ECONOMIC AND FINANCIAL AFFAIRS.

2. The United States Representative wishes to draw attention to the fact that any conclusions presented in this study have been formulated within the terms of reference indicated in the foreword and do not represent statements of United States policy.

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15 November 1946

FAR EASTERN COMMISSION

LEVEL OF ECONOMIC LIFE IN JAPAN:
PRELIMINARY STUDY OF JAPANESE
REQUIREMENTS IN THE MACHINE TOOL INDUSTRY, 1950

Note by the Secretary General

1. The enclosure, a preliminary United States study of estimated Japanese peacetime requirements in the machine tool industry in 1950, is submitted by the United States Representative for the information of the Far Eastern Commission, and is referred to COMMITTEE NO. 2: ECONOMIC AND FINANCIAL AFFAIRS.

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15 November 1946

FAR EASTERN COMMISSION

LEVEL OF ECONOMIC LIFE IN JAPAN:
PRELIMINARY STUDY OF JAPANESE
REQUIREMENTS IN THE PETROLEUM INDUSTRY, 1950

Note by the Secretary General

1. The enclosure, a preliminary United States study of estimated Japanese peacetime requirements in the petroleum industry in 1950, is submitted by the United States Representative for the information of the Far Eastern Commission, and is referred to COMMITTEE NO. 2: ECONOMIC AND FINANCIAL AFFAIRS.

2. The United States Representative wishes to draw attention to the fact that any conclusions presented in this study have been formulated within the terms of reference indicated in the foreword and do not represent statements of United States policy.

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15 November 1946

FAR EASTERN COMMISSION

LEVEL OF ECONOMIC LIFE IN JAPAN:
PRELIMINARY STUDY OF JAPANESE
REQUIREMENTS IN THE POTTERY AND PORCELAIN INDUSTRY, 1950

Note by the Secretary General

1. The enclosure, a preliminary United States study of estimated Japanese peacetime requirements in the pottery and porcelain industry in 1950, is submitted by the United States Representative for the information of the Far Eastern Commission, and is referred to COMMITTEE NO. 2: ECONOMIC AND FINANCIAL AFFAIRS.

2. The United States Representative wishes to draw attention to the fact that any conclusions presented in this study have been formulated within the terms of reference indicated in the foreword and do not represent statements of United States policy.

3. Due to the limited number of copies available only two copies of the enclosure can be furnished each delegation.

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NELSON T. JOHNSON
Secretary General

FEC-058/3

RESTRICTEDFEC-058/215 November 1946FAR EASTERN COMMISSIONLEVEL OF ECONOMIC LIFE IN JAPAN:
PRELIMINARY STUDY OF JAPANESE
REQUIREMENTS IN THE CEMENT INDUSTRY, 1950Note by the Secretary General

1. The enclosure, a preliminary United States study of estimated Japanese peacetime requirements in the cement industry in 1950, is submitted by the United States Representative for the information of the Far Eastern Commission, and is referred to COMMITTEE NO. 2: ECONOMIC AND FINANCIAL AFFAIRS.

2. The United States Representative wishes to draw attention to the fact that any conclusions presented in this study have been formulated within the terms of reference indicated in the foreword and do not represent statements of United States policy.

3. Due to the limited number of copies available only two copies of the enclosure can be furnished each delegation.

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FEC-058/1

15 November 1946

FAR EASTERN COMMISSION

LEVEL OF ECONOMIC LIFE IN JAPAN:
PRELIMINARY STUDY OF JAPANESE
REQUIREMENTS IN THE GLASS INDUSTRY, 1950

Note by the Secretary General

1. The enclosure, a preliminary United States study of estimated Japanese peacetime requirements in the glass industry in 1950, is submitted by the United States Representative for the information of the Far Eastern Commission, and is referred to COMMITTEE NO. 2: ECONOMIC AND FINANCIAL AFFAIRS.

2. The United States Representative wishes to draw attention to the fact that any conclusions presented in this study have been formulated within the terms of reference indicated in the foreword and do not represent statements of United States policy.

3. Due to the limited number of copies available only two copies of the enclosure can be furnished each delegation.

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NELSON T. JOHNSON
Secretary General

FEC-058/1

FEC 058

10 May 1946

FAR EASTERN COMMISSION

POLICY TOWARDS JAPANESE INDUSTRY

Note by the Secretary General

1. The enclosure, a United Kingdom proposal of policy towards Japanese industry, submitted by the United Kingdom Representative, is circulated herewith for the information of the Far Eastern Commission and is referred to COMMITTEE NO. 2: ECONOMIC AND FINANCIAL AFFAIRS for consideration.

2. Appendix "B" is the letter of transmittal to the Secretary General.

NELSON T. JOHNSON
Secretary General

FEC 058

E N C L O S U R EPOLICY TOWARDS JAPANESE INDUSTRY

1. Consideration is given here to the amounts of consumption, foreign trade and production which, it is believed, would constitute a restricted but reasonable level for the Japanese economy in an early normal post-war year. The basic postulates are these:-

a. a diet, roughly the equivalent of Japan's wartime diet, that is, 1,845 calories compared with a 1936 diet of 2,140 calories;

b. a clothing ration of 3 lb. per head, plus such silk as she is able to produce in addition to that which she can sell abroad; this ration is about three-fifths of the present United Kingdom clothing ration;

c. a consumption of steel at the level of the early thirties; as the population was then considerably smaller than at present, this represents a reduction in tonnage per head, but probably no reduction in that used for civil purposes. The steel consumption is put at 3.5 million ingot tons, or 3.7 million tons if Japan is allowed to possess a shipbuilding industry for the construction of ocean-going ships.

It should be emphasised that these estimates are not intended to suggest that Japan's consumption is to be kept down permanently to these levels. What happens in that respect will depend upon her economic efficiency and on the opportunities for foreign trade which the post-war world affords her, as well as on the policy which the United Nations pursue towards her industries. The level suggested is the level which it would seem reasonable for her to have in, say, five years' time in view of the claims of other nations which have been her victims.

2. The estimated imports and exports needed to enable these levels to be attained are set out in tabular form in Appendix A. The chief items of essential imports are food, textile fibres, fertilizers, oil, metals and ores and chemicals, to list them in order of importance. The chief items of exports are textile manufactures, raw silk, finished metal manufactures and pottery,

whilst a considerable amount of miscellaneous exports from indigenous and imported materials have been allowed for. The tabular statement shows a deficiency in Japan's balance of payments of 50 million yen. This is a comparatively small deficiency which it might be possible to reduce substantially by an increase in exports of highly-finished metal products and miscellaneous goods. Alternatively, if Japan were to devote a high proportion of her metal and engineering resources to the reconstruction of her textile plants, and if she were to succeed, for instance in doubling her present capacity in cotton spinning which would permit production at just over one half of the 1936 level (instead of just over one quarter as at present), a task which is not impossible of achievement, she could probably cover the deficit by additional exports of cotton piece-goods. This would mean an increase in her exports of these manufactures to 340 million yen, compared with 240 million yen as shown in Appendix A, and an increase in her imports of raw cotton of 50 million yen. Cotton piece goods valued at 340 million yen would represent about 1,900 million square yards (at 1936 prices) which may be compared with an export of 2,700 million square yards in 1936.

