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this commitment is very dim, unless we can supply one million more tons to the two zones in the next crop year than are being supplied in the current crop year.

No other European country, except Austria, is faced with conditions anything like as critical. Experienced observers, including Herbert Hoover, who have surveyed the situation in the other countries of Western Europe have reported that in none of them are there signs of serious undernourishment. Nowhere are food stocks so low or rations so slim as in Germany.

Occupation has no chance of success if these conditions continue. This state of affairs has been foreseen, and I have urged repeatedly that priority be recognized for food shipments to Germany. The basis for the priority is that the prevention of famine in the U.S.-U.K. zones of Germany is our particular responsibility, jointly with the British, together with the fact that food conditions prevalent in the two zones are the worst of anywhere in Europe.

We will not get the priority unless we have your help. As I see it, the priority will be needed in allocation of food supplies for export, in loading at the ports, and in shipping.

SOCIALIZATION OF COAL MINES

The greatest need in Germany, next to food, is coal. The daily production, 215,000 tons, is far below the level programmed for this time last year. The situation is discouraging because the daily rate has been declining in the last few months, instead of rising.

The British, who are in direct charge of production of coal in the Ruhr, have the purpose of carrying out a socializing of the mines. Lord Pakenham, the Foreign Office man on Germany saw Petersen a few days ago in Berlin and told him candidly that it was the firm purpose of his government to

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bring about a nationalization of the coal mines.

Our people in Germany have the view, and I share it, that the need is for maximum production of coal at this critical time, not for experiments in socialization. As I see it, such experiments are certain to interfere with current production. If my house is on fire, I do everything I can to put the fire out, I do not engage in arguments on the state of title to the house.

Our people in Germany have been unable to take a firm position with the British. At present we have no policy on the matter, although we have been trying for some time to induce the State Department to take a position. Unless one is taken, the matter will go by default.

I submit that strong representations should be made to the British government, to the effect that it must at least postpone its socialization program until the present emergency in production of coal has been overcome. We have every right to insist on this, since the load of carrying the two zones in Germany, particularly in the vital matter of food, is falling more and more on our shoulders.

I should like to discuss these two problems at the next meeting of the Committee of Three. I am sending a copy of this letter to the Secretary of the Navy.

Sincerely yours,

(sgnd) Robert P. Patterson,
Secretary of War.

- 3 -

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INCOMING TELEGRAM

DEPARTMENT OF STATE—DIVISION OF COMMUNICATIONS AND RECORDS

TELEGRAPH BRANCH

~~TOP SECRET~~

N

A 108

Action: **EU**
 Info :
 S/S
 U-E
 C
 A-H
 DC/R
 LOG

Control 5606

Rec'd June 17, 1947
 8:27 a.m.

FROM: Berlin
 TO: Secretary of State
 NO: 1452, June 17, 10 a.m.

PERSONAL FOR THE SECRETARY. EYES ONLY

Howard Petersen has sent a personal telegram to General Clay to the effect that the State Dept is considering inviting British Govt to join it in putting forward an energetic program of action designed to expedite the restoration of coal production in Europe. Replying to Petersen's inquiry, Clay points out that while any practical action to institute an energetic program aimed at expediting increased coal production in Europe would be welcome, the basic problem in the Ruhr-Aachen fields derives from the uncertainty as to the future status of these fields. He emphasizes the absence of incentive to mine management. In Germany we have long urged the British to place increasing responsibility on the Germans for coal production but as yet with no practical results. Labor has been persuaded that socialization is the solution. Clay recommended that the mines should be placed immediately under a German trusteeship with public announcement that it would continue until a central German government had been established and German people could freely determine under more normal conditions the future of mine ownership. Under that plan mine management would be made responsible under the trusteeship and should be given bonuses for increased production. He realizes that this would be difficult to accomplish as it runs contrarily to British Govt program at home.

On the subject of

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DECLASSIFIED

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

NND 750057

By CLG NARS, Date NOV 7 1974

INFORMATION COPY

Tab C

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-2-#1452, June 17, 10 a.m. from Berlin

On the subject of capital loan to coal industry secured by exports to be used for mine rehabilitation and mine machinery, Clay's opinion is that this would retard coal production as it would be an unpopular move in Germany since it would pledge the most important German asset for a single purpose. Also additional machinery is not considered necessary until production has increased over present figures by at least 50,000 per day. If such an increase occurs machinery could be provided in Germany. In other words capital is not the immediate problem in coal production.

In Clay's opinion main problem in Germany is threefold: (one) removing present uncertainty regarding ownership and placing direct management responsibility in German hands under joint US/UK military govt general supervision; (two) better publicity program designed to make management and miner conscious of their joint responsibility; (three) general improvement in economic level of entire Ruhr area.

I would like to add that one feature of our policy has not been entirely clear to us here in connection with the operation of the bizonal area, namely, socialization of industry. General Noce, who is now here, tells me that the War Dept has, since last January, endeavored to obtain a written statement of policy from the Dept on this subject without success. Ambassador Douglas, who is also here and who will, he tells me, telegraph you directly on this subject, believes from what he learns from Mister Bevin and others that the British Labor Party will project its policy of extensive socialization of industry in Germany and will not be willing to defer such a development until a German central government has been created and the German people have opportunity under more normal conditions of indicating their wishes. The trusteeship solution appears to us here as an admirable compromise which would at least in part relieve the uncertainty now exercising a most depressing influence on production.

MURPHY

REP:FAE

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~~SECRET~~U. S. POSITION ON ARMAMENTS AND ARMED FORCES WITHIN THE
COMPETENCE OF THE COMMISSION FOR CONVENTIONAL ARMAMENTS

Problem: To formulate U. S. Position on armaments and armed forces within the competence of the Commission for Conventional Armaments.

Discussion: Item No. 1 on the Plan of Work drawn by the United Nations Commission for Conventional Armaments requires that recommendations be submitted to the Security Council concerning the armaments and armed forces within the Commission's jurisdiction. The Executive Committee on Regulation of Armaments has considered the question and recommends a United States position in the attached paper (TAB A). At the same time the Committee also recommends a definition of "other weapons adaptable to mass destruction" which phrase is used in the terms of reference of the United Nations Atomic Energy Commission to describe its competence with respect to weapons other than atomic.

Briefly, the attached paper (TAB A) recommends that the United States position in respect to Item No. 1 of the Plan of Work should be:

- (a) That the Commission for Conventional Armaments deal with
- (1) all armed forces, and
 - (2) all armaments not specifically exempted by being classified as major weapons adaptable to mass destruction.
- (b) That the only weapons presently adaptable to mass destruction are:
- (1) atomic explosive weapons
 - (2) radioactive material weapons
 - (3) lethal chemical weapons
 - (4) biological weapons
- (c) That in the future, any weapons developed which have characteristics comparable to those of the atomic bomb should be classified as in (b) above.

Subject discussed at meeting of 3 Secretaries on July 10, 1947

The position outlined above is in harmony with the views of the Joint Chiefs of Staff as given in JCS 1731/28.

Recommendations:

1. That the Three Secretaries approve the conclusions of the Executive Committee; and,
2. That the study of the Committee be forwarded to the U. S. Mission to the United Nations for its guidance, accompanied by copies of the JCS document 1731/28 for its information.

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DECLASSIFIED
E.O. 11652, Sec. 3(E) and 5(D) or (F)
NND 750057
By CLP NARS, Date NOV 7 1974

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RAC D-4/2b.

July 7, 1947

EXECUTIVE COMMITTEE ON REGULATION OF ARMAMENTS

U. S. Position on Armaments and Armed Forces
Within the Competence of the Commission for
Conventional Armaments

THE PROBLEM

1. To determine the U.S. position in respect to item No. 1 of the proposed Plan of Work in the United Nations Commission for Conventional Armaments, which is:

"To consider and make recommendations to the Security Council concerning armaments and armed forces which fall within the jurisdiction of the CCA."

FACTS AND DISCUSSION

2. The General Assembly Resolution of December 14, 1946 commits the member nations to establish an international system of control and inspection for the regulation of armaments, including atomic energy. Before this Resolution was adopted, the Atomic Energy Commission was already in existence, having been established in accordance with the General Assembly Resolution of January 24, 1946, and having terms of reference which clearly indicated that it had primary responsibilities in the field of atomic weapons and other major weapons adaptable to mass destruction. When on February 13, 1947 a Resolution was passed by the Security Council establishing a Commission for Conventional Armaments, the problem was raised as to where its jurisdiction should be delimited vis-a-vis the Atomic Energy Commission. Despite objection on the part of the Soviet Union, it was generally understood that in establishing the Commission for Conventional Armaments, the Commission would deal with all weapons and armed forces not within the jurisdiction of the AEC.

3. It follows, therefore, that the final determination of the competence of the CCA must logically be made by the Security Council by means of:

- (a) definition of what constitute "major weapons adaptable to mass destruction", or
- (b) specification of particular weapons presently deemed to fall within the category of such weapons of mass destruction.

4. It should

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Tab A

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4. It should be noted that a decision by the Security Council as to a definition of "weapons of mass destruction" would not obviate the necessity for a subsequent decision by the Security Council to determine whether any given weapon, other than atomic weapons, should be so classified, now or in the future. Therefore, there would appear to be no impelling reason for the U.S. to press for immediate definition except as necessary to prevent the adoption of one which could be interpreted to our serious disadvantage.

5. The following definition of "major weapons adaptable to mass destruction" has been developed by the Joint Chiefs of Staff (JCS 1731/28) and concurred in by the Secretaries of War and the Navy: "Major weapons adaptable to mass destruction are all atomic explosive, radioactive material, lethal chemical and biological weapons; and, in the future, are weapons which have characteristics comparable in destructive effect to those of the atomic bombs and other weapons mentioned above. This JCS paper also calls attention to the possible danger to the U.S. interest deriving from any confusion of "weapons" with "means" or "method" of delivery, and provides valuable background material in support of the position taken.

