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additional powers control money and credit as may be deemed feasible.

C. With this approach in mind suggest your references "Banking Board" in paras 5 through 13 be modified to read "Bank of Japan."

PART II

Discussions here also influenced greatly by realization that most if not all Japanese banks now technically insolvent and not likely to be corrected permanently until economic conditions materially improve. In such situation objectives of legislative reform must necessarily be limited. However, believe it possible to make comprehensive revisions existing legislation to eliminate structural defects and improper practices of banks with view of making banks better able serve domestic and foreign clients and meet needs Japanese economy.

PART III.

Following are comments on detailed proposals outlined in paras 5 through 13 ESS/FIN Memo No. 010 dtd 28 May 48. Numbers correspond paras your memo.

5 - System of Private Banks.

(a) - In new statutes replacing special laws, suggest retention all useful and desirable banking facilities under uniform authority and law with affirmative provisions covering powers, type of organizations, and nature of business of each class of institution, as well as necessary limitations.

(b) - Recommend defining different types of banks, i.e., commercial bank, trust company, savings bank, etc.

(f) - Agree in principle with uniform regulation and supervision of banking institutions, but in case of agricultural credit coops with

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heavy seasonal borrowing requirements and credit institutions with greater risks, compliance with all restrictions and limitations applicable to banks might be impossible. In addition to special chapters or sections to meet these situations, suggest appropriate measures to place central banks for cooperatives under Bank of Japan.

(i) - Suggest reserve problem be handled by amending Bank of Japan law. Bank of Japan should be given power alter reserves all banks without discrimination within fairly wide limits, e.g., between 10 and 50% for ^{ordinary} demand deposits. Suggest also Bank of Japan be given power in exceptional circumstances to establish reserves up to 100% against any future increases in deposits or some other variant special reserve plan. These requirements can be made more flexible for control purposes, especially under present conditions, by giving Bank of Japan power to permit certain percentages of reserves to be held in form of assets other than yen deposits with Bank of Japan.

(k) - Agree to prohibition bank affiliations with securities company or dealer, but question feasibility of complete prohibition dealing in securities by banks. Member banks Federal Reserve System are permitted to deal in Govt obligations and certain other classes of securities and to purchase and sell securities for the account of customers.

(m) - General prohibition interlocking directorates with other banks and other inappropriate businesses is essential. However, provision should not preclude the service of qualified executives of appropriate businesses outside banking and financial circles as directors of a bank. The practical business experience and judgment of such representatives are necessary and useful in the formulation of sound banking policies.

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6 - Government Credit Corporations

(b) - Consider reorganization and control Reconversion Finance Bank of major significance due to effect of its operations upon national monetary and credit situation over which Bank of Japan should have full authority through proposed expansion its powers. In present inflationary situation it would seem imperative to require RFB to get its loanable funds from Govt so as to subject it to budgetary control. Refer para 4 G W 91507 Oct 48. Request further info.

(c) - If provision does not allow special banks to segregate regular banking and investment banking into two separate entities for future operation, and subject banks elect to become regular banks, suggest non-commercial ^{banking} functions be transferred to RFB, central banks for cooperatives and other appropriate organizations.

(e) - In view past importance Postal Deposit System to small Japanese communities, believe strengthening of System to improve savings and transfer functions is desirable. From point of view monetary control, crucial issue is control of investment policy. Additional info would be appreciated.

8 - Separation from Securities Business.

(b) - Disposal within one year of stocks acquired in loan liquidations appears too rigid. Suggest that law make provision for time extensions subject to the discretion of bank authority to minimize losses from forced sales.

There appears to be no provision for disposition stocks previously purchased and now held by banks. In this connection and in view importance of stimulating broad ownership of equity capital, consider

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desirability reopening stock market.

9 - Loan and Investment limitations.

(a)(b) - Relating loans to any one person or company to percentage of deposits appears unwise. Suggest as interim measure that Bank of Japan be given discretionary authority to establish loan limitations. Type of security offered important factor. Agree loan policy should emphasize dispersion of credit and distribution of risk.

(c) - Prohibition against bank affiliates re para 7 (d) memo nullifies need for this provision.

(d) - Purpose this proposal not clear, but such loans should be based on principle cited 9(a) above.

(f) - Concur if past tendency has favored real estate loans in excessive amounts. Info has indicated lack of urban home financing in Japan; if true, consider possibility building and loan associations as financing facility when conditions warrant.

(h) - Agree but suggest provision be made for time extensions subject to bank authority's discretion.

(m) - If directors are intended to become guarantors of loans to other directors and their companies, proposal would place undue burden upon them. However, full accountability to shareholders for such loans is essential.

(r) - What is reason for this prohibition?

(w) - Subjection of aggregate of investments in any company's securities, loans to same company, and loans to others collateralized by same company's stocks and bonds to percentage limitation of bank's deposits appears too restrictive and detrimental to securities market.

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Believe principles cited Part III para 9(a)(b) above might apply similarly to investments. Also suggest extension of liquidation period by authority banking supervisor, if necessary, to minimize losses.

New Subject: Unsecured loans. It is recommended that consideration be given to desirability of limitation on unsecured loans which bulk abnormally high in bank statements.

10 - Capital Stock Ownership and Management.

(a) - Appears impractical to try estimate deposits under present conditions. In absence better knowledge Jap banking requirements and due to inflationary conditions in Japan, interested agencies find it difficult make specific recommendation this subject. Suggest exploration possibility of adopting ratio or combination of ratios capital to risk assets. For details, see Federal Reserve Bulletin on Guatemalan and Philippine bank laws. This type of ratio, together with flexible reserve requirements, gives monetary authority both quantitative and qualitative credit controls.

(b) - What is purpose of stating maximum amount of authorized capital stock rather than amount outstanding or to be sold in Articles of Association of a bank? In this connection, is it not important require publication bank statements?

(c) - Why should at least 50 percent of a bank's capital structure consist of capital stock? U. S. banks, for example, are considered sound with surplus equal to capital stock and an undivided profits account in which instance capital stock is less than 50 percent.

(d) - Concur, if feasible, to hold simultaneous shareholders' meetings at various cities.

(e) - What is purpose this provision?

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(v) - Is this too restrictive? Would it not discourage investment in bank capital?

(x) - Places unwarranted burden upon directors.

(ee) - Do not understand urgency of filling vacancy on board of directors in short period. Appointment of good directors may require more time. Suggest period of six months with discretionary authority in Bank of Japan to extend.

(hh) - Unless terms "negligence" and "mismanagement" are carefully defined, provision subjecting directors, officers, and employees to extreme liabilities might discourage service of competent persons.

11 - Bank Charters, Licenses or Permits

(d) - If merger or consolidation agreement is ratified by stockholders holding two-thirds of issued stock and approved by banking authority, see no need for public hearing.

(g) - In accord Part I this radio, would suggest giving Bank of Japan veto power over chartering.

12 - Reports, Examinations and Supervision

(a) - Recommend that examination and supervision by banking authority be restricted only to banks and credit institutions receiving deposits and making loans. Refer also to Para 4 D WAR 91507 Oct 48.