3. The principles which, it is suggested, should govern the framing of measures designed to limit Japan's war potential are:-

a. The effect of the restrictions or prohibitions should be to make the production of important warlike goods impossible during the period in which the restrictions are rigidly enforced, and also, as far as possible to impede any effort on the part of Japan to rebuild a war potential if the restrictions should be removed or should become for some reason or other unenforceable.

b. The restrictions or prohibitions should be capable of rigid enforcement over a long period without requiring an elaborate system of control or supervision by the United Nations. Restrictions which can easily be evaded, or those which public opinion among the United Nations in ten years' time may cease to regard as justified, are therefore to be avoided.

c. The restrictions or prohibitions should be limited, as far as is consistent with the realization of security, to those which the less bellicose members of the Japanese ruling class could accept as being reasonable in the light of Japan's past record, and which they can be expected to defend against attack from the surviving militarists; in other words, these measures should not be destructive of all hopes of material progress, and should cause as little permanent damage to the Japanese economy and as little irritation to the Japanese people as is consistent with the realization of security.

4. The restrictive measures necessary to confer security from Japanese aggression are prima facie very different from those required for Germany, which is richer in industrial raw materials and can obtain easy access to supplies of materials across her long land frontiers. In the case of Japan the requirements of security can, it is thought, be much more readily satisfied by control over imports than in the case of Germany, while that form of control can at the same time be more easily made effective. One means of doing this is by a prohibition of the means of movement (i.e. possession or control of ships and aeroplanes) which would at once deprive Japan of an essential means of making war and because both her imports and exports would have to be carried in foreign ships, provide a check upon the nature of her industrial activity.

5. Industries that should be the object of security measures fall into three groups:-

a. those which Japan required solely or mainly for warfare over which it is possible to impose an effective prohibition for an indefinite period ahead;

b. those which are necessary for warfare although they form an essential part of a peacetime economy, and which it is possible to restrict to a given level of output without a cumbersome system of control;

c. those which conform to the definition under b above, except that it is not considered possible to restrict their production to any given amount without an elaborate system of control.

6. The application of the following measures of prohibition or restrictions in the interests of security is recommended:-

a. - Prohibition of production for an indefinite period,

(1) Aircraft, including civil aircraft and gliders, aircraft engines and jet propulsion units; the spare parts of these.

(2) Alumina and aluminium.

(3) Magnesium

(4) Explosives of all types, all types of armaments, warships, bombs and ammunition, guns and rifles, war gases in finished or intermediate forms, rockets.

(5) Synthetic oil

(6) Synthetic rubber

It is further recommended that the ownership or operation of aircraft (including gliders) in Japan should be forbidden to the Japanese for an indefinite period, and that the employment of Japanese as pilots or as workers in aircraft factories in other countries should be forbidden by international agreement. Plants for the manufacture of all ultra-shortwave radio equipment (radar) should be made available for destruction or transference elsewhere, and the manufacture of these products should be prohibited if efficient means for doing so can be devised. Limits should be placed on the import of aluminium ingots in order to prevent Japan from accumulating stocks of this metal.

b. - Reduction of capacity or supply, and restrictions on subsequent expansion of capacity or production beyond fixed ceiling.

(1) Iron and Steel.- Japan's consumption of steel to be limited to 3.5 million ingot tons per year (or 3.7 million tons if Japan is to be allowed to build ocean-going ships; This would allow the construction of 400,000 tons of shipping per annum). An output of this size would provide only a slender basis for the development of war industries, unless wars in the future become strikingly different from wars in the past. From the standpoint of administration, control would be comparatively easy to enforce, since iron and steel plants in the primary branches of the industry are very large.

(2) Oil refining and storage. Refining capacity in excess of that needed to refine the small home production of crude oil to be dismantled. No capacity for manufacturing high octane products to be retained, and the refining industry to be restricted to the use of the straight distillation process. Storage capacity to be removed to the extent of leaving Japan with capacity equivalent to not more than three months' supplies, at an estimated rate of consumption of 2 million tons a year. The capacity to be removed should consist in the first instance of underground storage, and control should be imposed over the geographical distribution of storage capacity with the effect that that capacity is located in the neighbourhood of a few of the chief ports. These recommendations would impose on Japan the necessity of importing refined, instead of crude, oil and so would increase the demands on her foreign exchange resources. The imposition of these controls is, however, justified because of the great importance of oil as a munition of war.

c. - Reduction of capacity to amount required to meet domestic peacetime needs, but no restriction on subsequent development, except such as may result indirectly from the controls over iron and steel consumption.

(1) Railway locomotives and wagons, motor vehicles and tyres.

(2) Machine tools

(3) Copper smelting

(4) Coal carbonization

(5) Certain branches of chemicals, viz., nitric acid, carbide, sulphuric acid, chlorine and caustic soda.

It is believed that, in view of the restrictions already suggested even a considerable growth of these industries would not present a serious danger to security. Secondly, it is believed that, given the level of steel consumption prescribed it would be difficult for Japan to build quickly additional plants for these industries and greatly to enlarge her output of engineering goods. Thirdly, it is believed that, without an elaborate system of supervision, it would be impossible by direct measures of control to ensure that any ceiling on production was adhered to in these industries.

7. No recommendation is made for the removal of synthetic ammonia capacity. Although this is important in war, Japan requires a high production of synthetic ammonia for fertilizers

8. The proposals put forward in the preceding paragraphs would require an assessment of the amount of capacity surplus to Japanese peace-time requirements and the identification of the plants to be transferred or destroyed. These tasks should be discharged as soon as possible and certainly during the period of occupation.

9. Machinery of Control.

Permanent machinery will be needed for the enforcement of the proposed prohibitions and restrictions, including the control of imports of certain commodities such as aluminium ingots, iron ore, scrap iron, coking coal and oil.

Recommendations are made for the following:

a. a small staff of inspectors in Japan, who would have the right of entering buildings where it is suspected that a breach of the prohibitions or restrictions is occurring and the duty of reporting any such breach to the United Nations Organization;

b. arrangements for making a periodical aerial reconnaissance of Japan for the purpose of detecting any suspicious activities;

c. a staff of United Nations representatives located at the chief ports and attached to the Japanese customs administration;

d. United Nations staff to supervise the exchange control system.

10. Attention is drawn to the case of machine tools, for which the recommendation is reduction of capacity to the amount required to meet domestic peacetime needs, as under category c of paragraph 6 above. His Majesty's Government have considered a proposal that the manufacture of heavy and specialized machine tools should be prohibited indefinitely, and have investigated how such a measure could be applied. It appears that since such a prohibition would have to be applied uniformly to tools over a certain weight, it would have a serious effect on civilian industry and would make it impossible for Japan to attain the level of peacetime economy postulated in paragraph 1. Enforcement over a long period would, moreover, not be practicable. No such prohibition is therefore recommended.

11. The effects on the Japanese economy of the measures listed in paragraph 6 above have been studied. It is concluded that the loss of the industries to be eliminated will have a negligible effect on Japan's peacetime economy. (though, of course, this takes no account of any earnings that Japan might have made from exports of munitions).

The reduction of capacity in certain industries that have been swollen by wartime demands to the amount needed for peacetime production (at about the 1936 level) will, in some cases, deprive Japan of the opportunity of developing quickly a large export trade in certain products, but it will not make her worse off than she was before the period of war preparation. The ceiling to be imposed on steel consumption will have a similar effect, although in this case it will permit a fairly large export trade in metal goods, and the restrictions on oil refining will add slightly to Japan's foreign exchange difficulties. These prohibitions and restrictions taken together will not prevent Japan from attaining the levels of imports and consumption postulated in paragraphs 1 and 2 nor will they prevent her from raising those levels after a period of years.

12. It has not been thought necessary to deal in this paper with the question of short period controls to compel the Japanese to do their part in relieving world shortages in certain classes of goods during the next two or three years.

APPENDIX "B"STATEMENT OF IMPORTS AND EXPORTS
FOR AN EARLY NORMAL POST-WAR YEAR.