6. From a political and social point of view it is desirable to eliminate from national armaments any weapon which -

(a) in its initial impact or inevitable after-effects, is capable of producing wide spread destruction of life comparable to that attending such natural catastrophes as plague, pestilence, famine, earthquake and flood;

(b) affords an aggressor state the means of overwhelming or paralyzing its victim before national or international counter-measures could become effective;

(c) in the constant threat of its possible use, imposes on organized society, as the only means of achieving "freedom from fear", defensive measures wholly incompatible with its normal peacetime social and economic structure.

7. In line with the U.S. estimate of Soviet intentions, as set forth in the "Ridgway Report" and interchanges of correspondence thereon among the three Secretaries, it can be anticipated that the Soviets will attempt to have long range aircraft, rockets and guided

missiles

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missiles designated as weapons capable of mass destruction, hoping thereby to eliminate them from national armaments to the particular disadvantage of the U.S. Similarly, it can be expected that the Soviets will attempt, during consideration of Item 1, to include within the competence of the CCA marginal items such as: base systems, industrial potential, utilization of manpower, transportation networks, and communication systems.

8. It is of utmost importance that the U.S. prevent the exclusion from the competence of the CCA of any weapon which it is unwilling to see eliminated from national armaments. Conversely, it is of importance for the U.S. to prevent the discussion in earlier items of the Plan of Work of matters, particularly marginal weapons and methods of warfare, which should be dealt with in connection with Item 4.

CONCLUSION

9. It is concluded that the U.S. position in respect to Item No. 1 on the Plan of Work of CCA should be -

(a) to recommend to the Security Council:

(1) That all armed forces fall within the jurisdiction of CCA rather than the AEC.

(2) That all armaments not specifically exempted by being classified as major weapons adaptable to mass destruction fall within the competence of CCA.

(3) That major weapons adaptable to mass destruction may be specifically defined as atomic explosives, radioactive material, lethal chemical and biological weapons; and, in the future, any weapons developed which have characteristics comparable in destructive effect to those of the atomic bomb or other weapons mentioned above.

(b) to insist, failing to secure agreement on the above definition in either the CCA or the SC, that the only weapons now subject to classification as weapons of mass destruction and thus exempted from CCA jurisdiction are:

(1) Atomic explosive weapons

(2) Radioactive material weapons.

(3) Lethal

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(3) Lethal chemical weapons.

(4) Biological weapons.

(c) to oppose vigorously any attempt to interpret the above definition or to expand the alternative list to include a "means" or "method" of delivering massed attack as distinct from weapons.

(d) Since the competence of the CCA covers all armed forces and all armaments not specifically exempted by classification as weapons of mass destruction, the U.S. opposes any attempt to make in connection with Item 1, a detailed listing of specific categories or types of armaments and armed forces falling within the CCA jurisdiction, since the elaboration of such detail would be expected to fall under Item 4.

RECOMMENDATIONS

10. It is recommended that the above conclusions be approved and that this paper be forwarded to the U.S. Mission to the United Nations for its guidance, accompanied by copies of the JCS document 1731/28 for its information.

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WAR DEPARTMENT
NAVY DEPARTMENT
WASHINGTON, D. C.

23 June 1947

The Honorable
The Secretary of State

Dear Mr. Secretary:

The Joint Chiefs of Staff have requested that their views on the interpretation to be given the phrase "major weapons adaptable to mass destruction" be transmitted for your information, so that you may be advised of the military thinking on this problem. Accordingly, enclosed herewith is a study, the work of the Joint Strategic Survey Committee, which has been approved by the Joint Chiefs of Staff and which may be considered as accurately reflecting their views.

Sincerely yours,

/s/ ROBERT P. PATTERSON
Secretary of War

/s/ FORRESTAL
Secretary of the Navy

Encl: Copy of JCS 1731/28

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ENCLOSURE

DISCUSSION

1. The phrase "major weapons adaptable to mass destruction" first appeared in the text of the Declaration on Atomic Energy issued in Washington, D. C., on 15 November 1945 by President Truman and Prime Ministers Attlee of Great Britain and W. L. Mackenzie King of Canada. It again appeared on 27 December 1945 in Section VII of the communique issued in Moscow by the Foreign Ministers of the United States, Soviet Russia and the United Kingdom recommending, "for the consideration of the General Assembly of the United Nations, the establishment of a commission to consider problems arising from the discovery of atomic energy and related matters."

2. Subsequently, the phrase was used in Section V of a resolution passed by the General Assembly on 24 January 1946 in which the United Nations Atomic Energy Commission was directed to make specific proposals "for the elimination from national armaments of atomic weapons and of all other major weapons adaptable to mass destruction." The phrase is now included in the language of the resolution adopted by the General Assembly of the United Nations on 14 December 1946 on the subject of the regulation and reduction of armaments and armed forces. This resolution recommends to the Security Council, among other things, that it give prompt consideration to the working out of proposals to insure the adoption of measures for the early "elimination from national armaments of atomic and all other major weapons adaptable now or in the future to mass destruction."

3. The matter of cognizance of weapons of mass destruction has already been raised in the Security Council of the United Nations in order, among other reasons, to delimit the functions and responsibilities of the Atomic Energy Commission and the Commission for Conventional Armaments, and it is to be expected that argument on the question in the United Nations will continue. The position of the United States to date has been that the Atomic Energy Commission has and must retain cognizance of all weapons of mass destruction and that another agency, intended to deal with conventional armaments, should not be brought into the same picture if anything effective is to be accomplished. The identification of "major weapons adaptable to mass destruction," by definition or otherwise, is obviously, therefore, of importance not only as a basis for determining what weapons should be eliminated, but also in connection with the question of jurisdiction of the two commissions.

4. A definition

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4. A definition is "a brief explanation of the exact meaning of a term." In this case we are not dealing with a term, but with a phrase which includes the terms "major," "adaptable" and "mass destruction." To explain the exact meaning of a term would be comparatively easy, but in general only the makers of a phrase can explain exactly what is meant by it.

5. The Declaration on Atomic Energy of 15 November 1945 makes it quite clear that the makers of this phrase were concerned primarily with the control of atomic energy to the extent necessary to insure its use only for peaceful purposes. However, they wrote as follows:

"We recognize that the application of recent scientific discoveries to the methods and practice of war has placed at the disposal of mankind means of destruction hitherto unknown, against which there can be no adequate military defense No system of safeguards that can be devised will of itself provide an effective guarantee against production of atomic weapons by a nation bent on aggression. Nor can we ignore the possibility of the development of other weapons, or of new methods of warfare, which may constitute as great a threat to civilization as the military use of atomic weapons." (Underlining supplied)

6. It is implied in the above quote that "other major weapons adaptable to mass destruction" should include only those weapons which constitute as great a threat to civilization as the military use of atomic energy and those weapons against which there can be no adequate military defense. From the words "nor can we ignore the possibility of the development of other (than atomic) weapons" it could be deduced that the authors felt there were at present no known major weapons adaptable to mass destruction other than atomic weapons. However, available information indicates this is not entirely true and that the authors, while certain that atomic weapons were adaptable to mass destruction, also felt it quite likely that other weapons, such as biological warfare weapons, should be classified as weapons adaptable to mass destruction on the basis that there could be no adequate military defense against them.

7. The statement of Messrs. Truman, Attlee and King speaks of "new methods of warfare" and there are indications that some nations will attempt to seize on these words and use them as reasons for eliminating means and/or methods of mass destruction

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from the practices of war. However, a full reading of the text of the quoted Declaration on Atomic Energy indicates clearly that the authors of the Declaration did not intend literally to outlaw any known method of warfare, but were using "method" in the broad sense as applying to possible future developments that might provide a means, i.e., a weapon, comparable to the atomic bomb in destructiveness. It is also quite clear that when the authors of the Declaration spoke of means of destruction they had in mind weapons such as atomic weapons and not the method by which the weapons can be, or are, applied against an enemy.

8. There could be endless discussion concerning what are major weapons. However, in this case, the weapon is to be eliminated only if it is adaptable to mass destruction. But, it is clearly the intention of the authors that all weapons adaptable to mass destruction shall be eliminated. Hence, we do not have to determine what weapons are major weapons and must determine only those weapons adaptable to mass destruction.

9. A weapon is any "instrument for inflicting, or defending from, bodily harm." There must be an inclination on the part of some nations to classify instruments which are not in fact weapons as weapons adaptable to mass destruction. The obvious example is the long-range bomber aircraft. However, this aircraft is not a weapon in itself although the bombs, cannon and machine guns it carries are weapons. It is a carrier or a vehicle. But can this vehicle be easily fitted or made suitable for mass destruction? Individually, it cannot if only conventional weapons are carried by it. Collectively, long-range bomber aircraft employing conventional weapons can achieve mass destruction if they are used en masse. However, such employment is a technique and does not make the carriers of the weapons involved either weapons themselves or weapons of mass destruction. The long-range bomber aircraft is therefore adaptable to mass destruction only in the same sense that artillery employed en masse for the purpose of achieving widespread destruction is also adaptable to mass destruction. The same is true for guided missiles employing conventional explosives in their warheads. It is true that the guided missile in its present state of development cannot achieve the accuracy of the individual long-range bomber aircraft and produces only comparatively indiscriminate destruction; and it cannot as yet be used with discrimination against purely military installations or military personnel. There is therefore more reason from this viewpoint to classify the long-range guided missile as a weapon of mass destruction than there is so to classify the long-range bomber aircraft. But, keeping in mind the intention of the authors of

this phrase

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this phrase to eliminate only those weapons which constitute as great a threat to civilization as the military use of atomic weapons or those weapons against which there can be no adequate military defense, it appears that the long-range guided missile is not adaptable to mass destruction.

10. It is believed that the intention of the General Assembly resolution of 14 December 1946 is to eliminate all weapons adaptable primarily to the indiscriminate destruction of human life, particularly large masses or communities of the civilian population. From the viewpoint of the security of the United States the emphasis in our discussions should certainly be on the work indiscriminate. Modern war cannot be fought for long unless large masses of the civilian population are producing the weapons of warfare. Discriminate destruction of these production facilities is essential to the successful prosecution of modern war and is thus a proper and important objective. That civilians may be killed in the process of such destruction is not an acceptable reason for eliminating air attacks against industrial facilities.

11. It is clear from the Declaration on Atomic Energy that all atomic weapons (the effectiveness of which is attained by explosive force, by heat, by radioactivity, or by combination of these effects) are generally considered as "major weapons adaptable to mass destruction."