(i) - Suggest at least one examination a year for each banking institution.

(s) - Is this intended for examining personnel? If not, provision might unduly curb bank officers and employees in exchange of credit information through appropriate channels.

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13 - Offenses, Crimes and Penalties.

(e) - Refer Part III, Para 10(hh) above.

PART IV

A. Proposals paras 5 through 13 not subject to specific comments are generally in accord with accepted banking practices and augur well towards eventual attainment of a sound banking system for Japan.

B. If we can assist you in further development monetary and credit problems and/or private banking practices through consultations in Tokyo or Washington qualified banking technicians, or in any other manner, please advise.

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JE:njs:11/10/48

D R A F T

Part 1

Although this radio comments primarily on paras 5 through 13 reference memo re system of private banks, in its preparation it was necessary to make certain assumptions re basic monetary and central bank reform discussed ourad Oct. WAR 91507. These assumptions were: (1) That it would be inexpedient to introduce immediately thoroughgoing monetary and central bank reform like that envisaged in your memo because (a) economic conditions in Japan not yet favorable success such reform, and (b) it is view here plan requires considerable further study and discussion with Japanese, particularly question of separate banking board. (2) That in the meantime it would be feasible to proceed with interim program of amending present central bank law to strengthen Bank of Japan within present institutional framework.

Such an interim program would not preclude more thoroughgoing reform of monetary and central banking system if and when further study should prove such a reform to be necessary and it is clear that success of stabilization efforts is assured.

Interim program would probably provide Bank of Japan with controls sufficiently powerful to permit it to curb credit and play its part in stabilization program. Changes in Bank of Japan law might include (a) requirement that banks hold reserves with Bank of Japan, (b) right of Bank of Japan to fix reserve requirements within prescribed limits (See our comment below on your para 51), (c) provision making Bank of Japan principal regulating, supervising, and examining authority of all banks (excepting possibly that right to charter new banks be left with Minister of Finance), (d) fostering independence of Bank by deleting most provisions giving control over Bank's operations to Minister of Finance (see, for example, articles 21, 24, and 25 Bank of Japan Law) (e) granting Bank of Japan such additional powers

- 2 -

control money and credit as may be deemed feasible.

With this approach in mind would make general comment that your references "Banking Board" in paras 5 through 13 should read instead "Bank of Japan."

-3-

51. Suggest reserve problem be handled by amending Bank of Japan law rather than as part of general banking law. Bank of Japan should be given power alter reserves all banks without discrimination within fairly wide limits, e.g. between 10 and 50% for demand deposits. Would also suggest Bank of Japan be given power to establish reserves up to 100% against any future increases in deposits (or some other variant special reserve plan.) These requirements can be made more flexible for control purposes by giving Bank of Japan power to permit certain percentages of reserves to be held in form of assets other than yen deposits with Bank of Japan.

- 4 -

Sa. Relating loans to any one person or company to percentage of deposits appears very unwise. Suggest as interim measure that Bank of Japan be given discretionary authority to establish loan limitations. Type of security offered important factor. Agree that loan policy should emphasize dispersion of credit and distribution of risk.

- 5 -

10a. Appears impractical to try estimate deposits under present conditions. In absence better knowledge Jap banking requirements and due to inflationary economic conditions in Japan, interested agencies find it difficult make specific recommendation this subject. Suggest thorough exploration possibility of adopting ratio or combination of ratios capital to risk assets. For more details see Federal Reserve Bulletin on Guatemalan and Philippine bank laws. This type of ratio, together with flexible reserve requirements, gives monetary authority both quantitative and qualitative credit controls.

- 6 -

Part II

Discussions here also influenced greatly by realization that most if not all Japanese banks now technically insolvent and destined remain so until inflation has been effectively curbed. In such situation objectives of legislative reform must necessarily be limited. However, view here is it is possible even so make comprehensive revisions existing legislation to eliminate structural defects and improper practices of banks with view to making banks better able serve domestic and foreign clients and meet needs Japanese economy.

DRAFT

Part 1 - Pursuant paras 8 and 12 Japanese Policy Paper (NSC 13/2) forwarded you last month proposed course of action Japanese banking reform has been reexamined since despatch WAR 91507 and following conclusions reached.

In accordance ^{partiment provisions these paras} with para 12 policy paper your headquarters should avoid pressing upon Japanese Govt. (detailed advice or instructions re reform Japanese banking system.) SCAP staff functions in this field should be limited to keeping you informed of Japanese actions to enable you to intervene directly with high Japanese Governmental officials should it appear to you that any projected or accomplished action might jeopardize broad purposes of the occupation. If Japanese Govt. has decided or should decide on its own volition that banking reform desirable and (to) solicit advice and assistance ~~your staff,~~ such request should be addressed directly to you on a high governmental level.

Following comments have been prepared by interested government departments here on technical aspects proposed program. This material ^{should} ~~may at your discretion~~ be transmitted informally to high Japanese Govt. officials ^{only (request only)} in response to solicitation referred to above. It should be made clear to Japanese Govt. that these comments represent informal views technicians U.S. Govt. agencies ^{for use entirely at their discretion} and are not (repeat not) to be interpreted as expressions U.S. or SCAP policy. ~~Part 4 is solely for your background information and not for presentation Japanese Govt.~~

OFD:FN:MCDiarmid:erm
11/12/48

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From: SCAP Tokyo Japan
To: Dept of the Army Wash DC for CSCAD ECON
Nr: C 64251 4 October 1948

Reurad WAR 89765, OURADS C 62860, and C 63276

1. Plans is to provide general principles for guidance of Japanese Government in their drafting of Bank Laws. In accordance with this plan discussions have been held here with appropriate agencies of Japanese Government outlining general provisions indicated in OURAD C62860. Although there has been no formal transmission of SCAP views to date, Japanese are fully informed as to principal provisions transmitted to Washington, as indicated by OURAD C 63276.

2. Japanese proposals to date are generally in consonance with principles referenced above and banking fraternity and press generally favorable thereto. Japanese indicate desire to expedite submission of revised Banking Laws to Diet but most feasible target date estimate here is mid-November. Therefore, considered desirable to receive final US views by 1 November for integration with final SCAP comments.