(Value in million yen at 1936 prices)

<u>Imports</u>		<u>Exports</u>	
Food.....	390	Raw silk.....	105
Fertilizer.....	160	Silk tissues.....	50
Textile fibres, in- cluding rayon plup.....	350	Tea.....	15
Metals and ores.....	75	Rayon piece-goods.....	150
Other Minerals.....	25	Cotton piece-goods.....	240
Mineral Oil.....	80	Woolen and worsted piece-goods.....	95
Chemicals and Chemical Material, including salt.....	30	Canned fish.....	20
Rubber.....	30	Coal.....	30
Dyes and pigments	10	Gold.....	75
Hides and skins	15	Cement.....	25
Machinery, Vehicles, instruments.....	20	Pottery and Glass.....	80
Miscellaneous goods.....	50	Pharmaceuticals.....	20
Miscellaneous Services... ..	30	Dyestuffs.....	20
		Toys.....	40
		Metal goods, including machinery	130
		Matting.....	10
		Timber and Plywood.....	10
		Plants, Animals.....	10
		Rubber Goods	20
		Miscellaneous, including services	70
			1,215
		Deficit	50
	1,265		1,265

Note

The assumption has been made in the above table that Japan has no ocean-going mercantile marine.

APPENDIX "B"

British Embassy

Washington 8, D. C.

May 9th, 1946

Dear Mr. Johnson,

On the instructions of my government I am sending you herewith a paper entitled, "Policy Towards Japanese Industry", in which are stated the considered views of His Majesty's Government as to the volume of industrial activity, consistent with security, which may be permitted to Japan in an early, normal, post-war year.

I should be grateful if you would have this paper circulated and placed on the agenda of the appropriate committee of the Commission.

Yours sincerely,

H. A. Graves

The Honourable Nelson T. Johnson,
Secretary General,
Far Eastern Commission,
Room 104, 2516 Massachusetts Avenue,
Washington, D. C.

FEC-320/7

FEC-RESTRICTED

FEC-320/7

9 December 1948

FAR EASTERN COMMISSION

SOVIET PROPOSAL REGARDING LEVEL OF ECONOMIC LIFE IN JAPAN
(References: 320 series; FEC-084/21)

Note by the Secretary General

The Far Eastern Commission, at its 131st meeting, 9 December 1948, voted on the proposed policy decision submitted by the Soviet representative in FEC-320/1 and the proposal was lost by 1 (U.S.S.R.) in favor to 10 opposed.

NELSON T. JOHNSON
Secretary General

FEC-320/7

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FEC-320/5FEC-RESTRICTEDFEC-320/518 November 1948FAR EASTERN COMMISSION

SOVIET PROPOSAL REGARDING LEVEL OF ECONOMIC LIFE IN JAPAN
Australian Statement
(References: 320 series; 242 series)

Note by the Secretary General

1. The enclosure, a statement regarding the Soviet proposals (FEC-320, FEC-320/1) on level of economic life in Japan, was presented by the Australian Representative at the 128th meeting of the Commission, 18 November 1948, and is circulated herewith for the consideration of the FAR EASTERN COMMISSION.
2. Remarks on the Soviet proposals which were made at the same meeting by the Canadian Representative are recorded in the minutes of the 128th meeting of the Far Eastern Commission.

NELSON T. JOHNSON
Secretary General

FEC-320/5

FEC-RESTRICTEDE N C L O S U R ESOVIET PROPOSAL REGARDING LEVEL OF ECONOMIC LIFE IN JAPAN
Australian Statement

The Soviet proposal draws attention to certain very important questions concerning the economic demilitarisation of Japan. This proposal and the subsequent explanations which have been given by the Soviet Ambassador have been studied with great interest.

It may be useful to restate in clear terms the general position on the economic disarmament of Japan which Australia has consistently held. The Potsdam Declaration states that "Japan shall be permitted to maintain such industries as will sustain her economy and permit the exaction of just reparations in kind but not those which would enable her to rearm for war". The Far Eastern Commission has been endeavouring for almost three years to formulate detailed policies which would translate this principle into effect. The underlying assumption of the Far Eastern Commission's work in this respect has always been that a large part of Japan's industry was never used to satisfy the peaceful needs of the Japanese people. Much of it was, in fact, deliberately built up for war purposes in the period immediately prior to Japanese aggression. The Australian Government has consistently supported the principle that this excess capacity should be removed from Japan as a security measure and distributed as reparations. In this connection certain important policy decisions of the Far Eastern Commission have already been passed. In particular I refer to the Basic Post Surrender Policy (FEC-014/9), "Determination of Japan's Peaceful Needs" (FEC-106/1) and "Reduction of Japan's Industrial War Potential" (FEC-084/21).

FEC-084/21 was passed by the Far Eastern Commission more than a year ago. We would agree entirely with the statement of the Soviet Ambassador at the 122nd meeting of the Commission that at the present time the task of the allies is to ensure that FEC-084/21 is completely fulfilled. That part of FEC-084/21, however, which relates to war-supporting industries cannot be implemented by the Supreme Commander until a further decision has been made by the Far Eastern Commission which will state specifically the amount of capacity in certain war-supporting industries which is essential to satisfy Japan's peaceful needs and may therefore remain in Japan. An earnest and painstaking attempt has been made to do this in document FEC-242/32. Some decision on this document is long overdue.

We note from the explanation of the Soviet Ambassador that he understands the term peaceful industries to mean all facilities and industries other than those defined in FEC-084/21 as primary war facilities, and secondary war facilities or enumerated in the category of war supporting industries. On this understanding we fully endorse the principle that there should be no limitations imposed upon the development of peaceful industries. This is of course a view which the Australian Government has long held. It would be a great mistake through motives of vindictiveness to depress the standards of the Japanese people unnecessarily. Mass unemployment, low standards of living, malnutrition, economic instability and social unrest cannot be confined to any one country; they tend to spread to others. In the circumstances, however, it would seem superfluous to make the question of Japan's peaceful industries the subject of a specific policy decision.

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The principle advanced by the Soviet delegation regarding peaceful industry follows directly from our existing policy decisions and there is no proposal in the Far Eastern Commission to the contrary. It would be unfortunate in any case to give priority to consideration of this question over attempts to reach decisions on those industries which we have all agreed in principle in FEC-084/21 form part of Japan's industrial war potential. Until the FEC has reached some decision on FEC-242/32 the FEC will not have discharged its most important responsibility. Regarding the first part of Soviet proposal in para 2 we endorse the broad principle that the revival and creation of Japanese war industry should be prohibited. However in order for a policy to be implemented by the Supreme Commander the term "war industry" requires a process of very precise definition. It is this very problem which has engaged the attention of the Far Eastern Commission almost from its inception. The terms have been precisely defined and agreed to by the Far Eastern Commission in policy decision FEC-084/21. In view of the latest explanation by the Soviet Ambassador we understand that no change in the principles agreed to in FEC-084/21 is intended. We are naturally prepared to give full consideration to any reasons which the Soviet Ambassador may wish to advance. But without a fuller explanation as to why it is necessary it would seem to be a retrograde step to restate in vague terms our existing precise policy decisions.

Regarding the second part of the Soviet proposal in para 2 the Australian Government is also of the opinion that provision should be made in the peace treaty with Japan for control over key imports and comprehensive powers of inspection by allied officials to provide against future Japanese aggression. This however is a matter for decision by the peace conference. We note from various explanations which have been given by the Soviet Ambassador that he too considers that this part of his proposal relates to the peace treaty. In view of the fact that the Far Eastern Commission is charged at present only with the responsibility for formulating policies for the period of the occupation it is not clear to our delegation what would be the reason for or the effect of the Far Eastern Commission passing such a policy decision at this time.