12. Accordingly, it may be reasonably assumed as a point of departure that the phrase "other major weapons" was intended to include only those weapons of comparable effectiveness, when employed indiscriminately against population masses, that might now or in the future become available. Thus, in determining what other "mass destruction" weapons should appropriately be associated with the atomic warfare problem, we should consider only those having characteristics comparable to those of atomic weapons, leaving all others for consideration in connection with the general subject of the regulation of conventional armaments.

13. At the present time, the foremost atomic weapon is the atomic bomb. Its characteristics, to a very great extent unique with respect to conventional weapons, are:

a. The relative futility of other than totally successful, and hence the extremely difficult nature of, defense against it,

b. The almost inevitable, and certainly the readily possible, widespread and indiscriminate lethal and disabling results of its use,

c. The

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c. The practical impossibility of providing beforehand, in the attack area, measures for minimizing to any reasonable degree its lethal and disabling effects,

d. The lingering aftereffects of the attack, for which there is no practicable alleviative and, finally,

e. The overwhelmingly catastrophic results if used in a general attack on numerous heavily populated centers and the still greater effects that are possible if such a general attack be made suddenly and without warning.

14. It is believed that radioactive, lethal chemical and biological weapons possess the capability of being developed and employed in such a manner as to approximate the above characteristics of the atomic bomb, particularly the vast peril to human life, coupled with minimum opportunity for defense and escape, that we now associate with that weapon. Their potential characteristics are probably not ultimately so terrific as those of the atomic bomb and they can produce no appreciable explosive or heat effects. On the other hand, they cannot possibly be employed for other than lethal and disabling purposes and their other characteristics are comparable to those of the atomic bomb, while certainly this can be said of no other known weapons. Therefore, it is believed that the atomic bomb, atomic explosives delivered by other means and radioactive, lethal chemical and biological weapons should be classed as "major weapons adaptable to mass destruction" and that no other known weapons should be so classified. It is possible that new weapons may be developed that in the future may meet or even exceed the general definition of comparable characteristics outlined above. If and when any such weapons are developed, consideration should be given to classifying them also as "major weapons adaptable to mass destruction."

15. In view of the foregoing discussion the Joint Strategic Survey Committee believes that the interests of national security can best be protected by agreement that:

a. The characteristics of the atomic bomb that have caused it to be classified as a major weapon adaptable to mass destruction are:

(1) The relative futility of other than totally successful, and hence the extremely difficult nature of, defense against it;

(2) The

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(2) The almost inevitable, and certainly the readily possible, widespread and indiscriminate lethal and disabling results of its use:

(3) The practical impossibility of providing beforehand, in the attack area, measures for minimizing to any reasonable degree its lethal and disabling effects;

(4) The lingering aftereffects of the attack, for which there is no practicable alleviative and, finally,

(5) The overwhelmingly catastrophic results if used in a general attack on numerous heavily populated centers and the still greater effects that are possible if such a general attack be made suddenly and without warning.

b. These characteristics define in general terms all major weapons adaptable to mass destruction. The only known other weapons that are capable of being developed so as to approach these characteristics are atomic explosives delivered by other means and radioactive, lethal chemical, and biological weapons.

c. All atomic, radioactive, lethal chemical, and biological weapons should therefore be classified as major weapons adaptable to mass destruction.

d. No other known weapons should be so classified.

e. Any weapons developed in future with characteristics comparable to those of the atomic bomb should be classified as major weapons adaptable to mass destruction.

16. In view of the foregoing the following appears to be a suitable definition for major weapons adaptable to mass destruction:

"Major weapons adaptable to mass destruction are all atomic explosive, radioactive material, lethal chemical and biological weapons; and, in the future, and weapons developed which have characteristics comparable in destructive effect to those of the atomic bomb or other weapons mentioned above."

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EUROPEAN RECONSTRUCTION PROGRAM

- TAB A - Summary and recommendation.
TAB B - Draft cable to General Clay and Ambassador
Murphy.

*Material discussed
at meeting of
Three Secretaries
on June 19, 1947.*

EUROPEAN RECONSTRUCTION PROGRAM

Problem: To inform General Clay and Ambassador Murphy of the U.S. position in regard to the European reconstruction program.

Discussion: At TAB B is a proposed cable from the Secretaries of State, War and Navy to General Clay and Ambassador Murphy. It summarizes the cables which you have sent to the Ambassadors in Paris, Brussels, the Hague and Rome, outlining the principles embodied in your Harvard speech and requesting information and comments with regard to the problems and reactions of the respective countries to which the cable was sent. This summary is sent to Berlin for information and as background for the last two paragraphs of the draft cable which in substance point out that any European reconstruction program would require an adequate integration of the economic policies followed at least in the three western zones of Germany. General Clay and Ambassador Murphy are asked to give their views as to the role which western Germany could play in a European recovery program.

Recommendation:

That the cable at TAB B be approved for dispatch.

Tab A

~~SECRET~~DRAFT CABLE

FROM SECRETARIES OF STATE, WAR AND NAVY TO
GENERAL CLAY AND AMBASSADOR MURPHY.

Sec State has sent personal messages to Ambs Paris, Brussels, Hague and Rome of which following is summary:

Necessary to continuance of US aid that European countries agree among themselves on requirements of economic situation and what they will do to complement US action. Piecemeal US aid cannot solve the problem and US people and Congress will only support continued aid in terms of an integrated program the end of which can be seen. Further, an integrated program would improve the economic health and morale of needy countries more than continued individual shots in arm. US role is to aid in preparing European program and support to extent practical. However, extent of US aid likely to be dependent on sincerity, effectiveness and courage of European countries in helping themselves. If European countries not prepared to bear primary responsibility (whether through ineptness, fear of Soviet obstruction or otherwise) it may be impossible for US to aid in changing decisively the course of events. Because of our vital interest in European rehabilitation and our position as occupying power, it is important that we know soonest the political and technical feasibility of a European program. Entire subject is under intensive study here. To assist in this study latest information desired following points:

- a. Economic situation in respective countries and measures required for remedy;
- b. Will urgent and desperate demand for assistance from US be made during next year;
- c. Extent to which economic difficulties could be relieved by better exchanges (commodities, financial, manpower, etc.) with other areas of western and central Europe or other countries;
- d. Main obstacles to improving such exchanges;
- e. What contribution respective countries could make to general European rehabilitation if such obstacles removed; and
- f. General state of mind of responsible govt leaders in respective countries with respect to possible program of European rehabilitation, degree to which they are inhibited by Russian or communist pressure and the prospects for their initiative or cooperation.

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

NND 750057

By C&A NARS, Date NOV 7 1974

Tab B

-2-

Geographic coverage of and forum for considering any program of European countries will depend on analysis of all factors. For example, if there is real hope that all European countries would cooperate, Economic Commission for Europe could be used. If, however, believed that Soviets would oppose a European-wide program, regional program may be necessary. It might be desirable to advance proposals in ECE in first instance but necessary to avoid situation in which action was restricted to any one channel for developing information or implementing. Scope and nature of program not yet foreseeable. It might be developed along lines of Monnet Plan covering several countries, or it might be most feasible to concentrate on few matters such as food, coal, transport. General comment from Embs addressed is requested. End Summary.

Any program of European reconstruction must necessarily take Germany into account. Effective economic restoration of western Europe requires the assistance which western Germany can give which in turn requires a substantial degree of rehabilitation in Germany. Any European reconstruction program would have to include UK and France. British cooperation in using Bi-zonal Area as part of European program would be necessary and can be expected. Close integration of French Zone with Bi-zonal Area and in a European program would seem also necessary. While the present financial difficulties re US Zone are recognized, the arrangements for carrying through a European program in which the western zones were closely integrated would probably have to include increased financial support for Germany.

The above summary of the messages addressed by SecState to European countries is sent you as background. We would like your evaluation of the role which western zones Germany could play in the next year or two in a program for European rehabilitation including the help which Germany could contribute to such a program, the help which other European countries could extend to Germany and the steps which would have to be taken in order to permit the German economy to make the greatest contribution to European recovery recognizing the necessity for working out a self-supporting economy for Germany. As time is short, an answer at the earliest practical date would be appreciated.

Cleared by:

EUR: Mr. Matthews
Mr. Hickerson
CE: Mr. Riddleberger
GA: Mr. Kindleberger

U-E: Mr. Clayton
A-H: General Hilldring

6-16-47

U.S. POLICY REGARDING THE GERMAN PATENT SYSTEM

Matter discussed on July 3 at meeting of three Secretaries

Problem: To resolve difference in opinion between Departments of State and War.

Discussion: The Secretary of War presented a memorandum to the Secretaries of State and Navy (Tab A) outlining the War Department's objection to the position taken by the Executive Committee on Economic Foreign Policy. The Secretary of War objects particularly to the provision which would make mandatory that future patents should be licensed when the public interest requires.

On September 17, 1946, the President adopted a United States Government policy with respect to Germany's domestic patent system; the adopted policy was one which had been developed by the Executive Committee on Economic Foreign Policy. A basic provision of this policy was that all German patents should be licensed to all applicants on a non-restrictive basis at a reasonable royalty.

The policy was transmitted to OMGUS for execution. In practice, such execution would consist of negotiation in the Allied Control Council in Berlin with a view to obtaining quadripartite adoption of the policy.

OMGUS took strong exceptions to the policy. OMGUS was of the view that the policy, if negotiated, would not be adopted and, if adopted, would stifle research and invention in Germany. The Executive Committee, after hearing OMGUS' representative on the matter, referred it back to its appropriate subcommittee for reconsideration.

The subcommittee is now ready to report to the Executive Committee a proposed revision of the present policy. The new proposal would provide that any German patent already in existence should be available for licensing to any applicant at a reasonable royalty, but that all future patents should be available for compulsory licensing only if the public interest requires.

The provision that existing patents should be generally available is believed by the subcommittee to be necessary for the maximizing of German productivity. Under government compulsion and cartel agreements, German industry for the past 10 years has pooled all its major patents. German plants are tooled and organized on that basis. It is believed that any barrier to the continued availability of existing patents may adversely affect German productivity or lead to clandestine agreements among business men limiting their use.