C 62860 is CM IN 1559 (9 Aug) CAD
C 63276 is CM IN 5160 (25 Aug) CAD

ACTION: CAD
INFO : CAD (STATE, TREAS), OUS, PO, FIN

CM IN 515 (4 Oct 48) DTG 040551Z mcs/4

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Form 10 6-1-45	Department of State	Date 11/16/48
REFERENCE SLIP		

To: Mr. Fearey - NA
Room 3258 NS

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| <input type="checkbox"/> Advise | <input type="checkbox"/> Note & Return |
| <input type="checkbox"/> Approve & Return | <input type="checkbox"/> Note & File |
| <input type="checkbox"/> As You Requested | <input type="checkbox"/> Per Telephone Talk |
| <input type="checkbox"/> Attention | <input type="checkbox"/> Previous Correspon. |
| <input type="checkbox"/> Attach File | <input type="checkbox"/> Priority Action |
| <input type="checkbox"/> Comment & Return | <input type="checkbox"/> Reconsider |
| <input type="checkbox"/> Consider | <input type="checkbox"/> Recommend Action |
| <input type="checkbox"/> Copying | <input type="checkbox"/> Record |
| <input type="checkbox"/> Correct | <input type="checkbox"/> Reply |
| <input type="checkbox"/> File | <input type="checkbox"/> Return to Sender |
| <input type="checkbox"/> Follow-up | <input type="checkbox"/> Rewrite |
| <input type="checkbox"/> Hold | <input type="checkbox"/> Signature Required |
| <input type="checkbox"/> Initials Needed | <input type="checkbox"/> See Me |
| <input type="checkbox"/> Investigate & Report | <input type="checkbox"/> Take Action |
| <input type="checkbox"/> Instruct | <input type="checkbox"/> Transfer |
| <input type="checkbox"/> Justify | <input type="checkbox"/> Type |
| <input type="checkbox"/> Keep Me Advised | <input type="checkbox"/> Verify |
| <input type="checkbox"/> Legal Matter | <input type="checkbox"/> Reply for Signature of |
| <input type="checkbox"/> Memo Required | |
| <input type="checkbox"/> Not Interested | |
| <input type="checkbox"/> Note & Destroy | |
| <input type="checkbox"/> Note & Forward | |

REMARKS:

This is another redraft of Part I of the proposed Japanese banking cable I did after discussing with Barnett. I believe this more clearly states the OFD position and might be acceptable to the Army.

From FN - O. J. McDiarmid

SECRETProposed Part I of Telegram to SCAP Re
Banking Reform

Part I - In light of paras 8 and 12 Japanese Policy Paper (NSC 13/2), forwarded you last month, proposed course of action regarding Japanese banking system has been reexamined since despatch WAR 91507 and following conclusions reached.

In accordance pertinent provisions these paras your Headquarters should avoid pressing upon Japanese Govt ^{new} legislation, [of reform character.] SCAP staff functions in reform field should be limited to keeping you informed of Japanese actions to enable you to intervene directly with high Japanese Governmental officials should it appear to you that any projected or accomplished action might jeopardize broad purposes of the occupation. Instructions ^{if any,} to Japanese Government ^{on questions of broad governmental policy} should be on a high governmental level and in general terms, leaving detailed formulation of actual measures to Japanese.

We believe ^{following} suggested modifications in Japanese banking system ^{can eventually} will contribute economic recovery and more effective use rehabilitation aid. Furthermore understanding here is Japanese have indicated ^{that} ~~that~~ ^{to} strengthen ~~ing~~ banking system ~~desirable~~ and have solicited advice and assistance. ^{If this confirmed by you,}

^{These} Following comments had been prepared by interested govt Departments here on technical aspects program discussed urads. It should be made clear to Japanese Govt that these comments represent informal views technicians US Govt agencies for use entirely at its discretion and are not to be interpreted as expressions US or SCAP policy.

-2-

It should be made clear to Japanese Govt that these comments represent informal views technicians US Govt agencies for use entirely at their discretion and are not (repeat not) to be interpreted as expressions US or SCAP policy.

SECRET

Following comments had been prepared by interested govt Departments here on technical aspects program discussed urada. If, as we understand, Japanese have already spontaneously solicited advice and assistance and you wish to make reply to their request, we believe following could be used in your reply and could eventually contribute economic recovery and more effective use rehabilitation aid. It should be made clear to Japanese Govt ^{to the extent they are} that these comments represent informal views technicians US Govt agencies for use entirely at its discretion and are not to be interpreted as expressions US or SCAP policy.

SECRET

DRAFT

Part 1 - Pursuant paras 8 and 12 Japanese Policy Paper (NSC 13/2) forwarded you last month proposed course of action Japanese banking reform has been reexamined since despatch WAR 91507 and following conclusions reached.

In accordance pertinent provisions these paras your Headquarters should avoid pressing upon Japanese Govt legislation for reform of Japanese banking system. SCAP staff functions in this field should be limited to keeping you informed of Japanese actions to enable you to intervene directly with high Japanese Governmental officials should it appear to you that any projected or accomplished action might jeopardize broad purposes of the occupation. If Japanese Govt has decided or should decide on its own volition that banking reform desirable and solicit advice and assistance, such request should be addressed directly to you on a high governmental level. If reform of Japanese banking system is considered essential in interest economic recovery and effective use US rehabilitation but is not undertaken by Japanese of their own volition, necessary instructions may be issued by you to responsible Japanese leaders. Such instructions should, ^{so far as poss} ~~however~~, be in general terms, ~~leaving~~ ^{leaving} formulation actual reform measures to Japanese.

Following comments have been prepared by interest govt Departments here on technical aspects proposed program. This material should be transmitted informally to high Japanese Govt officials only (repeat only) to solicitation referred to above.

It should

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It should be made clear to Japanese Govt that these comments represent informal views technicians US Govt agencies for use entirely at their discretion and are not (repeat not) to be interpreted as expressions US or SCAP policy.

SECRET

Part 1 of Telegram to SCAP re Banking Reform.

Proposed course of action regarding Japanese banking system has been reexamined in light of paras 8 and 12 Japanese Policy Paper (NSC 13/2) forwarded you last month and urad C-65458 November 16, 1948. We consider procedure outlined urad under which Japanese authorities have been given responsibility for developing ~~desirable~~ banking legislation which is desired by them, to be in accordance pertinent provisions NSC 13/2. Aside from technical consultations with Japanese officials it is assumed SCAP staff functions regarding changes in banking system will be limited to keeping you informed of Japanese actions to enable you to intervene directly with high Japanese governmental authorities should it appear to you that any projected or accomplished action might jeopardize broad purposes of the occupation. Since Japanese are now anxious to effect promptly all changes in banking laws considered feasible as part of general stabilization program to promote economic recovery and make more effective use US rehabilitation aid we believe furnishing by SCAP staff technical advice and assistance is appropriate providing request for such advice and assistance is addressed directly to you on a high governmental level.

Following comments have been prepared by interested government departments here on technical aspects program discussed urads. We believe these comments could be used in your reply to solicitation mentioned above and could eventually contribute economic recovery and more effective use rehabilitation aid. It should be made clear to Japanese Govt. that these comments represent informal views technicians US Govt. agencies for use entirely at its discretion and are not to be interpreted as expressions US or SCAP policy.

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SECRETProposed Part I of Telegram to SCAP Re
Banking Reform

Part I - Pursuant paras 8 and 12 Japanese Policy Paper
(NSC 13/2) ~~forwarded you last month~~ proposed course of action
Japanese banking reform has been reexamined since despatch
WAR 91507 and following conclusions reached.