FEC-320/6FEC-RESTRICTEDFEC-320/66 December 1948FAR EASTERN COMMISSIONSOVIET PROPOSAL REGARDING LEVEL OF
ECONOMIC LIFE IN JAPANSoviet Statement

(References: 320 series; 242 series)

Note by the Secretary General

1. The enclosure, a statement regarding the Soviet proposals (FEC-320, FEC-320/1) on level of economic life in Japan, was presented by the Soviet representative at the 130th meeting of the Commission, 2 December 1948, and is circulated herewith for the consideration of the FAR EASTERN COMMISSION.
2. Remarks on the Soviet proposals which were made at the same meeting by the Indian representative are recorded in the minutes of the 130th meeting of the Far Eastern Commission.

NELSON T. JOHNSON
Secretary General

FEC-320/6

FEC-RESTRICTEDE N C L O S U R ESOVIET PROPOSAL REGARDING LEVEL OF
ECONOMIC LIFE IN JAPAN
Soviet Statement

In his statement of November 11, Mr. McCoy, the United States representative, pointed out that the adoption by the Far Eastern Commission of the Soviet proposals of September 23 regarding the level of Japan's industrial development, allegedly, would serve no useful purpose and would only reiterate Far Eastern Commission and Allied policy decisions of long standing. He also pointed out that the above-mentioned statement of the Soviet representative, allegedly, touched upon a question which was in part beyond the competence of this Commission. As a basis for such assertions, the United States representative referred to his statement in the Far Eastern Commission on January 21, 1948.

Such an assertion of the United States representative does not correspond to the actual situation. Acquaintance with the Soviet proposals of September 23 as well as with the United States representative's statement of January 21 shows that there is a substantial difference between them.

In the above-mentioned statement of the United States representative reference is made to the necessity of the revival of the Japanese economy on a peaceful and "self-supporting" basis, but nothing is said of the necessity to bring about an unhampered development of Japan's peaceful industry and the prevention of the development of Japan's war industry, nor is mention made of the establishment of an appropriate control for the purpose of achieving this objective. Meanwhile, it is these questions, which are principal, that constitute the substance of the Soviet proposal.

It is known that the first paragraph of the Soviet proposals provides for the necessity of unhampered development of Japan's peaceful industry which seeks to satisfy the needs of the Japanese population as well as of the development of export in accordance with the needs of Japan's peaceful economy. The Far Eastern Commission has not yet expressed its definite opinion on this matter. Meanwhile, it is necessary that everyone in Japan know that no limitations will be placed on the development of Japan's peaceful industry.

The second paragraph of the Soviet proposals provides for the prohibition of the revival and creation of Japan's war industry and the establishment for this purpose, for a period of several years, of a control over the fulfillment of this decision, to be exercised by the Allied powers most interested in preventing a new Japanese aggression. The Far Eastern Commission has not expressed its opinion on this matter. In the United States representative's statement of January 21 the idea of prohibiting Japanese war industry is also absent and it does not raise the question of an appropriate control. Meanwhile, all peace-loving peoples are interested in preventing Japan's revival as an aggressive power, but for this end a prohibition should be imposed upon the revival of war industries in Japan and an appropriate control should be established for this purpose.

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Thus, the Soviet proposals not only raise the question of the necessity to secure the development of Japanese peaceful industry and to prevent the development and creation of war industry in Japan but also provide that no limitations whatsoever should be placed upon the development of Japan's peaceful industry. As is known, nothing of this kind appears in the statements of the United States representative.

One wonders what foundations has the United States representative to assert that the Soviet proposals, allegedly, reiterate already established policy of the Far Eastern Commission and the policy pursued by the United States Government in respect to Japan? There are no foundations whatsoever for this assertion. The assertion of the United States representative that in his statement of January 21 he had already made proposals on the question of Japan's economic development similar to the proposals set forth in the Soviet statement of September 23, is absolutely unfounded.

Indeed, should the situation be such as asserted by the United States representative, and the United States position coincide with the Soviet proposals and, consequently, the policy pursued by the United States in respect to Japan's economy coincide with the objectives provided for by the Soviet proposals, the United States Delegation would have had no foundation for opposing the Soviet proposals. Meanwhile, these proposals meet all kinds of opposition on the part of the United States representative. This fact confirms nothing but the existence of a great difference between the United States representative's statement of January 21 and the proposals submitted by the Soviet Delegation, however the United States representative may try to prove the contrary.

In the United States representative's statement of November 11 there is a direct opposition against the Soviet proposal on the necessity to establish a control over the fulfillment of the decision concerning the prohibition of the revival and creation of Japanese war industry. His opposition against this paragraph of the Soviet proposals he supports by the assertion that the determination of agreements for the period after the conclusion of the peace treaty falls outside the competence of the Far Eastern Commission. The Soviet Delegation considers such an opposition as groundless since the Far Eastern Commission should not bypass this matter. The Far Eastern Commission can come to an understanding with respect to the prohibition of the revival and creation of Japanese war industry and in respect to the establishment of an appropriate control having in mind, naturally, that the details of exercising such a control will be decided by the peace treaty with Japan and will constitute its integral part.

In trying to justify his position in respect to the Soviet proposals, the United States representative said that the demilitarization of Japan had been carried out, of which fact all members of the Far Eastern Commission are, allegedly, fully aware. It is necessary to note that this reasoning as well is groundless, since the Far Eastern Commission does not have at its disposal facts which would have supported the correctness of such an assertion. Furthermore, there are serious reasons to doubt that the decisions adopted by the Commission in respect to demilitarization and disarmament, for example, such as "Reduction of Japanese Industrial War Potential", "Prohibition of Military Activities in Japan and Disposition of Japanese Military Equipment", "Removal of Facilities from Japan for Reparations: Priority According to Ownership or Control" are actually fulfilled.

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The Soviet representatives on the Far Eastern Commission and in the Allied Council for Japan have repeatedly drawn the attention of the United States representatives to a number of facts dealing with the activities of the United States authorities in Japan which testify that General MacArthur does not take adequate measures towards the fulfillment of these decisions. The reports of these facts were not denied. But the adoption of decisions on demilitarization in itself, however good they may be, does not yet signify that this objective has been solved in practice and, furthermore, can not be considered a sufficient basis for an assertion that this important objective has been carried out.

The Soviet Delegation can not also bypass the United States representative's statement to the effect that the United States is carrying out measures in respect to Japan which are designed "to alleviate suffering and to bring about economic revival" of that country. If the United States Government were displaying real care in respect to "alleviating suffering" of the Japanese people, it would not have opposed the Soviet proposals in respect to an unlimited development of Japan's peaceful industry which is directed towards broad satisfaction of peaceful needs of the Japanese people, and at the same time would have supported the Soviet Union's proposal concerning the prohibition of Japan's war industries, since it is in the interests of all peaceloving peoples.

It is worth noting that nowhere has the United States Government advocated an unlimited development of Japan's peaceful industry. It is clear to us that certain United States circles do not wish this, and that Japanese goods create rivalry for American goods. But it is then impossible for the sake of selfish interests of these United States circles to suppress the development of Japan's peaceful industry without which the Japanese people can not exist.

It follows from all the above-said that the United States representative's assertion that the Soviet proposals of September 23 allegedly were the reiteration of the United States statement of January 21 does not correspond to the actuality. Apparently this assertion has become necessary in order to justify in the eyes of public opinion, including the Japanese people, the policy which is being presently pursued by the United States in Japan - the policy which does not correspond to the Cairo and the Potsdam Declarations as well as to the decisions of the Far Eastern Commission.