The proposed provision that future patents should be licensed when the public interest requires it is a traditional provision in German patent law. The only aspect of the subcommittee's proposal differing from the position of OMGUS is in its setting out certain standards of "public interest," the chief

of which

of which would be the prevention of the resurgence of cartels in the German economy. The State Department believes that the proposed standards are desirable and would not have adverse effects on German research or invention.

Recommendation:

That the three Secretaries resolve the difference in opinion between State and War.

1. War Department View:

That our policy recognize the right of the patent holder to exclusive control and exploitation of his patent.

2. State Department View:

That all future patents should be available for compulsory licensing when the public interest requires.

The State Department position has been concurred in by representatives on the Executive Committee of Justice, Treasury, Labor and the Federal Trade Commission.

DEPARTMENT OF STATE
ASSISTANT SECRETARY

6/26/47

S/S

I understand that the
Secretary of War is planning to
discuss this with the Secretary
of State.

WLT
W. L. Thorp

OFFICE
THE SECRETARY
DEPARTMENT OF STATEMEMORANDUM

1947 JUN 26 AM 11 29

TO : The Secretary of State
THROUGH : S/S
FROM : A-T - Mr. Willard L. Thorp *WLT*
SUBJECT : U.S. Policy Regarding the German Patent System

Discussion

On September 17, 1946 the President adopted a United States Government policy with respect to Germany's domestic patent system; the adopted policy was one which had been developed by the Executive Committee on Economic Foreign Policy. A basic provision of this policy was that all German patents should be licensed to all applicants on a non-restrictive basis at a reasonable royalty.

The policy was transmitted to OMGUS for execution. In practice, such execution would consist of negotiation in the Allied Control Council in Berlin with a view to obtaining quadripartite adoption of the policy.

OMGUS took strong exceptions to the policy. OMGUS was of the view that the policy, if negotiated, would not be adopted and, if adopted, would stifle research and invention in Germany. The Executive Committee, after hearing OMGUS' representative on the matter, referred it back to its appropriate subcommittee for reconsideration.

The subcommittee is now ready to report to the Executive Committee a proposed revision of the present policy. The new proposal would provide that any German patent already in existence should be available for licensing to any applicant at a reasonable royalty, but that all future patents should be available for compulsory licensing only if the public interest requires.

The provision that existing patents should be generally available is believed by the subcommittee to be necessary for the maximizing of German productivity. Under government compulsion and cartel agreements, German industry for the past 10 years has pooled all its major patents. German plants are tooled and organized on that basis. It is believed that any barrier to the continued availability of existing patents may adversely affect German productivity or lead to clandestine agreements among business

men limiting

-2-

men limiting their use.

The proposed provision that future patents should be licensed when the public interest requires it is a traditional provision in German patent law. The only aspect of the subcommittee's proposal differing from the position of OMGUS is in its setting out certain standards of "public interest," the chief of which would be the prevention of the resurgence of cartels in the German economy. In my view, the proposed standards are desirable and would not have adverse effects on German research or invention.

Recommendation

The Department of State should support the proposal now before the Executive Committee on Economic Foreign Policy.

Concurrences

The above policy was developed in a subcommittee whose members were drawn from the staff of the Department of State, Commerce, Justice, Treasury, War and Labor, and the Federal Trade Commission; it has the approval of all members of the subcommittee except those representing Commerce and War. It is a decided modification of the position taken earlier by the Executive Committee, which has not yet considered the new proposal.

IR:RVernon:amm 6/26/47
A-T:WLThorp:eh 7/2/47

REDUCTION OF INDUSTRIAL WAR POTENTIAL OF JAPAN

- TAB A - Summary and recommendation.
- TAB B - Letter of 13 June 1947 from General McCoy to Assistant Secretary Hilldring.
- TAB C - Substitute amendment proposed by General McCoy.
- TAB D - Far East Commission paper on Reduction of Industrial War Potential of Japan.

*Taken up at
meeting of 3 Sec's.
on May 19, 1947.*

REDUCTION OF INDUSTRIAL WAR POTENTIAL OF JAPAN

Problem: Support by the U.S. member of the FEC paper on reduction in the Japanese industrial war potential.

Present Status: At the May 1 meeting of the 3 Secretaries it was agreed that the U.S. member of the FEC should be instructed to support the paper on this subject providing that the following provision is added:

"The provisions of this policy will apply until January 1, 1949, or until the end of the present phase of the occupation of Japan, whichever is earlier."

General McCoy's letter to General Hildring (TAB B) points out that the representatives of practically all the other ten states on the Commission have refused to accept this amendment despite urging by United States representatives.

U.S. failure to approve the paper, as agreed to by the ten other FEC countries, would constitute a unilateral veto. Since U.S. veto of a policy dealing with reduction of Japanese war potential might produce, at this time, undesirable political consequences in our relations with other countries in the Far East, General McCoy requests authority to withdraw the above proposed amendment and to substitute the amendment at TAB C.

This amendment would maintain the intent of the earlier amendment by preventing the proposed limits on the capacity of the iron and steel, light metals, shipbuilding, metal-working machinery, synthetic oil and synthetic rubber industries, and of oil refining and storage from continuing in effect so long as to restrict Japanese economic recovery. By preventing an extension of the effective period to two years from the date of approval of a policy, or to the date of the end of the occupation, or of agreement on a Peace Treaty, whichever of the three may be the earlier, it defines our purpose somewhat more specifically and with more flexibility.

The requirement contained in other sections of the paper, that reparations removals be completed before any limits come into effect, makes it unlikely that they can come into force at all within the two-year period. The specific limits which the U.S. is supporting with reasonable success for the Far Eastern Commission, in connection with another paper, are such that they will not have any restrictive effect on the Japanese economy within a two-year period, even if they should be brought into force.

Recommendation:

That the U.S. member of the FEC be authorized to withdraw the earlier proposed amendment and substitute the amendment at TAB C.

Tab A

C
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P
Y

FAR EASTERN COMMISSION
2516 Massachusetts Avenue, N. W.
Washington 8, D.C.

13 June 1947

Major General John H. Hilldring
Assistant Secretary of State
Department of State
Washington, D. C.

Dear General Hilldring:

1. I should like to invite your attention to an important and urgent problem in the Far Eastern Commission, which has arisen in connection with the FEC paper, Reduction of Japanese Industrial War Potential (FEC-084/12).

2. This paper, introduced as a United States paper, contains the provision: "The capacity levels remaining in the iron and steel, light metals, metal-working machinery, (etc) . . . should constitute the permissible maxima in these industries during the period of the occupation." Since the "period of the occupation" may possibly last for a number of years, and the limitation for a long period to "the permissible maxima" might prevent the industrial recovery of Japan, the three Secretaries some time ago decided that the United States Representative on the Commission should insist on the adoption of the following amendment to the FEC paper:

"The provisions of this policy decision will apply until 1 January 1949 or until the end of the present phase of the occupation of Japan, whichever is the earlier."

3. This amendment has been urged strongly by the United States members in both the Reparations Committee and the Steering Committee. Nevertheless, the representatives of practically all the other ten states on the Commission have refused to accept it.

4. However desirable this proposed amendment may be per se, it is now evident that it has consequences which are unfortunate for the United States Government.

Job B

- 2 -

- (1) It has arrayed the Governments of the ten other states on the Far Eastern Commission against us, including the leading states which normally are our friends and whose support we often need in world affairs.
- (2) It has led to suspicions of the intentions and motives of the United States in the occupation of Japan. Mr. Graves, the acting British Representative on the Commission, has said recently in conversation that he and others on the Commission oppose the United States amendment in large part because the United States appears to desire removal of all controls over Japanese industry by January 1, 1949, so that Japan may be rebuilt as quickly as possible as a prosperous, industrialized country which the United States will control and use as a bulwark against the USSR.
- (3) The antagonistic attitude of many of the FEC members in regard to this United States amendment may later embarrass the Secretary of State at the Peace Conference. The strong opposition to this United States amendment must represent the attitude and feeling of the home Governments of the several states. Also, the members themselves of the several delegations will probably be the advisers of the Ministers of Foreign Affairs at the Peace Conference and will naturally influence the attitude of the Ministers on proposals presented by the United States Government, especially along economic lines.
5. I am convinced that it would be to the advantage of the United States if the three Secretaries would authorize me to present to the Far Eastern Commission a substitute amendment which may be acceptable to the

- 3 -

other states on the Far Eastern Commission and yet will adequately safeguard United States interests.

6. I recommend the following substitute amendment, which has some chance of being approved by the Commission:

The provisions of paragraph 9(b) and the provisions of the second clause of paragraph 1(c) of this policy decision shall apply until the end of the present phase of the occupation or until appropriate action has been taken by the Peace Conference, whichever takes place earlier. However, in any case, these provisions shall remain in force no longer than two years from the date of the approval of this policy decision by the Far Eastern Commission, unless the Far Eastern Commission shall extend the validity of these provisions for a further period.

I recommend, further, that if discussions in the Far Eastern Commission should make it appear necessary in order to pass the amendment, I be authorized to substitute in place of the expression "two years from the date of the approval of this policy decision by the Far Eastern Commission," the words "January 1, 1950."

I am assured that in any case the Japanese will almost certainly be unable before 1950 to expand the designated categories of their industry beyond the "permissible maxima."

I assume that I am authorized in negotiation in regard to this proposed amendment, to agree to changes which I deem desirable, provided they will not effect the meaning or substance of the amendment.

7. I should appreciate it if you would bring this letter to the attention of the Secretary of State, and trust that you may be able to give it your own valuable support. I believe that Mr. Vincent and Mr. Martin will concur in principle in the views expressed in favor of some suitable substitute amendment.

Yours sincerely,

(sgnd) FRANK MC COY

Substitute Amendment Proposed by General McCoy

The provisions of paragraph 9(b) and the provisions of the second clause of paragraph 1(c) of this policy decision shall apply until the end of the present phase of the occupation or until appropriate action has been taken by the Peace Conference, whichever takes place earlier. However, in any case, these provisions shall remain in force no longer than two years from the date of the approval of this policy decision by the Far Eastern Commission, unless the Far Eastern Commission shall extend the validity of these provisions for a further period.