In accordance pertinent provisions these paras your Head-
quarters should avoid pressing upon Japanese Govt legislation
for reform of Japanese banking system. SCAP staff functions
in this field should be limited to keeping you informed of
Japanese actions to enable you to intervene directly with high
Japanese Governmental officials should it appear to you that
any projected or accomplished action might jeopardize broad
purposes of the occupation. ~~If Japanese Govt has decided or~~
~~should decide on its own volition that banking reform desirable~~
~~and solicit advice and assistance, such request~~ should be
addressed directly to you on a high governmental level. If
Japanese fail voluntarily reform banking system and thereby
jeopardize economic recovery and effective use US rehabilitation
aid, necessary instructions should be issued informally by you to
responsible Japanese leaders. ~~Such instructions should be in~~
~~general terms, leaving formulation actual reform measures to~~
Japanese.

Following

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Following comments had been prepared by interested govt Departments here on technical aspects program discussed urads. ~~This material should be transmitted informally to high Japanese Govt officials only in response spontaneous solicitations referred to above.~~ It should be made clear to Japanese Govt that these comments represent informal views technicians US Govt agencies for use entirely at its discretion and are not to be interpreted as expressions US or SCAP policy.

If, as we understand, Japanese have already spontaneously solicited advice and assistance and you wish to ~~offer~~ make reply to their request, we believe following could be used in your reply and could eventually contribute economic recovery and more effective use rehabilitation aid.

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SECRET

Following comments had been prepared by interested govt
Departments here on technical aspects program discussed urada.
If, as we understand, Japanese ^{as indic} have ^{are aware to receive} already spontaneously
solicited advice and assistance and you wish to make reply
to their request, we believe following could be used in ^{forward them}
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and more effective use rehabilitation aid. It should be
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at its discretion and are not to be interpreted as expressions
US or SCAP policy.

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SECRET

~~DEAF~~

*Proposed Part I of Telegram to SCAP
Re Banking Reform*

Part 1 - Pursuant paras 8 and 12 Japanese Policy Paper (NSC 13/2) forwarded you last month proposed course of action Japanese banking reform has been reexamined since despatch WAR 91507 and following conclusions reached.

In accordance pertinent provisions these paras your Headquarters should avoid pressing upon Japanese Govt legislation for reform of Japanese banking system. SCAP staff functions in this field should be limited to keeping you informed of Japanese actions to enable you to intervene directly with high Japanese Governmental officials should it appear to you that any projected or accomplished action might jeopardize broad purposes of the occupation. If Japanese Govt has decided or should decide on its own volition that banking reform desirable and solicit advice and assistance, such request should be addressed directly to you on a high governmental level. If ~~failure~~ *voluntarily reform* ~~reform of Japanese~~ *and thereby jeopardize* banking system ~~is considered essential in~~ *interest* economic recovery and effective use US rehabilitation ~~aid~~, ~~but is not undertaken by Japanese of their own volition~~, necessary instructions ~~may~~ *should* be issued *informally* by you to responsible Japanese leaders. Such instructions should ~~however~~ be in general terms, leaving formulation actual reform measures to Japanese.

Following comments ~~have~~ *had* been prepared by interest ~~govt~~ *govt* Departments here on technical aspects ~~proposed program~~ *program discussed wads.* This material should be transmitted informally to high Japanese Govt officials only ~~(repeat only)~~ *in response spontaneous* to solicitations referred to above.

It should

-2-

It should be made clear to Japanese Govt that these comments represent informal views technicians US Govt agencies for use entirely ^{at its} ~~at their~~ discretion and are not ~~(repeat not)~~ to be interpreted as expressions US or SCAP policy.

SECRET

November 9, 1948

O - Mr. Koch

NA - Mr. Bishop

Japanese Banking Reform

After study of the attached proposed telegram sent to NA for clearance I wish to propose insertion of the following new Part I. The subsequent Parts would be appropriately renumbered and paragraph B of the old Part IV would be deleted.

"Part I

"Pursuant paras 8 and 12 Japanese policy paper (NSC 13/2) forwarded you last month, proposed course of action this subject has been reexamined since despatch War 91507 to bring in line with basic policies.

"In accordance pertinent provisions these paras of policy paper you should avoid further detailed advice to Japanese Government re reform Japanese banking systems. SCAP staff functions in this field should be limited (permitting corresponding personnel reductions) to following and keeping you informed of Japanese actions to enable you or your principal assistants to intervene directly with high Japanese Governmental leaders should it appear to you that any projected or accomplished action might jeopardize broad purposes of the occupation. Japanese should be encouraged informally when they spontaneously solicit advice and assistance in such matters as banking reform to address their requests directly to you on a high governmental level. ~~Requests requiring detailed staff work or expert technical advice may be forwarded to Washington for study by qualified experts.~~

"Following material prepared by responsible Government Departments before reexamination previously proposed course in light NSC 13/2. Principles set forth Parts II and III thereof may at your discretion be transmitted informally Prime Minister as expression your general policy views. Part IV is solely for your background information and not for presentation Japanese Government."

As indicated in the first paragraph of the proposed insertion, the new language is put forward to bring our policies on this matter into accord with the provisions of paragraphs 8 and 12 of NSC 13/2, the pertinent ^{portions} provisions of which are quoted below for convenience:

"8. Supreme

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"8. Supreme Commander for the Allied Powers. . . . the view of the United States Government should be communicated to SCAP that the scope of its operations should be reduced as rapidly as possible, with a corresponding reduction in personnel, to a point where its mission will consist largely of general supervisory observation of the activities of the Japanese Government and of contact with the latter at high levels on questions of broad governmental policy."

"12. Internal Political and Economic Changes. Henceforth emphasis should be given to Japanese assimilation of the reform programs. To this end, while SCAP should not stand in the way of reform measures initiated by the Japanese if he finds them consistent with the overall objectives of the occupation, he should be advised not to press upon the Japanese Government any further reform legislation. . ."

I would of course be glad to discuss the proposed amendment with you if you should desire.

FE:NA:RAFearey/pm

SECRET

Requests requiring detailed staff work or expert technical information may be forwarded to Washington for consideration by qualified experts. Detailed information or technical studies could, when prepared, be furnished Japanese not in form of advice but merely for their information and use at their discretion.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON 25, D. C.

OFFICE OF
ADVISER ON FOREIGN INVESTMENTS

April 1, 1949

Mr. J. Burke Knapp
Director
Office of Financial and Development Policy
Department of State
Washington, D. C.

Dear Mr. Knapp:

We have recently received from the Industrial Bank of Japan, Ltd. a letter under date of February 28, 1949, forwarding a booklet entitled "A Short History of the Importation of Foreign Capital through The Industrial Bank of Japan, Ltd.," and a mimeographed copy of "Proposed Program for Resumption of Former Investment Relations and Importation of New Private Foreign Capital." While this letter, together with the enclosed material, was addressed to this Commission, it was not clear to us whether or not similar letters and material are being circularized in the United States at this time. In the event that such circularization is taking place or is contemplated, question is raised as to compliance with the Acts administered by this Commission, particularly the Securities Act of 1933.