The Soviet Delegation expresses hope that its proposals will be adopted, being confident that their approval by the Commission would correspond both to the interests of the Japanese people which is interested in the future peaceful development of Japan and to the interests of all peaceloving peoples.

FEC-320/4FEC-RESTRICTEDFEC-320/412 November 1948FAR EASTERN COMMISSIONSOVIET PROPOSAL REGARDING LEVEL OF ECONOMIC LIFE IN JAPANU. S. Statement

(References: 320 series; 242 series)

Note by the Secretary General

1. The enclosure, a statement regarding the Soviet proposals (FEC-320, FEC-320/1) on level of economic life in Japan presented by the United States representative at the 127th meeting of the Commission, 11 November 1948, is circulated herewith for the consideration of the FAR EASTERN COMMISSION.

2. Remarks on the Soviet proposals which were made at the same meeting by the Netherlands, Philippine, and United Kingdom representatives are recorded in the minutes of the 127th FEC meeting.

NELSON T. JOHNSON
Secretary General

FEC-320/4

FEC-RESTRICTEDE N C L O S U R ESOVIET PROPOSAL REGARDING LEVEL OF ECONOMIC LIFE IN JAPAN
U. S. Statement

I have noted the various statements on the subject of FEC-320 made by the Soviet Ambassador before the Far Eastern Commission. I have also noted his statements released to the press. In the light of the resolution by the Soviet representative and the ensuing discussions in the Commission, it appears to me desirable at this juncture to state the views of my Government on this matter.

As will be recalled, the Allies and the Far Eastern Commission have on several occasions announced policies dealing with primary and secondary war facilities and, in principle, war-supporting industries. Insofar as the peaceful economy of Japan is concerned, the United States, you will recall, has never expressed the view that restrictions should be placed on peaceful Japanese production. On the contrary, the United States has repeatedly advocated measures which would have the effect of stimulating the early revival of the peaceful Japanese economy. For example, it will be recalled that the basic position of my Government on this matter was summarized as far back as January 21 of this year when I said to this Commission:

"My Government believes that the Japanese Government and people, the Far Eastern Commission and its member states, and the Supreme Commander...should take all possible and necessary steps, consistent with the basic policies of the occupation, to bring about the early revival of the Japanese economy on a peaceful, self-supporting basis."

It would be highly inconsistent for my Government to take any other view when at the same time it is pursuing in other parts of the world programs designed primarily to alleviate suffering and to bring about economic revival. We are making great efforts to contribute, in cooperation with other nations, to the raising of economic well-being and to bring about economic revival wherever possible.

Accordingly, we welcome that part of the statement of the Soviet representative which draws attention to the need for an early Japanese revival and which indicates support for the policies of the United States Government.

The second Soviet proposal, as explained by the Soviet representative, calls for the establishment and exercise of international controls over war industries in Japan after the treaty of peace comes into effect. Determination of post-treaty arrangements, as the Commission is aware, falls outside its terms of reference. I am certain that you are fully aware how thoroughly the demilitarization of Japan has been carried out. It should be unnecessary to reiterate that the United States is determined that Japan shall not again be able to undertake aggression.

In conclusion it is the view of my Government that the Soviet resolution would serve no useful purpose, would in substance only reiterate Far Eastern Commission and Allied policy decisions of long standing and would in part be beyond the competence of the Far Eastern Commission.

FEC-320/3FEC-RESTRICTEDFEC-320/35 November 1948FAR EASTERN COMMISSION

SOVIET PROPOSAL REGARDING LEVEL OF ECONOMIC LIFE IN JAPAN
Soviet and New Zealand Statements
(References: 320 series; 242 series)

Note by the Secretary General

1. The enclosures, statements regarding the Soviet proposals (FEC-320, FEC-320/1) on level of economic life in Japan presented by the Soviet and by the New Zealand representatives at the 126th meeting of the Commission, 4 November 1948, are circulated herewith for consideration by the FAR EASTERN COMMISSION.

2. Enclosure "A" is the Soviet statement which the Soviet representative stated was in the nature of a reply to queries of other representatives (page 7, minutes 125th FEC meeting). Enclosure "B" is the New Zealand statement.

NELSON T. JOHNSON
Secretary General

FEC-320/3

FEC-RESTRICTEDENCLOSURE "A"STATEMENT BY THE SOVIET REPRESENTATIVE WITH REGARD
TO LEVEL OF ECONOMIC LIFE IN JAPAN

At the previous meetings of the Commission the delegations of China, Australia and New Zealand made queries in respect to the terminology used in the Soviet statement on the question of the level of Japan's industrial development. In connection with this the Soviet delegation considers it necessary to draw the attention of the Members of the Far Eastern Commission to the following part in its statement of September 23, 1948, namely, that "a high level of industrial development of Japan will not in itself be dangerous if Japan is not permitted to revive her war industry and militarism. Japanese industry in the past served as an economic basis for Japanese aggression, not because it had reached a comparatively high level of development, but because of the fact that its development had been subordinated to the needs of war. Japanese militaristic circles, acting contrary to the vital interests of the Japanese people, directed the development of the country's industry as well as of the economy as a whole in such a way that it was adapted to meet the needs of the army and navy, i.e., it worked for the preparation of war."

It was further said in the statement of the Soviet delegation that such a situation suited the interests of aggressive Japanese circles. However, this situation should not be repeated, since militaristic Japan was defeated and there is an opportunity to direct the development of Japan along democratic and peace-loving lines, the necessity of which was recognized in the Cairo and Potsdam Declarations of the Allies.

This statement of the Soviet delegation is fully sufficient to enable one to understand clearly the Soviet Union's position in respect to the question of the character of Japan's industrial development. In determining policy in respect to the level of economic life in Japan, the basic question is: what character will be given to Japan's industrial development, and, also, whether the liquidation of Japanese war industry will be fully accomplished. As has already been stated above, Japanese industry in the past served as an economic basis for Japanese aggression, not because it had reached a comparatively high level of development, but because of the fact that its development had been subordinated to the needs of war.

On the question of what should be considered "war industry" and what should be considered "peaceful industry" the Soviet delegation proposes to proceed from the Far Eastern Commission decision of August 18, 1947: "Reduction of Japanese Industrial War Potential."

Thus, war industry ought to include that group of facilities which was defined in that paper as "primary war facilities" as well as that defined as "secondary war facilities". The industries enumerated in the category of "war-supporting industries" should be permitted to the extent necessary for the satisfaction of peaceful /non-military/ needs of Japan. The remaining facilities and industries may be included in the category of "peaceful industry".

Naturally, the Soviet delegation is ready to discuss other proposals, as well, on the question of dividing Japanese industry into peaceful and war industries.

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Having made this statement, the Soviet delegation invites the Members of the Far Eastern Commission to express their opinions as to the two proposals submitted by the Soviet delegation on September 23.

As is known, the Soviet delegation proposed that

1. No limitations should be imposed upon the restoration and development of peaceful Japanese industry which seeks to satisfy the needs of the Japanese population, nor upon the development of export in accordance with the needs of Japan's peaceful economy.

2. The revival and creation of Japanese war industry should be prohibited and there should be established, for a period of several years, a control over the fulfilment of this decision, to be exercised by the Powers most interested in preventing a new Japanese aggression.

These proposals were included in the draft policy decision of the Far Eastern Commission, which was submitted by the Soviet delegation.

FEC-RESTRICTEDENCLOSURE "B"STATEMENT BY THE NEW ZEALAND REPRESENTATIVE WITH REGARD TO
LEVEL OF ECONOMIC LIFE IN JAPAN

In view of the important statement made by the Ambassador of the U.S.S.R. and recorded in document FEC-320, and the specific policy proposal put forward by him in document FEC-320/1, it seems advisable to re-state in clear terms the policy with reference to Japanese industry which the New Zealand Government has in the past consistently followed and still holds.