Joh' C'

FEC-084/12~~RESTRICTED~~FEC-084/126 June 1947FAR EASTERN COMMISSIONREDUCTION OF JAPANESE INDUSTRIAL WAR POTENTIAL
(References: FEC-084 Series; SC-037 Series;
C2-022 Series)Note by the Secretary General

1. The enclosure, a revision of FEC-084/9 (Reduction of Japanese Industrial War Potential), approved by Committee No. 2: Economic and Financial Affairs at its sixty-first meeting, 5 June 1947, is forwarded herewith for the consideration of the STEERING COMMITTEE.
2. The United States member opposed the motion approving the document.
3. The Chinese member agreed to accept the amendment to paragraph 5.b.(2) of FEC-084/7 on the condition that a statement that it was his Government's understanding that the paragraph would include equipment for manufacturing heavy prime movers, cranes, mining equipment and chemical equipment be incorporated in the minutes of the Commission meeting at which the policy is adopted.
4. Committee No. 2 decided to make no recommendation regarding the amendments proposed by the Soviet member to paragraphs 9.a.(1), 9.b. and 10 (indicated by underlining in the enclosure) for consultation with the Allied Council for Japan. The Committee considered that these proposals could be more appropriately discussed by the Steering Committee.
5. At its sixty-third meeting, 6 May 1947, the Steering Committee referred FEC-084/9 back to Committee No. 2 for further Consideration in the light of amendments proposed by the United States and Australian members.
6. In accordance with paragraph 3 of FEC-067/3 Committee No. 2 recommends that the text of the enclosure be released to the press in the normal procedure.

DECLASSIFIED
E.O. 11652, Sec. 3(E) and 5(D) or (E)
NND 750057
By CSB NARS, Date DEC 20 1974

NELSON T. JOHNSON
Secretary General

FEC-084/12

~~RESTRICTED~~E N C L O S U R EREDUCTION OF JAPANESE INDUSTRIAL WAR POTENTIAL1. Summary

Subject to the provisions stated in paragraph 10, the following actions, as detailed in paragraph 2-9, should be taken during the period of the occupation, in order to reduce Japanese industrial war potential:

a. All special purpose industrial machinery and equipment functionally limited to use in connection with combat equipment end-products, should be destroyed.

b. All other industrial machinery and equipment in primary war industries, and such other industrial facilities in secondary war industries and war-supporting industries as may be in excess of the peaceful needs of the Japanese economy should be made available for claim as reparations.

c. During the period of the occupation, a prohibition should be maintained against the re-establishment of primary war industries; and specified war-supporting industries should be limited to the productive capacity levels remaining after completion of the reduction program outlined above, except as modifications in these levels may be authorized by the Far Eastern Commission.

2. Primary War Facilitiesa. Definitions:

(1) Primary War Facilities are defined as plants and establishments primarily engaged in the development, manufacture, assembly, testing, repair, maintenance, or storage of combat equipment end-products and civil aircraft, and plants and establishments building merchant vessels above a size to be determined by the Far Eastern Commission.

(2) Combat Equipment End-Products are defined as weapons, ammunition, missiles and explosives used for military purposes; chemical or bacterial warfare agents; ultra-shortwave radio equipment (radar); naval combatant vessels; armored vehicles; or aircraft (including air frames and aircraft engines).

b. Disposition:

(1) All firms and organizations, whether publicly or privately owned and operated, whose activities have related primarily to the operation of primary war facilities and whose continued existence is deemed by the Supreme Commander for the Allied Powers to be undesirable from a security standpoint, should be dissolved by the Supreme Commander, who should at the same time seize their records and register all their key executive, managerial, research and engineering personnel.

(2) All plants and establishments identified by the Supreme Commander as primary war facilities should be impounded, and their machinery and equipment made available for reparations; subject to the following limitation: All buildings, machinery, and equipment in primary war facilities which, by virtue of initial design,

~~RESTRICTED~~

construction, or major structural change, are, as individual items, special purpose in nature and functionally limited to use in connection with combat equipment and end-products should be destroyed.

3. Secondary War Facilities

a. Definition:

Secondary war facilities are defined as plants and establishments primarily engaged in manufacturing, repairing or maintaining major fabricated component parts, sub-assemblies, accessories, or equipment especially designed for use in the products of primary war facilities.

b. Disposition:

(1) In plants and establishments identified by the Supreme Commander as being originally organized or completely reequipped to operate as secondary war facilities as defined in subparagraph a above, all machinery and equipment, except as noted under (3) below, should be made available for reparations.

(2) In plants and establishments other than those covered in (1) above, all machinery and equipment, except as noted under (3) below, should be disposed of under the recommendations in paragraph 5 covering the industry with which, in the opinion of the Supreme Commander, they were associated prior to their conversion or diversion to war production.

(3) All buildings, machinery, and equipment in secondary war facilities which by virtue of initial design, construction, or major structural change are as individual items special purpose in nature and functionally limited to use in connection with combat equipment and-products should be destroyed.

4. Dispersed Machinery and Equipment from Primary and Secondary War Facilities

All special purpose machinery and equipment, as defined under 2 b(2) and 3 b(3) above, should be sought out in locations to which they may have been removed from primary and secondary war facilities, and should be destroyed wherever found. Other machinery and equipment which was formerly used in primary and secondary war facilities but subsequently dispersed, need not be sought out and identified under the provisions of this paragraph but should be treated under paragraph 5, as a part of the industry with which it is associated.

5. War Supporting Industries

a. Over-All Policy

As a supplementary measure designed further to reduce Japan's industrial war potential, that portion of existing capacity in selected war-supporting industries which is in excess of that necessary to meet the peaceful needs of the Japanese people, as defined by the Far Eastern Commission, should be made available for removal as reparations.

~~RESTRICTED~~b. Application

(1) The following specific industries are considered as being "war-supporting," for purposes of the industrial removals provided for in para 5 a:

- (a) The iron and steel industry, producing pig iron, steel ingots and basic shapes
- (b) The coal carbonization industry
- (c) The non-ferrous metals industry, producing pig, ingot and basic shapes
- (d) The light metals industry, producing alumina, primary aluminum and magnesium, rolled, drawn or extruded shapes
- (e) The metal working machinery industry, producing machine tools, cutting tools and secondary metal working machinery
- (f) The ball and roller bearing industry
- (g) That part of the chemical industry producing industrial explosives, sulfuric acid, soda ash, caustic soda, chlorine, chemical nitrogen and calcium carbide (In the case of industrial explosives "capacity which is in excess of that necessary to meet the peaceful needs of the Japanese people" is defined as capacity which is in excess of that necessary to meet Japanese domestic requirements)
- (h) The railway equipment industry
- (i) The automotive industry
- (j) The electric power industry
- (k) The cement and abrasives industries
- (l) The steel merchant shipbuilding and repair industry (residual after removals effected under para. 2)
- (m) The merchant marine, fishing, whaling and cannery fleets, including publicly and privately owned steel vessels of 100 tons or over (this shall not be interpreted to prevent vessels of less than 100 tons being considered for reparations)
- (n) The oil refining and synthetic fuel industry and storage
- (o) The synthetic rubber industry
- (p) The heavy electrical equipment industry

(2) In addition to reduction in capacity in the specific industries listed above, a further reduction in the total inventory of metal-working machinery in Japan should be effected in so far as this may be required to eliminate metalworking capacity in excess of the peaceful needs of the Japanese people as defined by the Far Eastern Commission.

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6. Residual Capacity

After the Supreme Commander for the Allied Powers has completed the selection for delivery to claimant countries of industrial plants or facilities within the categories of industry approved for removal as reparations by the Far Eastern Commission, and, after the destruction of special purpose machinery, as defined in paragraphs 2 and 3, residual productive capacity in the industries designated in this paper which is in excess of Japan's peaceful needs, as defined by the Far Eastern Commission, should be appraised from the standpoint of the individual and collective war potential represented by this capacity, and a decision made by the Far Eastern Commission as to its disposition.

7. Property of Nationals of Members of the United Nations

The property of nationals of members of the United Nations should be dealt with in accordance with FEC-226/1.

8. Reparations

Removal or destruction of industrial capacity for security purposes under the terms of this policy should not be limited in order to compensate for the effects of industrial removals for reparations.

9. Post-Removal Restrictions on Japanese Industrial Capacity

Throughout the period of the occupation the following limitations of Japanese industrial capacity should be maintained.

a. Primary War Facilities:

Within the framework of the definitions given in paragraphs 2 and 3:

(1) The following should be prohibited in Japan: The establishment, possession or operation of any facilities for the development, manufacture or assembly of combat equipment end-products; the development, manufacture, assembly, importation or possession of any special purpose machinery and equipment as defined under paragraphs 2 b (2) and 3 b (3); the development, manufacture or assembly of any combat equipment end-products, or their possession except as authorized by the Supreme Commander, after consultation with the Allied Council for Japan in accordance with the Terms of Reference of the Allied Council for Japan, for the purposes of the occupation; the building of merchant vessels above a size to be determined by the Far Eastern Commission; the development, manufacture or assembly of civil aircraft; and the participation by the Japanese Government or Japanese nationals in the ownership or airborne operation of civil aircraft.

(2) Japan should be directed to prohibit any of its nationals from taking part in the ownership or operation of primary war facilities outside of Japan.

b. War-Supporting Industries:

The 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 remaining "excess" facilities as provided for under paragraph 6, should constitute

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the permissible maxima in these industries during the period of the occupation, pending a decision as to the long-term disarmament controls. These maxima should be subject to review by the Far Eastern Commission. If, at any time during the occupation, the Supreme Commander considers an adjustment in these levels necessary, he should, after consultation with the Allied Council for Japan in accordance with the Terms of Reference of the Allied Council for Japan, recommend such an adjustment and submit to the Far Eastern Commission appropriate supporting data. Changes in the established levels can be made after adoption by the Far Eastern Commission of a policy decision authorizing such a change.