Upon consideration of this question, we felt that we should call to the attention of the Industrial Bank of Japan the requirements of the Securities Act, offering to provide further advice upon receipt of more specific information as to its activities in the United States. In the thought that this might be of interest to the State Department and to the occupation authorities in Japan, I am forwarding herewith a copy of the letter received from the Industrial Bank of Japan together with a copy of our reply thereto.

Very truly yours,

DIVISION OF ECONOMIC PROPERTY
POLICY

Walter C. Louchheim, Jr.

APR 7 - 1949

Walter C. Louchheim, Jr.
Adviser on Foreign Investment

DEPARTMENT OF STATE
ECONOMIC PROPERTY UNIT

Enclosures (2)

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APR 30 1949

OFFICE OF
FINANCIAL & DEVELOPMENT POLICY
Walter C. Louchheim
APR 4 1949
DEPARTMENT OF STATE
drafted 5/9 5AM file
2 let. to West
3 let. to West
drafted 4/26

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CS/A

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MAY 28 1949
FILED

NIPPON KOGYO GINKO
(The Industrial Bank of Japan, Limited)
Marunouchi, Tokyo, Japan

February 28, 1949

The President
Securities and Exchange Commission
Washington 25, D. C.
U. S. A.

Dear Sir:

We take pleasure in submitting herewith for your information a booklet entitled "A Short History of the Importation of Foreign Capital through The Industrial Bank of Japan, Ltd." as well as a mimeographed copy of "Proposed Program for Resumption of Former Investment Relations and Importation of New Private Foreign Capital".

As will be noted from these enclosures, The Industrial Bank of Japan, Ltd. was established in 1902 as an institution designed to deal with problems and techniques incident to the importation of foreign capital into Japan, in addition to acting as the only bank authorized to make long-term industrial loans. In fact, the Bank has not only floated more than twenty issues of bonds in New York, London and other money markets, for the Japanese Government, municipalities and industrial corporations, but also has successfully invited subscriptions to its own increased capital stock and industrial debentures from influential capitalists and financiers abroad.

Whilst having played an important role in the field of foreign capital importation, the Bank has contributed a great deal in fostering the Japanese economy through maintaining the long-established relationships with leading private-enterprise in Japan. In January 1949, the Industrial Bank, supported by General Douglas MacArthur's headquarters organization and Japanese authorities concerned, reorganized the Bank; however, the banking activities of the new organization remain basically unchanged.

The Bank maintains a highly specialized Credit Investigation Department which is in a position to cooperate in every way to facilitate first-hand information on the financial standing of numerous Japanese corporations.

As you are doubtless aware, it would be impossible for Japan to rebuild a war-devastated economy without tremendous material aid from abroad. Japanese industrialists in all lines are eagerly

- 2 -

looking for United States' private capital in its various forms, some for working funds or technological information and others for plants, machinery or raw materials, at the earliest possible date.

We are glad to mention that the Japanese economy is gradually showing a brighter outlook, production having recorded a remarkable increase. Further the political situation here appears to have stabilized to a marked extent as a result of the general election held in January 1949. Coupled with the scope of American business activities in Japan, recently broadened, and the easing of the ban on foreign private investments a single rate of Yen exchange may possibly be fixed in the near future. Moreover, revision of such legislation as tends to discourage United States' private investment unduly is under contemplation and will be submitted to the National Diet in the immediate future.

Under the circumstances, should you and your friends, either individual or institutional, be interested in investing private capital in Japanese companies in any form, we have confidence in our ability to furnish the most reliable information regarding the standing and business integrity of such corporations and co-operate as an intermediary institution, trustee, guarantor or otherwise, with you upon request. If at any time we can be of service to you, please feel free to communicate with us.

Yours very truly,

FOR THE INDUSTRIAL BANK OF JAPAN, LTD.

(s)

K. Kishi
Governor

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March 29, 1949

Mr. K. Kishi, Governor
The Industrial Bank of Japan, Ltd.
Marunouchi, Tokyo, Japan

My dear Sir:

This will acknowledge receipt of your letter of February 28, 1949 and the documents with respect to the proposed program for the investment of foreign capital in Japan which you sent for my information.

I have read carefully and with interest this material which I am glad to have for the files of the Commission. It is not clear to me whether the material that you have submitted is being circularized in the United States at this time. In any event, since it would appear that such action is contemplated, I should like to point out for your consideration the requirements of one of the acts administered by this Commission, namely, the Securities Act of 1933. Section 5 of this Act makes it unlawful to use the United States mails or any means or instruments of transportation or communication in interstate commerce to offer, sell or deliver after sale any security unless such security is effectively registered with this Commission (or entitled to one of the exemptions provided by Sections 3 and 4 of the Act). A copy of the Act is enclosed.

It would appear from portions of the mimeographed copy of the "Proposed Program for Resumption of Former Investment Relations and Importation of New Private Foreign Capital" that the material submitted is designed to obtain an expression of interest of former and prospective investors in the securities of particular companies. Under the definition of the term "offer to sell" in Section 2(3) of the Act, such a solicitation would constitute an "attempt . . . to dispose of . . . a security . . . for value."

None of the exemptions provided by the Act prima facie would be available for the securities involved.

Generally speaking, registration requires the filing with this Commission of such information concerning the company and its securities as would be necessary to enable the average prudent investor to evaluate the securities offered. Hence, in addition to the information relating to the economic and financial aspects as outlined in the "proposed program," it would be necessary to furnish detailed information concerning each company and its securities.

- 2 -

This letter is written to acquaint you with the registration requirements of the Securities Act that may apply to your program. I shall, of course, be glad to advise you further concerning such requirements if you will furnish me with information as to the purpose, nature and details of your activities in the United States.

Very truly yours,

Edmond M. Hanrahan
Chairman

Enclosure
Securities Act of 1933

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YUNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington 25, D. C.

April 1, 1949

APR 30 1949

Mr. J. Burke Knapp
Director
Office of Financial and Development Policy
Department of State
Washington, D. C.

Dear Mr. Knapp:

We have recently received from the Industrial Bank of Japan Ltd. a letter under date of February 28, 1949, forwarding a booklet entitled "A Short History of the Importation of Foreign Capital through the Industrial Bank of Japan, Ltd.," and a mimeographed copy of "Proposed Program for Resumption of Former Investment Relations and Importation of New Private Foreign Capital." While this letter, together with the enclosed material, was addressed to this Commission, it was not clear to us whether or not similar letters and material are being circularized in the United States at this time. In the event that such circularization is taking place or is contemplated, question is raised as to compliance with the Acts administered by this Commission, particularly the Securities Act of 1933.

Upon consideration of this question, we felt that we should call to the attention of the Industrial Bank of Japan the requirements of the Securities Act, offering to provide further advice upon receipt of more specific information as to its activities in the United States. In the thought that this might be of interest to the State Department and to the occupation authorities in Japan, I am forwarding herewith a copy of the letter received from the Industrial Bank of Japan together with a copy of our reply thereto.

Very truly yours,

Walter C. Louchheim, Jr.
Adviser on Foreign Investment

Enclosures (2)

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March 29, 1949

Mr. K. Kishi, Governor
The Industrial Bank of Japan, Ltd.
Marunouchi, Tokyo, Japan.