The New Zealand Government naturally supports and considers itself bound by the provisions of the Potsdam Declaration and of the Far Eastern Commission's Basic Surrender Policy. In particular, the New Zealand Government attaches the greatest importance to FEC-084/21, which provides the general framework for the industrial disarmament of Japan. It should be specifically noted with reference to this particular policy that:

- (a) it is intended to apply during the period of the occupation,
- (b) it refers to three types of industry -- primary war facilities, secondary war facilities, and war-supporting industries, and
- (c) with reference to war-supporting industries, it requires the FEC to fix a series of specific levels which are to constitute the permissible maxima only until the end of the present phase of the occupation or until 1st October 1949, whichever is the earlier.

It is therefore of great importance to note:

- (a) that unless and until the FEC fixes the specific levels referred to its task of carrying out the industrial disarmament of Japan has not been completed. The fixing of these levels is therefore regarded by the New Zealand Government as a matter of great urgency.
- (b) That there is no suggestion in any of these policies that any limitation on the development of Japan's peaceful industries should be imposed.

Insofar therefore as the statements of the Soviet Ambassador can be understood as being a suggestion that it may be the objective of the Allied powers to limit the development of Japan's peaceful industry, the statement is not, in the view of the New Zealand Government, correct. It would therefore seem unnecessary for the FEC to decide as a matter of policy that no limitation should be imposed upon the restoration and development of Japan's peaceful industry as is suggested in paragraph 1 of the policy proposal suggested by the Soviet Ambassador. Such a proposition follows directly from existing FEC policies.

As to paragraph 2 of the Soviet Ambassador's policy proposal, with reference to the prohibition of the revival and creation of Japanese war industry, it is necessary to determine what is meant by "war industry".

The remaining portion of this paragraph deals with the establishment of a control which, during the discussions on his proposal, the Soviet Ambassador has indicated to be contemplated as a peace treaty measure.

Enclosure "B"

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It may or may not be within the province of the FEC to discuss prospective peace treaty provisions -- a matter which I expressly desire to leave open -- but it would seem desirable to re-state my Government's position in this respect.

The New Zealand Government believes that a large proportion of Japan's industry was never used for peaceful production and has consistently supported the policy that this excess productive capacity in Japanese industry should be removed from Japan as a security measure and distributed as reparations. This program is, in effect, the program of FEC policies O84/21 and the 242 series. If the demilitarisation of Japan is to be effective, provision will have to be made in the peace treaty for the retention of controls over certain war-supporting industries. No restrictions are considered practical or desirable on the production level of peaceful industries; that is to say, industries which are neither primary war facilities, secondary war facilities, nor key war-supporting industries. The controls referred to should be selective and elastic, and bear only upon certain key war-supporting industries, since their effectiveness will depend upon the ease with which they can be enforced. The production of certain goods, such as light metals, synthetic oil, and synthetic rubber, which have strategic importance, might have to be entirely forbidden. Such industries are in any case uneconomic in Japan, and were developed solely as war potential. Production and productive capacity in other key industries such as iron and steel, and possibly oil refining and storage, should be limited to defined levels determined after consideration of Japan's legitimate peaceful needs. Special security restrictions may be required on Japan's shipbuilding and on civil aviation.

This broad outline of the New Zealand Government's position indicates the absolute necessity for an agreed definition of terms. Not until the term "war industry" in the Soviet proposal is accurately and specifically defined with reference to existing definitions in FEC policy decisions will it be possible to make any concrete observations upon it.

Nevertheless, subject to the New Zealand Government's view of the proper definition of this and associated terms, it would appear that paragraph 2 of the Soviet proposal is in principle in accord with the policy long held by the New Zealand Government.

However, as far as concerns the action now to be taken by the FEC on the proposals of the U.S.S.R., the New Zealand Government believes, as has already been stated, that it is unnecessary to enact paragraph 1 as a policy decision, although, subject to an acceptable definition of terms, it is in full accord with the principle of that paragraph.

Paragraph 2 involves matters relating to the peace treaty, consideration of which, if to be undertaken by the FEC at all, must be regarded as a task of secondary urgency to the Far Eastern Commission's primary duty of laying down policies for the period of the occupation. Such consideration should not in any way be allowed to interfere with the prompt and urgent disposal by the FEC of the vital paper FEC-242/32, without which the whole scheme of the industrial disarmament of Japan remains incomplete and unfinished, and the responsibilities of the FEC unfulfilled.

FEC-320/2FEC-RESTRICTEDFEC-320/229 October 1948FAR EASTERN COMMISSIONSOVIET PROPOSAL REGARDING LEVEL OF ECONOMIC
LIFE IN JAPAN (FEC-320)Chinese Remarks(References: 320 series, 242 series)Note by the Secretary General

The enclosure, a statement submitted by the Chinese Representative at the 125th meeting of the Far Eastern Commission, 28 October 1948 with reference to the Soviet proposal regarding level of economic life in Japan (FEC-320), is circulated herewith for the consideration of THE FAR EASTERN COMMISSION.

NELSON T. JOHNSON
Secretary General

FEC-320/2

FEC-RESTRICTEDE N C L O S U R ESOVIET PROPOSAL REGARDING LEVEL OF ECONOMIC
LIFE IN JAPAN (FEC-320)
Chinese Remarks

The statement submitted by the Soviet Ambassador at the 120th meeting of the Commission on the level of economic life in Japan touched upon several points of far-reaching importance. At the subsequent meeting I asked a few questions for clarification concerning certain phrases in the statement which did not seem clear. He was good enough to give his answers to them for which I expressed my appreciation.

Today I wish to make a few observations on the Soviet statement, especially in the light of the clarification which was given. It is noteworthy that the Soviet statement has unequivocally stressed the importance and necessity of prohibiting "war industries" in order to prevent the rise of militarism in Japan. This is a point with which my delegation agrees fully. We take particular note of the Soviet proposal to establish industrial control in order to prevent the revival of Japanese "war industries", and we endorse the principle underlying it.

But we are still not clear in our mind as to the precise meaning and scope of the term "war industries" and the term "peaceful industries" used in the Soviet statement. The uncertainty arises from the fact that the Soviet terminology is different from that adopted in the FEC policy decision on Reduction of Japanese Industrial War Potential (FEC-084/21) in which only such terms as "primary war facilities", "secondary war facilities", and "war supporting industries" were used.

A precise definition is especially desirable and necessary in this connection because a different treatment is assigned to each of the two categories of industries. We earnestly hope that further clarification will be given to the Commission as to whether the industries which were designated as war supporting industries in FEC-084/21 are considered in the Soviet view as "war industries" or "peaceful industries". A clear answer to this question would be of great value and assistance in evaluating the Soviet proposal.

The Chinese Delegation's understanding of what constitutes the industrial war potential of Japan as distinguished from the peaceful needs is based on paragraph 11 of the Potsdam Proclamation, on relevant paragraphs of the policy decision on the Reduction of Japanese Industrial War Potential (FEC-084/21), and on another policy decision entitled Determination of Peaceful Needs of Japan (FEC-106/1). In fact all three categories of industries mentioned in FEC-084/21, namely, primary and secondary war facilities and the selected war supporting industries, generally speaking, are all war industries. However, the Allied Powers have no intention of prohibiting outright and generally the war supporting industries and thereby making difficult the attainment of Japanese peaceful needs as defined by the FEC. Certain portions of the war supporting industries deemed essential for the achievement of this objective would be allowed to be retained. But the mere fact of retaining certain portions of such capacities does not change their character of being war potential. Consequently, under any scheme of long term control of Japanese industries, it is essential that primary and secondary war facilities should be prohibited. It is equally imperative that not only the war supporting industries should not be permitted to exceed the productive capacity maxima as may be

FEC-RESTRICTED

determined by the FEC but also the output therefrom within the permitted level should not be diverted to uses other than meeting the peaceful needs of Japan.