10. Occupation Needs

The Supreme Commander should be authorized to except temporarily from the provisions of this paper particular primary war facilities, secondary war facilities and facilities in war-supporting industries, in so far as such facilities are required to meet the needs of the occupation. In such cases the Supreme Commander will after consultation with the Allied Council for Japan in accordance with the Terms of Reference of the Allied Council for Japan provide an explanation of reasons for retention and an estimated date of removal or destruction.

11. Records of Property Removals and Destruction

The Supreme Commander should keep records of all property removed from Japan or destroyed in the execution of the policies in this paper.

12. The provisions of this policy decision will apply until an appropriate decision on this question by the Peace Conference.

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON 25, D. C.



DEPARTMENT OF STATE
WASHINGTON

June 18, 1947

MEMORANDUM FOR THE SECRETARY

In accordance with the instructions of the three Secretaries, the United States Member of the Far Eastern Commission has attempted to secure the support of other FEC countries to an amendment (See Annex A) to FEC 084 (Reduction of Japanese War Potential) as a condition for United States approval.

No other FEC country could be persuaded to second the United States motion to adopt that amendment. All other FEC countries, having understood the policy to be effective during the occupation of Japan, are prepared to approve FEC 084 on the further understanding that the policy should apply only until appropriate decisions have been reached at the Peace Conference.

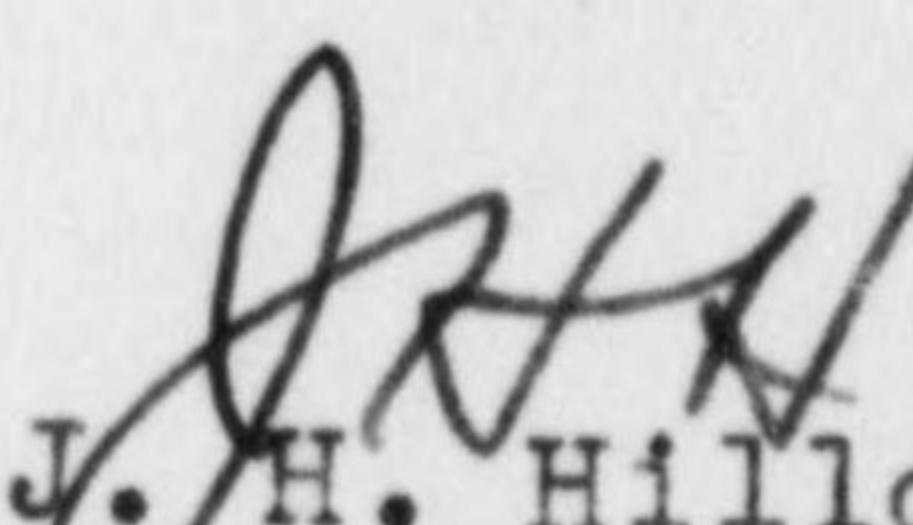
U. S. failure to approve the paper, as agreed to by the ten other FEC countries, would constitute a unilateral veto. Since U.S. veto of a policy dealing with reduction of Japanese war potential might produce, at this time, undesirable political consequences in our relations with other countries in the Far East, it is recommended that the United States Member on the Far Eastern Commission be authorized to withdraw the earlier proposed amendment and, attempt to obtain FEC approval of the amendment in Annex B.

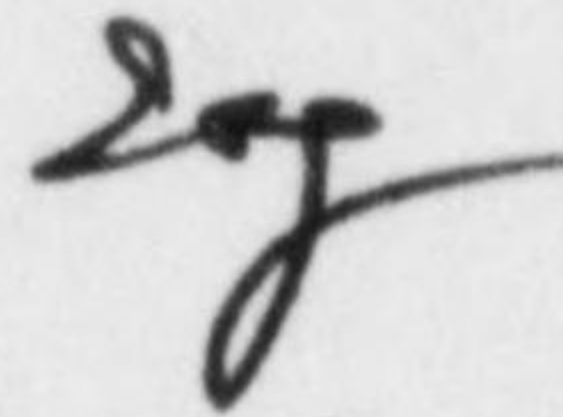
This amendment would maintain the intent of the earlier amendment by preventing the proposed limits on the capacity of the iron and steel, light metals, shipbuilding, metal-working machinery, synthetic oil and synthetic rubber industries, and of oil refining and storage from continuing in effect so long as to restrict Japanese economic recovery. By preventing an extension of the effective period to two years from the date of approval of a policy, or to the date of the end of the occupation, or of agreement on a Peace Treaty, whichever of the three may be the earlier, it defines our purpose somewhat more specifically and with more flexibility.

-2-

The requirement contained in other sections of the paper, that reparations removals be completed before any limits come into effect, makes it unlikely that they can come into force at all within the two-year period. The specific limits which the U.S. is supporting with reasonable success for the Far Eastern Commission, in connection with another paper, are such that they will not have any restrictive effect on the Japanese economy within a two-year period, even if they should be brought into force.

While it is doubtful if the changes proposed in the new amendment will secure unanimous support with any degree of promptness, they are in directions which had been suggested by representatives of other countries as being more acceptable to them. The new proposal will, in any case, expand the area within which constructive and realistic discussion leading to FEC agreement can develop.


J. H. Hilldring
Assistant Secretary



ANNEX A

"The provisions of this policy decision will apply until 1 January 1949 or until the end of the present phase of the occupation of Japan, whichever is the earlier."

ANNEX B

I.

"The provisions of paragraph 9(b) and the provisions of the second clause of paragraph 1(c) of this policy decision shall apply until the end of the present phase of the occupation or until appropriate action has been taken by the Peace Conference, whichever takes place earlier. However, in any case, these provisions shall remain in force no longer than two years from the date of the approval of this policy decision by the Far Eastern Commission, unless the Far Eastern Commission shall extend the validity of these provisions for a further period."

~~SECRET~~PURCHASE OF FISH FROM ICELAND FOR USE IN GERMANY

Problem: To formulate instructions to Mr. Edward Acheson.

Discussion: The Secretary of War has indicated a desire to discuss the question of instructions to be issued to Mr. Edward Acheson to govern his forthcoming negotiations in Iceland for the purchase of fish for consumption by the bizonal German population.

In view of the vital interest of the War Department and the Army Air Forces in Iceland, it is felt that attention should be given to all available means by which that interest can be secured. The purchase of Iceland fish by OMGUS would be one of the most direct and effective of such means.

Iceland lives almost exclusively from the export of fish but due to high production costs (resulting in part from an inflation which had its beginning in the United States occupation of Iceland) and greatly increased production in other countries since the close of the war, Iceland is experiencing the greatest difficulty in disposing of its 1947 fish production.

The fish crisis has been rendered particularly acute by the recent refusal of the USSR, contrary to promises given the previous Government in which Communists shared, to purchase Iceland wet salted fish. The Icelandic Communists are currently making great political capital out of the failure of the new non-Communist Government to market Iceland's fish. If the United States in turn is unable to provide a market for Iceland fish in areas under its control, the resultant economic distress in Iceland may well bring about the fall of the present Government. Any new Cabinet which might be formed would necessarily include the Communists, who would re-enter the Government with greatly increased power and prestige. It may be stated with certainty that a primary objective of Communist participation in a new Government would be the nullification of our military rights in Iceland.

Iceland's unsold 1947 surplus of wet salted fish amounts to approximately seventeen thousand tons. Mr. Acheson is being separately authorized to expend one million dollars for Iceland wet salted fish under our Mediterranean relief program. This sum will purchase about three thousand tons, leaving fourteen thousand tons still unsold. Although the Icelandic Government pays a guaranteed price of 17 cents per pound to Iceland producers, and has previously offered this surplus to OMGUS at 13.5 cents, it is believed to be now willing to export to Germany at 12.5 cents per pound. At this price, plus 20 per cent allowance for shipping costs, the fish will cost about \$330 per ton at German ports.

Recommendations:

1. That Mr. Acheson be given instructions authorizing him to negotiate in Iceland on behalf of OMGUS for the cash purchase, at a reasonable price, of all of the fourteen thousand ton surplus of Iceland wet salted fish remaining

after purchase

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

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By CSB NARS, Date NOV 6 1974~~SECRET~~

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after purchase of three thousand tons for Mediterranean relief. The cost would approximate \$4,620,000. That the War Department instruct General Clay in the same sense.

2. In case the issuance of instructions in these terms is not practicable, a less desirable alternative would be for Mr. Acheson to be authorized to purchase ten thousand tons on behalf of ONGUS at a cost of approximately \$3,300,000.

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PRIORITY FOR FOOD FOR GERMANY

- TAB A - Summary and Recommendation.
- TAB B - Letter Secretary Patterson to Secretary Marshall, June 13, 1947.
- TAB C - Memorandum on estimated exports of grain and flour.

*Material re Germany
discussed at Meeting
of three Secretaries
on June 19, 1947.*

PRIORITY FOR FOOD FOR GERMANY

Problem: To increase the food supply to the Germans.

Discussion: In a letter dated June 13, 1947 (TAB B) Secretary Patterson outlines the critical food situation existing in Germany, stating that nowhere are food stocks so low or rations so slim as in Germany. Secretary Patterson expresses the view that the occupation cannot succeed unless this situation is remedied and urges that priority be recognized for food shipments to Germany. He requests your help in obtaining such priority with respect to allocation of food supplies for export, unloading at the ports and in shipping.

There is attached (TAB C) a memorandum setting forth the estimated exports of grain and flour for the crop year following July 1, 1947. Out of a total of 15,880,000 tons of grains and flour, the Department of Agriculture has recommended an allocation of 4,600,000 tons to the U.S.-U.K. Zone in Germany. Other areas of need, some of which are of acute political interest and importance, including Italy, France and Greece, are indicated in the attached memorandum.

The problems incident to establishment of an overriding priority for food shipments to Germany are so complex and of such great political importance, that it is believed a study should be prepared for consideration of the three Secretaries prior to a decision on Secretary Patterson's proposal.

Recommendation:

That the proposal be referred to SWNCC for urgent attention and recommendation to the three Secretaries.

Tab A

~~SECRET~~WAR DEPARTMENT
WashingtonC
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June 13, 1947

Hon. George M. Marshall,
Secretary of State,
Washington, D. C.