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Very truly yours,

Edmond M. Hanrahan

Enclosure Securities Act of 1933

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NIPPON KOGYO GINKO
(The Industrial Bank of Japan, Limited)
Marunouchi, Tokyo, Japan

February 28, 1949

The President
Securities and Exchange Commission
Washington 25, D. C.
U. S. A.

Dear Sir:

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looking for United States' private capital in its various forms, some for working funds or technological information and others for plants, machinery or raw materials, at the earliest possible date.

We are glad to mention that the Japanese economy is gradually showing a brighter outlook, production having recorded a remarkable increase. Further the political situation here appears to have stabilized to a marked extent as a result of the general election held in January 1949. Coupled with the scope of American business activities in Japan, recently broadened, and the easing of the ban on foreign private investments a single rate of Yen exchange may possibly be fixed in the near future. Moreover, revision of such legislation as tends to discourage United States' private investment unduly is under contemplation and will be submitted to the National Diet in the immediate future.

Under the circumstances, should you and your friends, either individuals or institutional, be interested in investing private capital in Japanese companies in any form, we have confidence in our ability to furnish the most reliable information regarding the standing and business integrity of such corporations and co-operate as an intermediary institution, trustee, guarantor or otherwise, with you upon request. If at any time we can be of service to you, please feel free to communicate with us.

Yours very truly,

FOR THE INDUSTRIAL BANK OF JAPAN, LTD.

(s)

K. Kishi
Governor

C
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YUNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington 25, D. C.

April 1, 1949

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Department of State
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Very truly yours,

Walter C. Louchheim, Jr.
Adviser on Foreign Investment

Enclosures (2)

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Chairman

Enclosure Securities Act of 1933

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Securities and Exchange Commission
Washington 25, D. C.
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Yours very truly,

FOR THE INDUSTRIAL BANK OF JAPAN, LTD.

(s)

K. Kishi
Governor

OFD

APR 30 1949

In reply refer to
OFD

My dear Mr. West:

I am forwarding to you copies of a letter addressed to the President of the Securities and Exchange Commission by the Governor of the Industrial Bank of Japan, a letter from the Chairman of the Securities and Exchange Commission to the Governor of the Industrial Bank of Japan, and a letter to me forwarding these two letters from Mr. Walter C. Louchheim, Jr., Adviser on Foreign Investment in the Securities and Exchange Commission.

It occurs to me that the Department of the Army and SCAP should be informed, if they are not already so informed, of the step which the Industrial Bank of Japan has taken to encourage American investment in Japan.

The Department of State feels that efforts of Japanese business and financial institutions to expand sound foreign investment in Japan within the framework of policies which SCAP has laid down should be encouraged and assisted. It accordingly suggests that appropriate steps be taken by SCAP to acquaint such institutions generally with the information contained in Mr. Hanrahan's letter to Mr. Kishi and with other similar information which may help Japanese business and financial interests to avoid actions which might cause them embarrassment or undermine public confidence in Japan as an investment field.

Sincerely yours,

Enclosures:

JBK

J. Burke Knapp
Director

Office of Financial and Development Policy

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Mr. Robert R. West,
Office, Assistant Secretary of the Army,
Department of the Army.

A true copy of the signed copy is attached.

APR 29 1949 PM

OFD:RWBarnett:mck:aw
4/26/49

See clearance on former draft
ED FN FE
has draft cleared with Mr. Barnett

894.516/4-149

CSA

894.516/4-149
NA: 842

MAY 10 1948

In reply refer to OFD

Dear Walter:

You may be interested to see the attached copy of a letter which I recently addressed to Mr. Robert R. West in the office of the Assistant Secretary of the Army, transmitting a copy of your letter to me dated April 1, with enclosures.

Sincerely yours,

Enclosure:

Letter to Mr. West.

J. Burke Knapp
Director
Office of Financial and Development Policy

Mr. Walter C. Louchheim, Jr.,
Adviser on Foreign Investment,
United States Securities and Exchange Commission,
Washington 25, D. C.

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W. Barrett
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DEPARTMENT OF THE ARMY
SPECIAL STAFF, UNITED STATES ARMY
WASHINGTON 25, D. C.

13 May 1949

Mr. J. Burke Knapp, Director
Office of Financial and Development Policy
Department of State
Washington 25, D. C.

and
894.516/4-149

Dear Mr. Knapp:

Thank you for your letter of 30 April 1949 to Mr. West, reference OFD, bringing to our attention an exchange of correspondence between the Governor of the Industrial Bank of Japan, the Securities and Exchange Commission, and yourself.

B

The correspondence has been forwarded to the Supreme Commander for the Allied Powers by air mail with a request that SCAP bring to the attention of appropriate business and financial institutions the information contained in Mr. Hanrahan's letter to Mr. Kishi.

Sincerely yours,

Robert W. Porter Jr.

ROBERT W. PORTER, JR.
Colonel, GSC
Chief, Far Eastern Affairs Group
Civil Affairs Division

894.516/5-1349

DIVISION OF ECONOMIC PROPERTY
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OFFICE OF FINANCIAL AND
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13 May 1949

Mr. J. Burke Knapp, Director
Office of Financial and Development Policy
Department of State
Washington 25, D. C.

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Sincerely yours,

ROBERT W. PORTER, JR.
Colonel, GSC
Chief, Far Eastern Affairs Group
Civil Affairs Division



THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

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United States Political Adviser
for Japan

Tokyo, August 2, 1949.

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No. 518

DIVISION OF FINANCIAL AFFAIRS 49264

RESTRICTED - (FOR DEPARTMENT USE ONLY) *File* AUG 9 1949

DEPARTMENT OF STATE

Subject: Supplementary Report on Application of Japanese
Import Duty on Tobacco Products.

894.516/8-249

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The Acting Political Adviser has the honor to refer to this Mission's despatch no. 516 of August 2, 1949, entitled "Applicability of Japanese Customs and Internal Taxes to Non-Occupation Imports and Taxation of Invisible Exports."

With respect to the application as of July 15, 1949, of the existing 355 per cent ad valorem Japanese customs duty on tobacco products imported for use by non-Occupation personnel, it may be noted that the Internal Revenue Division of the Economic and Scientific Section (ESS), General Headquarters, Supreme Commander for the Allied Powers, has suggested to the Ministry of Finance that this rate of duty be applied only to cigarettes. According to Mr. Henry SHAVELL, Deputy Chief of the Internal Revenue Division, this suggestion, to which no response has yet been received from the Ministry of Finance, was made subsequent to the July 7, 1949 exchange of memoranda on this subject between ESS and the Ministry.

Mr. Shavell on August 2, 1949, stated to an officer of this Mission that it appeared highly doubtful whether cigars and cut tobacco could be sold locally to any extent to non-Occupation personnel if the price were to be raised to include the 355 per cent import duty. He said that the ESS suggestion cited above brought out this point, it being additionally observed that the Ministry of Finance might consider the desirability of making the rates for cigars and cut tobacco appreciably less than 355 per cent.