We could understand the desire of the Japanese people to improve their physical well-being through their own efforts and exertions. But we should not at the same time lose sight of Japan's obligations to the Allies which are expressly provided for in the Potsdam Declaration, the decisions of the FEC on the Basic Post-Surrender Policy for Japan, and the Division of Reparations Shares. We therefore welcome and attach importance to the following sentence in the 3rd paragraph of the Soviet statement:

"Besides, it should be remembered that Japan will have to satisfy legitimate claims for reparations on the part of those States which suffered from Japanese aggression."

We infer and, I hope our inference is correct, that the Soviet proposal, coupled with the clarifications on the points given by the Soviet representative, does not preclude the exaction of just reparations from "peaceful industries", including reparations out of current production, as is expressly provided for in the Potsdam Proclamation.

I wish to make our position clear that we have no intention of imposing conditions on Japan which would prevent the attainment of her peaceful needs. But at the same time we do not see how Japan could be allowed to achieve a living standard higher than that prevailing in the period 1930-34 without first requiring her to discharge obligations to the Allies and particularly to countries and territories which suffered grievously under Japanese military occupation. This is a fundamental obligation which Japan should be required to assume. Further more the standard of living of the Japanese people should be considered against the background of the living standard and economic conditions of other Far Eastern nations. It is our view that, in justice to these other nations and in the light of a number of vital economic factors involved, it would be premature and impractical to set, as a goal to be attained in the next few years, any standard of living higher than that of 1930-34.

The term "peaceful needs of Japan" has already been defined in FEC-106/1. Although there are several papers having a bearing on the subject, yet FEC-106/1 is the only policy paper adopted by the Commission which defines the term "peaceful needs". It follows that any reference to industrial level or peaceful needs in the Soviet statement must mean that policy decision of the Commission.

With regard to the matter of control of Japanese war industries, the reply of the Soviet Ambassador to my query has made it clear that the establishment of such controls should be discussed in the peace conference and included as an integral part of the peace treaty, and that at the present time, the task of the Allies is to ensure that the policy decision of FEC-084/21 and FEC-059/3 are completely fulfilled and the responsibility for the fulfillment should be borne by SCAP. However, I like to draw the attention of the Soviet Ambassador to paragraph 9 b of FEC-084/21 which provides that the

FEC-RESTRICTED

"capacity levels remaining in the iron and steel, light metals, metal-working machinery, shipbuilding, oil refining and storage, synthetic oil and synthetic rubber industries, after the completion of the industrial removals proposed in this paper and after the disposition of the remaining "excess" facilities as provided for under paragraph 6, should constitute the permissible maxima in these industries until the end of the present phase of the occupation in Japan or until October 1, 1949, whichever is the earlier, pending a decision as to the long-term disarmament controls."

It is further provided therein that:

"if the Commission expects still be charged on October 1, 1949, with responsibility for post-surrender policies respecting Japan, the Commission should assess the situation before that date with a view to the adoption of an appropriate policy to be put into effect on October 1, 1949."

In the light of this decision of the Commission and in the interest of continuity between the present regulation of Japanese industries and the long-range policy, I presume that the reply of the Soviet Delegation I have just referred to above is not intended to intimate that the Soviet Delegation is not interested in the maintenance of some sort of control during the interim period between October 1, 1949, and the conclusion of the peace treaty, assuming that such a treaty has not been concluded by that date.

In conclusion, I wish to emphasize that my remarks on the first Soviet proposal, namely, the suggested classification of Japanese industries into two categories and their separate treatment are still preliminary, and I reserve my right to make further comments at a later date.

As regards the second Soviet proposal of setting up a control machinery to be incorporated as an integral part of the peace treaty, my delegation feels it unnecessary to comment now inasmuch as it is, according to the clarification given by the Soviet representative, intended only to be discussed at the eventual peace conference on Japan.

FEC-320/1FEC-RESTRICTEDFEC-320/126 October 1948FAR EASTERN COMMISSIONSOVIET PROPOSAL REGARDING LEVEL OF ECONOMIC LIFE IN JAPAN
(Reference: FEC-320)Note by the Secretary General

The enclosure, the official text of a proposal submitted by the Soviet Representative at the 124th meeting of the Far Eastern Commission, 21 October 1948, is circulated herewith for the consideration of the FAR EASTERN COMMISSION.

NELSON T. JOHNSON
Secretary General

FEC-320/1

FEC-RESTRICTEDE N C L O S U R ESOVIET PROPOSAL REGARDING LEVEL OF ECONOMIC LIFE IN JAPAN

Having considered the question of the level of Japan's industrial development, the Far Eastern Commission determines that the development of Japanese industry should be subordinated to the satisfaction of only peaceful needs of the Japanese people. Doing this the Far Eastern Commission proceeds from the fact that the development of Japan's peaceful industry to the level of 1930-34 or to a higher level will contribute to the improvement of the physical well-being of Japan's population, will broaden her export possibilities, and will contribute to the strengthening of her economic independence. Such development of Japan's peaceful economy will meet not only the interests of the Japanese people but also the interests of other countries, and, first of all, of Asiatic countries. It is also understood that Japan will have to satisfy legitimate claims for reparations on the part of those states which suffered from Japanese aggression.

The Far Eastern Commission considers that the objective of the Allied Powers should be, not limitation of the development of Japan's peaceful industry, but prevention of the creation of conditions under which Japanese militarism and Japanese aggression can revive.

For the realization of this objective, there should be established an appropriate control for a certain period of time in order to prevent the revival or creation of Japanese war industry. Such a control, in the opinion of the Commission, should be provided for in the Peace Treaty with Japan.

Proceeding from the above-said, the Far Eastern Commission decides as a matter of policy:

1. No limitations should be imposed upon the restoration and development of peaceful Japanese industry which seeks to satisfy the needs of the Japanese population, nor upon the development of export in accordance with the needs of Japan's peaceful economy.

2. The revival and creation of Japanese war industry should be prohibited and there should be established, for a period of several years, a control over the fulfilment of this decision, to be exercised by the Powers most interested in preventing a new Japanese aggression.

FEC-320FEC-RESTRICTEDFEC-32028 September 1948FAR EASTERN COMMISSION

SOVIET PROPOSAL REGARDING LEVEL OF ECONOMIC LIFE IN JAPAN
(References: FEC-242/32; 242 series)

Note by the Secretary General

The enclosure, a statement submitted by the Soviet Representative at the 120th meeting of the Far Eastern Commission, 23 September 1948, is circulated herewith for the consideration of the FAR EASTERN COMMISSION.

NELSON T. JOHNSON
Secretary General

FEC-320

FEC-RESTRICTEDE N C L O S U R ESOVIET PROPOSAL REGARDING LEVEL OF ECONOMIC LIFE IN JAPAN

The question of the level of industrial development for Japan is one of the most important questions requiring settlement. The determination of the level for the development of Japanese industry will predetermine the future economic development of Japan.

However, while considering this question it is necessary to understand clearly what industry is to be developed. Industry may work to meet the peaceful requirements of the country. But it is also known that industry may work for the purpose of military preparation, as was the case earlier in Japan.