Dear Mr. Secretary:

There are two problems in Army occupation in Germany which are of the most urgent importance. One has to do with preventing famine. The other has to do with the British program of socializing the coal mines in the Ruhr. We will need the guidance and assistance of the State Department if we are to avoid disaster.

FAMINE

We are in the most critical condition in preventing wholesale famine in the U.S.-U.K. zones.

The official ration is 1550 calories. How meagre this official ration is may be seen by the fact that the British ration is 2900 calories a day, while the average American consumes 3300 calories a day.

The official ration of 1550 calories, however, is not being made available. The average ration for the combined zones for the past six weeks has been 1200 calories, and in many places it is as low as 900 calories. This is slow famine. Stocks of food are so low that even if planned shipments from this country are fulfilled, the likelihood of getting back to the 1550 level is poor.

We have this further fact, that we and the British are committed to raise the ration to 1800 calories by October 1st. Our chance of fulfilling

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this commitment is very dim, unless we can supply one million more tons to the two zones in the next crop year than are being supplied in the current crop year.

No other European country, except Austria, is faced with conditions anything like as critical. Experienced observers, including Herbert Hoover, who have surveyed the situation in the other countries of Western Europe have reported that in none of them are there signs of serious undernourishment. Nowhere are food stocks so low or rations so slim as in Germany.

Occupation has no chance of success if these conditions continue. This state of affairs has been foreseen, and I have urged repeatedly that priority be recognized for food shipments to Germany. The basis for the priority is that the prevention of famine in the U.S.-U.K. zones of Germany is our particular responsibility, jointly with the British, together with the fact that food conditions prevalent in the two zones are the worst of anywhere in Europe.

We will not get the priority unless we have your help. As I see it, the priority will be needed in allocation of food supplies for export, in loading at the ports, and in shipping.

SOCIALIZATION OF COAL MINES

The greatest need in Germany, next to food, is coal. The daily production, 215,000 tons, is far below the level programmed for this time last year. The situation is discouraging because the daily rate has been declining in the last few months, instead of rising.

The British, who are in direct charge of production of coal in the Ruhr, have the purpose of carrying out a socializing of the mines. Lord Fakenham, the Foreign Office man on Germany saw Petersen a few days ago in Berlin and told him candidly that it was the firm purpose of his government to

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bring about a nationalization of the coal mines.

Our people in Germany have the view, and I share it, that the need is for maximum production of coal at this critical time, not for experiments in socialization. As I see it, such experiments are certain to interfere with current production. If my house is on fire, I do everything I can to put the fire out, I do not engage in arguments on the state of title to the house.

Our people in Germany have been unable to take a firm position with the British. At present we have no policy on the matter, although we have been trying for some time to induce the State Department to take a position. Unless one is taken, the matter will go by default.

I submit that strong representations should be made to the British government, to the effect that it must at least postpone its socialization program until the present emergency in production of coal has been overcome. We have every right to insist on this, since the load of carrying the two zones in Germany, particularly in the vital matter of food, is falling more and more on our shoulders.

I should like to discuss these two problems at the next meeting of the Committee of Three. I am sending a copy of this letter to the Secretary of the Navy.

Sincerely yours,

(sgnd) Robert P. Patterson,
Secretary of War.

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DEPARTMENT OF STATE

MEMORANDUM

June 18, 1947

To: The Secretary

From: UE - James A. Stillwell *JAS*

Subject: Secretary Patterson's Proposal on Priority Grain Shipments to Occupied Areas

The practical limit of our export capacity during the next crop year, July 1, 1947 through June 30, 1948, is 15,880,000 tons of all grains and flour. Of this amount the Department of Agriculture has recommended an allocation of 4,600,000 tons to the U.S.-U.K. Zones of Germany; 2,300,000 tons to the U.S. Zones in the Pacific; 480,000 tons to Austria; 279,000 tons to the French Zone of Germany; and 123,000 tons to the U.S. Military Zone in Italy. This is a total of 7,782,000 tons or practically 50 percent of the entire program.

The total demands on the U.S. are far greater than the 15,880,000 tons. Italy, for instance, has requested a minimum of 2,600,000 tons and the tentative allocation is only 1,400,000 tons. Obviously we must raise this to somewhere near the requested figure. The next largest allocation is to France amounting to 1,250,000 tons which will also be inadequate. India has requested considerably more than the 839,000 tons which has been tentatively earmarked for her. India's ration is less than the ration in Japan.

The tentative allocation includes 579,000 tons for the U.K. and an additional 188,000 tons to her dependent areas. Some relief might be gained from this quarter since the U.K. receives practically all of the Canadian and Australian exports plus considerable quantities from Argentina. She also has the best stock position of any importing country.

Quantities tentatively earmarked for Belgium, Brazil, China, Colombia, Cuba, Denmark, Egypt, Finland, Greece, Ireland, Mexico, the Netherlands, Norway, Peru, the Philippines, Portugal, Sweden and Switzerland are comparatively minor and are certainly areas we cannot overlook. There are also tentative allocations to Czechoslovakia, Poland and Rumania totaling 146,000 tons which might possibly be diverted but which would not materially improve the occupied areas position.

Under present operations the zones of Germany are receiving priority attention, but in face of the excessive floods and the present maritime strike situation it now appears that we will be about 10 days late in shipping the June schedule of 663,000 tons.

I recommend that Secretary Patterson's proposal be referred to SWNCC for urgent action and immediate recommendation to the Secretaries.

UE:JAS:vls

Tab C.

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June 13, 1947

Hon. George M. Marshall,
Secretary of State,
Washington, D. C.

Dear Mr. Secretary:

There are two problems in Army occupation in Germany which are of the most urgent importance. One has to do with preventing famine. The other has to do with the British program of socializing the coal mines in the Ruhr. We will need the guidance and assistance of the State Department if we are to avoid disaster.

FAMINE

We are in the most critical condition in preventing wholesale famine in the U.S.-U.K. zones.

The official ration is 1550 calories. How meagre this official ration is may be seen by the fact that the British ration is 2900 calories a day, while the average American consumes 3300 calories a day.

The official ration of 1550 calories, however, is not being made available. The average ration for the combined zones for the past six weeks has been 1200 calories, and in many places it is as low as 900 calories. This is slow famine. Stocks of food are so low that even if planned shipments from this country are fulfilled, the likelihood of getting back to the 1550 level is poor.

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this commitment is very dim, unless we can supply one million more tons to the two zones in the next crop year than are being supplied in the current crop year.

No other European country, except Austria, is faced with conditions anything like as critical. Experienced observers, including Herbert Hoover, who have surveyed the situation in the other countries of Western Europe have reported that in none of them are there signs of serious undernourishment. Nowhere are food stocks so low or rations so slim as in Germany.

Occupation has no chance of success if these conditions continue. This state of affairs has been foreseen, and I have urged repeatedly that priority be recognized for food shipments to Germany. The basis for the priority is that the prevention of famine in the U.S.-U.K. zones of Germany is our particular responsibility, jointly with the British, together with the fact that food conditions prevalent in the two zones are the worst of anywhere in Europe.

We will not get the priority unless we have your help. As I see it, the priority will be needed in allocation of food supplies for export, in loading at the ports, and in shipping.

SOCIALIZATION OF COAL MINES

The greatest need in Germany, next to food, is coal. The daily production, 215,000 tons, is far below the level programmed for this time last year. The situation is discouraging because the daily rate has been declining in the last few months, instead of rising.

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bring about a nationalization of the coal mines.

Our people in Germany have the view, and I share it, that the need is for maximum production of coal at this critical time, not for experiments in socialization. As I see it, such experiments are certain to interfere with current production. If my house is on fire, I do everything I can to put the fire out, I do not engage in arguments on the state of title to the house.

Our people in Germany have been unable to take a firm position with the British. At present we have no policy on the matter, although we have been trying for some time to induce the State Department to take a position. Unless one is taken, the matter will go by default.

I submit that strong representations should be made to the British government, to the effect that it must at least postpone its socialization program until the present emergency in production of coal has been overcome. We have every right to insist on this, since the load of carrying the two zones in Germany, particularly in the vital matter of food, is falling more and more on our shoulders.

I should like to discuss these two problems at the next meeting of the Committee of Three. I am sending a copy of this letter to the Secretary of the Navy.

Sincerely yours,

(sgnd) Robert P. Patterson,
Secretary of War.

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DEPARTMENT OF STATE
ASSISTANT SECRETARY

June 18, 1947

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S - Mr. Secretary:

Subject: Secretary Patterson's Proposal to Give Priority to Food Shipments to Germany

In a letter dated June 13, 1947 (Tab ^B ~~A~~) Secretary Patterson outlines the critical food situation existing in Germany, stating that nowhere are food stocks so low or rations so slim as in Germany. Secretary Patterson expresses the view that the occupation cannot succeed unless this situation is remedied and urges that priority be recognized for food shipments to Germany. He requests your help in obtaining such priority with respect to allocation of food supplies for export, unloading at the ports and in shipping.

There is attached (Tab ^C ~~B~~) a memorandum setting forth the estimated exports of grain and flour for the crop year following July 1, 1947. Out of a total of 15,880,000 tons of grains and flour, the Department of Agriculture has recommended an allocation of 4,600,000 tons to the U.S.-U.K. Zone in Germany. Other areas of need, some of which are of acute political interest and importance, including Italy, France and Greece, are indicated in the attached memorandum.

The problems incident to establishment of an overriding priority for food shipments to Germany are so complex and of such great political importance, that it is believed a study should be prepared for consideration of the three Secretaries prior to a decision on Secretary Patterson's proposal.

Recommendation:

That the proposal be referred to SWNCC for urgent attention and recommendation to the three Secretaries.

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DEPARTMENT OF STATE
ASSISTANT SECRETARY

June 18, 1947

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Subject: 1. Policy Regarding Public Ownership in Germany
(a) General Statement of Policy
(b) Special Problem Presented by Views of General Clay and War Department concerning Socialization of Mines in Ruhr-Aachen Coal Mines.