Mr. Shavell added that he would prefer having no publicity being given to the foregoing matter because ESS did not wish to have it said that General Headquarters, SCAP, was "dictating" to the Finance Ministry with respect to alteration of Japanese import duties, especially after ESS had indicated to the Finance Ministry that it had no objection to application of the 355 per cent rate to all tobacco products.

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RETURN TO DC/R FILES WITHIN 14 DAYS, WITH A NOTATION OF ACTION TAKEN.

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THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

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United States Political Adviser
for Japan

Tokyo, August 2, 1949.

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No. 516

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Subject: Applicability of Japanese Customs and Internal Taxes
to Non-Occupation Imports and Taxation of Invisible
Exports.

DIVISION OF FINANCIAL AFFAIRS
AUG 1 1949
G.S.
DEPARTMENT OF STATE

The Acting Political Adviser has the honor to refer to this Mission's despatches nos. 417 of June 28, 1949, "Japanese Taxation of Commercial Entrants as Related to Question of Attraction of Foreign Capital Investment in Japan," and 439 of July 8, 1949, "Opinions of American Chamber of Commerce on Japanese Taxation of Commercial Entrants."

894.516/7-849

It will be recalled that the question of application of Japanese customs and consumption taxes to goods imported into Japan and destined for use by non-Occupation personnel received considerable attention in these despatches, special reference being made to tobacco products and liquors.

894 516/7-849

In accordance with a memorandum for the Ministry of Finance dated July 7, 1949, and sent by Major General W. F. MARQUAT, Chief, Economic and Scientific Section (ESS), General Headquarters, Supreme Commander for the Allied Powers, "in view of the significant revenue implications of the importation of foreign tobacco products into Japan, there is no objection to the application of the existing customs duty to tobacco imports as of 15 July 1949 as requested" by the Ministry of Finance. The memorandum, copy enclosed together with a copy of the memorandum from Ministry of Finance referred to therein, additionally states that, owing to the considerably lesser magnitude of revenue implications in the case of non-Occupation imports of liquor, "it would appear... advisable to continue the present suspension of tariff and internal tax application to liquor products imported into Japan until such time as the Customs Law has been revised." In this connection, the memorandum notes that legislation is being prepared providing for the complete overhaul of the existing Japanese Customs Law, and that such legislation is slated for introduction in the forthcoming Diet session.

In accordance

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AUG 17 1949

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Page #3
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ACTION COPY

RETURN TO DC/R FILES WITHIN 14 DAYS, WITH A NOTATION OF ACTION TAKEN.

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894.516/8-249

Tokyo's Despatch No. 516,
August 2, 1949.

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In accordance with General Marquat's memorandum for the Ministry of Finance, the Japanese authorities as of July 15, 1949, began collecting the full prewar rate of 355 per cent ad valorem on tobacco products imported into Japan for non-Occupation consumption.

- 3/ Also enclosed is a copy of a memorandum for the Ministry of Finance dated July 7, 1949, and sent to the Ministry by Mr. L. H. MOSS, Chief, ESS Internal Revenue Division, on the subject of "Taxation of Invisible Exports." This memorandum refers to a memorandum of identic date from the Ministry of Finance to Mr. Moss on the same general subject; a copy of the latter memorandum is enclosed.

4/ For a proper understanding of this exchange of memoranda, it may be noted that ESS has in recent months, working first with the Japanese Board of Trade (Boeki Cho) and now with the Ministry of International Trade and Industry, established outlets for sales of Japanese indigeneous products such as textiles, cameras, et cetera, to Occupation personnel and other individuals legally entitled to use of non-yen currency. As an experiment, these sales, designed to assist in the increase of Japanese foreign exchange acquisition, were first conducted in Tokyo. Buyer interest has steadily increased to such an extent that it is now estimated that the Tokyo sales outlet alone may net the Japanese Government between \$10,000,000 and \$15,000,000 during 1949. As a result, additional sales outlets are being planned for early establishment, possibly at Kobe, Kyoto and Nagoya, with one outlet already being established at Yokohama.

The Finance Ministry, in its memorandum (enclosure no. 4), asks whether it may be permissible not to levy domestic excise and transaction taxes on sale of goods in the so-called export bazaars provided strict adherence is given to limitation of sales to non-yen currency and prevention of resale. In his reply (enclosure no. 3), Mr. Moss points out the desirability of removing any and all obstacles to the maximization of sales of indigeneous merchandise within Japan for foreign exchange, and thereupon states that "there is no objection to the temporary extension of excise and consumption tax exemption for all Japanese produced commodities sold in Japan for foreign exchange" under the conditions stipulated in the memorandum.

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Tokyo's Despatch No. 516,
August 2, 1949.

- 3 -

Enclosures: *att*

- 1/ Copy of memorandum from ESS for Ministry of Finance dated July 7, 1949, subject: "Applicability of Customs and Internal Taxes to Non-Occupation Imports";
- 2/ Copy of memorandum for ESS from Ministry of Finance dated July 7, 1949, subject: "Imposition of Custom Duty and Domestic Excise Upon the Imports";
- 3/ Copy of memorandum from ESS for Ministry of Finance dated July 7, 1949, subject: "Taxation of Invisible Exports"; and
- 4/ Copy of memorandum for ESS from Ministry of Finance dated July 7, 1949, subject: "Imposition of Domestic Excise and Transaction Tax upon the goods to be purchased in Non-Yen Currency at the Export Bazaars."

Parchment mat to the Department.

Copies to: American Embassy, London
American Consulate General, Shanghai
American Consulate General, Hong Kong

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Enclosure No. 1 to Despatch No. 516 dated August 2, 1949 from the United States Political Adviser for Japan, Tokyo, on the subject "Applicability of Japanese Customs and Internal Taxes to Non-Occupation Imports and Taxation of Invisible Exports".

(COPY)

GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS
Economic and Scientific Section
APO 500

7 July 1949

012.2(7 Jul 49)ESS

MEMORANDUM FOR: Ministry of Finance

SUBJECT: Applicability of Customs and Internal Taxes to
Non-Occupation Imports

1. Reference is memorandum from Taxation Bureau, Ministry of Finance, dated 7 July 1949, subject: "Imposition of Customs Duty and Domestic Excise Upon Imports".
2. As a principle, there is no objection to the application of Japanese customs and internal excises to all imports into Japan not destined for the Occupation Forces.
3. The immediate application of the present Customs Law of Japan to all non-occupation imports would appear inappropriate at present, however, because of the prohibitively high tariff rates that would be imposed. In this connection, it is understood that legislation is in preparation providing for the complete overhaul of the existing Customs Law of Japan, and that such legislation is slated for introduction in the forthcoming Diet session. It would appear preferable for such revision to precede full enforcement of the Customs Law.
4. In view of the significant revenue implications of the importation of foreign tobacco products into Japan, there is no objection to the application of the existing customs duty to tobacco product imports as of 15 July 1949 as requested in reference memorandum.
5. With reference to non-occupation imports of liquor products, however, it is believed that the revenue implications here are of a considerably lesser magnitude. It would appear, therefore, advisable to continue the present suspension of tariff and internal tax application to liquor products imported into Japan until such time as the Customs Law has been revised.