Therefore, from the very beginning it is necessary to clarify this question and then to determine one's attitude towards one or another proposal concerning the level of the future industrial capacity of Japan. Besides, it should be remembered that Japan will have to satisfy legitimate claims for reparations on the part of those states which suffered from Japanese aggression.

The Soviet Government does not consider it reasonable to require limitations of the level of the development of Japan's peaceful industry for the future. Such a requirement could find no justification whatsoever. It would meet neither the interests of the Japanese people, nor the interests of other countries, and, first of all, of Asiatic countries which are in need of economic ties with Japan.

A high level of industrial development of Japan will not in itself be dangerous if Japan is not permitted to revive her war industry and militarism. Japanese industry in the past served as an economic basis for Japanese aggression, not because it had reached a comparatively high level of development, but because of the fact that its development had been subordinated to the needs of war.

Japanese militaristic circles, acting contrary to the vital interests of the Japanese people, directed the development of the country's industry as well as of the economy as a whole in such a way that it was adapted to meet the needs of the army and navy, i. e., it worked for the preparation of war.

Such a situation suited the interests of aggressive Japanese circles, which set themselves the purpose of enslaving other countries and peoples in alliance with Hitlerite Germany. However, it goes without saying that this should not be repeated, since militaristic Japan was defeated and there is an opportunity to direct the development of Japan along democratic and peaceloving lines. Now measures must be taken to prevent the revival of Japanese militarism and the conversion of Japan once again into a hotbed of war danger.

In order to ensure the settlement of this problem, the development of Japanese industry should have as its sole purpose the satisfaction of the peaceful needs of the Japanese people. If we proceed from this, the only correct basis, the unfoundedness of demands to limit the development of peaceful Japanese industry will become self-evident.

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The development of peaceful Japanese industry to the level of 1930-34 or to a higher level will contribute to the improvement of the physical well-being of Japan's population, which continues to suffer serious after-effects of the criminal and adventurous policy of the Japanese militarists.

Such development of industry will broaden the possibilities of Japanese export, will contribute to the strengthening of Japan's economic independence and will lighten the dependence of Japan's national economy on external factors which are alien to her interests.

Besides this, the export of Japanese industrial goods would contribute to the satisfaction of appropriate needs, for example, of certain Asiatic countries, and would thus serve for Japan as a basis for the import of raw materials needed by her, and of other goods necessary to satisfy the peaceful needs of the Japanese people.

It follows from the above that the objectives of the Allied Powers should be, not limitation of the development of Japan's peaceful industry, but prevention of the development in Japan of war industry, as well as prevention of the creation of conditions under which Japanese militarism and Japanese aggression can revive.

Naturally, the question arises to how this objective could possibly be attained. The Soviet Government considers that this objective can be attained if an appropriate control is established in Japan for a certain period in order to prevent the revival or creation of Japanese war industry. All peace-loving nations should be interested in the establishment of such a control.

Such a control, established for a period of several years and exercised by the powers most interested in preventing a new Japanese aggression, should be provided for in the Peace Treaty with Japan, the preparation and conclusion of which is long overdue.

In accordance with the position which I have stated, I propose on the instructions of the Soviet Government that the following decisions be adopted.

1. No limitations should be imposed upon the restoration and development of peaceful Japanese industry which seeks to satisfy the needs of the Japanese population, nor upon the development of export in accordance with the needs of Japan's peaceful economy.

2. The revival and creation of Japanese war industry should be prohibited and there should be established, for a period of several years, a control over the fulfillment of this decision, to be exercised by the Powers most interested in preventing a new Japanese aggression.

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Canada		✓		
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RESULT: CARRIED
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11 September 1947

MEMORANDUM TO: General McCoy
From: D. K. Eichler, Reparations Secretary
Subject: Progress of Levels of Industry paper (C2-242)
in Committee No. 2

1. As Acting Secretary of Committee No. 2 at its 78th meeting held today, I have been asked by the Chairman, Mr. Everson (UK), to report to you the situation in Committee No. 2 with respect to the paper on the Level of Economic Life in Japan (C2-242). Knowing your interest in obtaining action on this paper as soon as possible, Mr. Everson felt you should be informed of the situation described below.

2. Progress on this paper is at present being delayed by the failure of a number of members to obtain instructions. The only members who have instructions on the entire paper are the Canadian, Netherlands, New Zealand, United Kingdom and United States Members. Votes currently being taken on various provisions of the paper rarely find more than six members voting. There are frequently as many as six or seven abstentions. At today's meeting of Committee No. 2, Mr. Everson vigorously urged all members to obtain instructions at the earliest possible moment. He pointed out that C2-242, the paper under discussion, had been before the Committee since 14 July 1947, that FEC-218 had been before the Committee since 9 April 1947, and that recommendations of the Subcommittee on levels for a number of industries had been before the Committee since the first of the year. Furthermore, the entire subject of levels of industry has been under constant study ever since the drafting of the interim reparations program. He told the Committee that he saw no justification whatever for the present failure of countries to have instructions on this subject.

cc: S. S. Stratton
G. H. Blakeslee
D. K. Eichler
Files

*Plutner*COPY NO. 103CONFIDENTIALFEC-218FEC-2189 April 1947FAR EASTERN COMMISSIONREPARATIONS REMOVALS OF INDUSTRIAL FACILITIES AND
MERCHANT SHIPPING FROM JAPAN(References: FEC-216/1, FEC-211 series,
FEC-201)Note by the Secretary General

1. The enclosure, a United States policy proposal regarding Reparations Removals of Industrial Facilities and Merchant Shipping from Japan, is circulated herewith for the consideration of the Far Eastern Commission and is referred to COMMITTEE NO. 2. ^{Economics} REPARATIONS.

2. The United States member has informed the Secretary General that a further statement discussing the proposal set forth in the enclosure will be submitted to the Commission shortly.

3. The attention of all concerned is invited to the classification of this document which prohibits the dissemination of the information contained therein to unauthorized persons or to the press.

NELSON T. JOHNSON
Secretary General

FEC-218

CONFIDENTIALE N C L O S U R EREPARATIONS REMOVALS OF INDUSTRIAL FACILITIES AND
MERCHANT SHIPPING FROM JAPAN

The following specific actions should be taken with respect to reparations removals of industrial facilities and merchant shipping from Japan:

1. All facilities of the nature indicated, or in excess of the stated capacity levels in the following specified industrial categories, should be made available for claim as reparations:

a. Iron and Steel Industry.

(Definition: "Plants and establishments primarily engaged in the production of pig iron or steel ingots or in the production of basic steel shapes, such as rails, rods, bars, tubes, plates, strips, sheets and structural shapes by rolling, drawing or extruding steel ingots.")

(1) That portion of Japan's blast furnace capacity that is in excess of the capacity required to produce 2,000,000 metric tons of metal per year, should be made available for claim.

(2) That portion of Japan's capacity for the production of steel ingots that is in excess of the capacity required to produce 3,500,000 metric tons per year should be made available for claim.

(3) That portion of Japan's capacity for the production of basic steel shapes that is in excess of the capacity required to produce 2,650,000 metric tons per year of balanced type basic steel shapes should be made available for claim.

b. Chemical Industry.

(1) General

No facilities should be removed which are needed to produce chemicals necessary to achieve essential production of fertilizers in Japan. In so far as the foregoing is not contravened thereby reparations removals in the chemical industry should be accomplished as hereinafter prescribed.

(2) Nitric Acid Industry

(Definition: "Plants and establishments primarily engaged in the production of nitric acid by the oxidation of ammonia.")

(a) That portion of Japan's capacity for the production of nitric acid by the oxidation of ammonia that is in excess of the capacity required to produce 30,000 metric tons per year (as 100 percent acid), should be made available for claim subject to the following limitation.