W. F. MARQUAT
Major General, U. S. Army
Chief, Economic and Scientific Section

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Enclosure No. 2 to Despatch No. 516,
dated August 2, 1949 from the United
States Political Adviser for Japan,
Tokyo, on the subject "Applicability
of Japanese Customs and Internal Taxes
to Non-Occupation Imports and Taxation
of Invisible Exports".

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MINISTRY OF FINANCE
THE JAPANESE GOVERNMENT

July 7, 1949

MEMORANDUM FOR: Mr. L. H. Moss, Chief of Internal Revenue
Division, E.S.S., SCAP

SUBJECT: Imposition of Custom Duty and Domestic Excise
Upon the Imports.

Taking the present import situation into consideration, with regard to the wines and liquors and tobacco to be imported by foreign nationals into Japan, the liquor tax shall be imposed upon the wines and liquors according to the present liquor tax law and the import duty shall be imposed upon the tobacco according to the present tariff, both beginning on the 15th of July of this year.

Under the present Japanese Laws on the customs tariff and the domestic excise, it is, in principle, to levy customs duties and/or domestic excise upon the goods to be imported by those foreign nationals (hereinafter, designated as foreigners) other than those Occupational personnels specifically stipulated in the G.H.Q. Memorandum 4938-A dated Nov. 29 1947 (hereinafter, designated as Occupational Forces), but it is, in practice, not so well effected. It seems partly due to the fact that some of the advalorem rates of the import duties and the domestic excise are too high to be applicable to the present state of affairs. It must be noted that the rational settlement of the above problem is under consideration.

(1) Wines and Liquors:

(a) The Custom Office shall permit the transfer of the wines and liquors, without payment of the liquor tax, from the bonded warehouse at the port of discharge to a certain designated place of storage, no liquor tax shall be collected.

(b) The above place of storage shall be classified as a factory prescribed in the Liquor Tax Law, the provisions of which shall be in force.

(c) The liquor tax shall be collected at the time when the wines and liquors are taken out of the above place of storage. However, those to be delivered to the Occupational Forces shall be exempted from the imposition of the liquor tax.

(d) As regards those wines and liquors held by such individuals and organizations including the OSS as to deal with

Foreigners

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Foreigners shall report the kinds, quantities and values of those wines and liquors as of July 15, 1949, to the respective Taxation Offices, and the liquor tax shall be collected based upon the above reports.

(e) The above procedures (a) to (d) shall also be applied to those to be disposed of by the Occupation Forces to the outsiders.

(2) Tobacco

(a) The Custom Office shall permit the bonded transfer of the tobacco from the bonded warehouse at the port of discharge to a certain designated place of storage, and while the tobacco are kept in the above place of storage, no import duty shall be collected.

(b) The above place of storage shall be licensed as a private-bonded-shed and monthly fee of 7000 yen shall be levied for this license.

(c) According to the objects of taking delivery of tobacco from the place of storage, the following shall be applied respectively:

(1) Those which are obviously to be delivered to the Occupation Forces shall be cleared without declaration of importation and without imposition of import duties.

(2) Those which are to be delivered to such individuals and organizations including the OSS as to deal with Foreigners shall be declared for importation and imposed the import duties.

(3) As regards the tobacco imported without imposition of import duties and held by such individuals and organization including the OSS as to deal with Foreigners shall report their kinds, quantities and values as of July 15, 1949, to the respective Taxation Offices, and the import duty shall be collected accordingly.

(4) The above procedures C-(1) to C-(3) shall also be applied to those tobacco to be disposed of by the Occupation Forces to the outsiders.

Keiichiro Hirata
Chief, Taxation Bureau,
Ministry of Finance.

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Enclosure No. 3 to Despatch No. 516 dated August 2, 1949 from the United States Political Adviser for Japan, Tokyo, on the subject "Applicability of Japanese Customs and Internal Taxes to Non-Occupation Imports and Taxation of Invisible Exports".

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GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS
APO 500

012.2(7 Jul 49)ESS/IR
(IR-4)

7 July 1949

MEMORANDUM FOR: Ministry of Finance

SUBJECT: Taxation of Invisible Exports

1. Reference is Memorandum from Taxation Bureau, Ministry of Finance, dated 7 July 1949, subject: "Imposition of Domestic Excise and Transaction Tax upon the goods to be purchased in non-yen currency at the export Bazaars".

2. The sale of indigenous merchandise for foreign exchange within Japan can materially assist in the increase of Japanese foreign exchange acquisition. It appears, therefore, in the interest of the Japanese Government to remove any and all obstacles to the maximization of sales of indigenous merchandise within Japan for foreign exchange.

3. With reference to paragraph 2 of subject memorandum, there is no objection to the temporary extension of excise and consumption tax exemption for all Japanese produced commodities sold in Japan for foreign exchange, provided the following conditions are complied with:

- a. When purchaser pays in foreign exchange.
- b. When such foreign exchange accrues to the benefit of the Japanese economy.
- c. When purchaser buys for his own personal use, and not for resale or barter.

4. The sale of Japanese produced commodities for foreign exchange in Japan constitutes a form of invisible export, and as such increases Japan's foreign exchange earnings just as much as that resulting from physical exports.

FOR THE CHIEF, ECONOMIC AND SCIENTIFIC SECTION:

L. H. MOSS
Chief, Internal Revenue Division

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Enclosure No. 4 to Despatch No. 516 dated August 2, 1949 from the United States Political Adviser for Japan, Tokyo, on the subject "Applicability of Japanese Customs and Internal Taxes to Non-Occupation Imports and Taxation of Invisible Exports".

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MINISTRY OF FINANCE
THE JAPANESE GOVERNMENT

July 7, 1949

Memorandum for: Mr. L. H. Moss, Chief of Internal Revenue Division, ESS, GHQ.

Subject : Imposition of Domestic Excise and Transaction Tax upon the goods to be purchased in Non-Yen Currency at the Export Bazaars.

(1) As to the sale at the Export Bazaars of those Japanese textiles and other commodities destined to be exported and at present held in stock, it is proper to levy the domestic excise and transaction tax upon those goods which are sold to those persons other than the Occupation Forces, for the sale to them should be classified as domestic transactions rather than export transactions, while the Occupation Forces are exempted of tax burden according to the International Law.

(2) However, judging from the present export business of Japan, it may be permissible not to levy the tax burden upon the sale of export goods at the Export Bazaars provided that the following would be strictly adhered to:

- (a) The sale shall be directly carried out in Non-Yen Currency.
- (b) Proper measures shall be put into effect to prevent such practices as re-selling.

In order to practice such temporary arrangement for the Export Bazaars, your early answer is urgently requested, for there lack legal foundations to support such arrangement.

Keiichiro Hirata
Chief, Taxation Bureau,
Ministry of Finance

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