1.(a) General Statement of Policy

There is attached (Tab A) a draft statement embodying the recommended governmental position on public ownership of property in Germany. Your attention is called to the conclusions in the attached paper, pages 7-9. These conclusions merely amplify the general statement of policy on this issue, which is embodied in the Revised JCS 1067 (SWNCC 327/3), which was approved by the Secretaries of State, War and Navy subject to General Clay's comments. The substance of this policy reflects views long held by the State Department and publicly expressed by Secretary Byrnes in December 1946 (see paragraph 5 of Tab A). The pertinent provision from the SWNCC paper is attached as Tab B.

Mr. Petersen reports that General Clay is opposed to this statement of policy and would prefer to receive instructions either to oppose socialization measures at this time or, as a minimum, to receive instructions to emphasize to the German people the advantages of free enterprise. The War Department views concerning General Clay's comments have not been officially transmitted to the State Department.

1. (b) Special Problem Presented by Views of General Clay and War Department concerning Socialization of Mines in Ruhr-Aachen Coal Mines

Secretary Patterson has advised the Department of State in a letter of June 13, 1947 (Tab C) that he considers that "experiments in socialization" are certain to interfere

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with production of coal. He referred to information from the British Government that it was its firm purpose to bring about nationalization of the coal mines and suggests that further representations be made to the British Government "to the effect that it must at least postpone its socialization program until the present emergency in production of coal has been overcome".

General Clay has similarly expressed the view (radio 1452, June 17, from Murphy) that the basic problem in coal production at the present time in the Ruhr fields "derives from the uncertainty as to the future status of these fields". This cable is attached as Tab D. General Clay recommends that the mines should be placed immediately under a German trusteeship with a public announcement that this would continue until a central German government had been established and the Germans could freely determine under more normal conditions the future of mine ownership. In view of the apparent British intention to press for socialization, Clay and Murphy describe the trusteeship proposal as "an admirable compromise which would, in part, relieve the uncertainty now exercising a most depressing influence on production".

The comments of the Secretary of War and of General Clay have been carefully considered in the Department. Several major considerations emerge:

(a) No evidence is at hand with respect to the coal industry which justifies deviation from the general policy which would leave to the German people the right to choose by democratic processes for or against public ownership.

(b) The principal factors known to the Department to have had an obstructive effect on coal production include failure to provide adequate incentive goods and food to the miners; failure to provide to coal production an overriding priority in manpower, steel and other materials; failure to reestablish discipline in the coal mines and effective means of consultation and cooperation by miners in the management of the mines; and failure to make increased coal production a matter of acute public interest and concern to all German communities.

(c) In

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(c) In view of the fact that the considerations enumerated in (b) above appear to the Department to be matters of prime importance, it is difficult to agree with the significance attached by General Clay to doubts concerning the future status of mine ownership. His suggestion regarding trusteeship has not been explained to the Department and is not clearly understood. However if uncertainty as to future ownership is a deterrent to coal production it appears that the trusteeship compromise would merely prolong the uncertainty.

Recommendations:

(a) That the general policy regarding public ownership as embodied in Tabs A and B be approved by the three Secretaries;

(b) That these policies be applied to the coal mining industry.

~~SECRET~~ROLE OF GERMANY IN EUROPEAN RECOVERY PLAN

Problem: To formulate the U. S. position.

Discussion: While the initiative for planning European recovery will rest in Europe, it is anticipated that the United States Government will shortly be required to indicate publicly its position on the extent to which the American Zone of Germany (or the American participation in the combined US-UK zones) should be included in such a plan and the extent to which American occupation authorities in Germany would participate in the formulation and execution of such a plan.

It is assumed that Germany must cooperate fully in any effective European plan, and that the economic revival of Europe depends in considerable part on a recovery in German production - in coal, in food, steel, fertilizer, etc., and on an efficient use of such European resources as the Rhine River.

Because of its special responsibility for Germany, the War Department gives a higher priority to the satisfaction of German needs than to the needs of Europe as a whole. The War Department wishes to qualify the language of paragraph 18(c) of the Revision of Directive to the Commander-in-Chief of United States Forces of Occupation Regarding the Military Government of Germany (SWNCC 327/3) by limiting the obligation of the American Zone of Germany to produce products urgently needed for European recovery to such products as will be paid for by useable imports of freely convertible foreign exchange (see Tab A).

OMGUS and the War Department have been shown a memorandum (substantially in the form of Tab B) prepared for submission to the Secretary of State and outlining the State Department's views as to the desirable relationship between financial policy in Germany and United States financial policy throughout Europe. OMGUS and the War Department concur in points 1 to 3 and 5 of the memorandum but object strenuously to point 4. It is understood that the objections to the policy views formulated by the Department of State are based upon the fact that the War Department budget for occupied areas might have to be enlarged if German trade and financial policy were to be based upon European-wide rather than narrowly limited German considerations. An increase of appropriations for Germany may be a necessary incident of carrying out this Government's European policy as expressed by the Secretary of State at Cambridge on June 5.

The telegram approved by the three Secretaries and sent to General Clay and Ambassador Murphy on June 19 (Tab C) goes some distance toward making the point that the working out of this Government's proposals for Europe must include Germany. It is considered necessary for the success of the Government's European policy that the three Secretaries agree at the earliest possible meeting to further decisions respecting the role of Germany in Europe, as indicated in paragraph 5.

The question of the relationship of Germany to a general European plan may well come up at the meeting of the Economic Commission for Europe starting July 5 at Geneva. Mr. Clayton, the United States Delegate, must have guidance

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as to what position he can take with assurance that there is United States governmental agreement behind him.

Recommendation:

It is recommended that the Secretaries of State, War and Navy agree that:

(a) the United States make public its willingness, when the question is put, to have its zone of Germany collaborate fully in the preparation of European proposals to reduce the European requirement for aid from the United States, and carry out agreed recommendations. No initiative on the part of the United States Zone of Germany is called for, but the occupied area must be represented when European recovery plans are being prepared.

(b) in cases where the restoration of normal international commercial relations between Germany and the rest of Europe would involve an increase in United States dollar expenditures for the account of Germany, or a delay in the attainment of a self-supporting German economy at an appropriate standard of living, the United States interest in the gain to liberated areas must be weighed against the cost to the United States or loss to Germany before a decision can be taken.

(c) the Commander-in-Chief of United States Occupational Forces in Europe will consult other European countries and international organizations representing such countries in matters of German production and trade mentioned above, and ensure that emphasis is given, in the selection of items for export, to goods needed by European countries for their economic recovery and rehabilitation.

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TAB A

STATE-WAR-NAVY COORDINATING COMMITTEE

DECISION AMENDING SWNCC 327/3

REVISION OF DIRECTIVE TO COMMANDER-IN-CHIEF OF U.S. FORCES
OF OCCUPATION REGARDING THE MILITARY GOVERNMENT OF GERMANY

18. Economic Unity and Recovery

c. You will consult other European countries and international organizations representing such countries in matters of German production and trade mentioned above, and ensure that emphasis is given, in the selection of items for export, to goods needed by European countries for their economic recovery and rehabilitation (in so far as these countries may provide in payment needed imports for Germany, or foreign exchange which can pay for such imports). 1/

1/ War Department and OMGUS desire to add qualification set forth in parentheses. Department of State at working level opposes.

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DEPARTMENT OF STATE
ASSISTANT SECRETARY

June 18, 1947

S - Mr. Secretary

Subject: U.S. Economic and Financial Policy in Germany
in Relation to the Rest of Europe.

The following principles have been developed in response to your request and with reference to General Clay's letter of May 2, 1947, to serve as a basis for testing U.S. policies in Germany which affect the foreign exchange position both of Germany and of other countries in Europe. Brief statements of the facts and arguments leading to these principles are attached as Appendix "A".

1. In determining policy for and administering Germany, the U.S. must consider U.S. interests in the economic recovery of other European countries as well as the direct U.S. interest in German recovery.

2. Special help from Germany to other European countries, above and beyond normal economic relations, should not be made at the expense of U.S. funds, or a reduction in the German standard of living which would endanger U.S. objectives in Germany.

3. Steps to restore normal and historically constructive international relationships between Germany and third countries should be taken when these involve no increase in U.S. dollar outlays in Germany, and no postponement of German recovery.

4. In other cases, where the restoration of normal international commercial relations involves an increase in U.S. dollar expenditures in Germany, or a delay in the attainment of a self-supporting German economy at an appropriate standard of living, the U.S. interest in the gain to liberated areas must be weighed against the cost to the U.S. or loss to Germany before a decision can be taken.

5. To accomplish these purposes intelligently and to have our decisions understood, fuller and more regular consultation on economic relations between Germany and the other European countries is essential.

J. H. Hilldring

TAB
3

DEPARTMENT OF STATE
ASSISTANT SECRETARY

June 18, 1947

S - Mr. Secretary

Subject: U. S. Economic and Financial Policy in Germany
in Relation to the Rest of Europe.

A. Facts

1. U. S. policy for Germany has emphasized the extreme conservation of foreign exchange and an export program directed toward maximizing German export proceeds in order to cover essential imports. These policies are beneficial to the U.S. from the standpoint of its interest in the German economy, but are not designed to contribute most to the recovery of Europe. As a result of them, conflicts have arisen between U.S. authorities in Germany and various countries of Europe. The main aspects of these policies and illustrative conflicts are stated below.

2. Production for export and distribution.

a. From the point of view of the German economy it is desirable to keep many raw materials in Germany for fabrication and export. From the point of view of the other nations of Europe, it is desirable that they import German raw materials and finish goods themselves. Coal is the most important example of this type. Decision on it was reached at Moscow by the Anglo-American-French coal agreement. Timber and textiles remain important questions on which policy decisions should be made.

b. Luxury goods generally have a high return for the coal and materials going into them. There is, therefore, a tendency in Germany to produce them for export to the U.S. rather than to produce industrial equipment, etc., having a lower return but badly needed in Europe.

c. Scarcities in Europe make it necessary to the whole European recovery that the limited goods available for export be distributed on a fair allocation basis. The European countries have pressed for this but it has represented administrative difficulties to our occupation authorities which has made them resist it.

- 2 -

3. Pricing of Exports. The desire to obtain the maximum proceeds from exports has led to pricing them high. This affects the interest of European purchasers, already short of foreign exchange, it may also affect the long run interest of Germany whose customers will turn to other sources.

4. Terms of Sale of Exports.

a. It is to our interest in Germany to obtain cash for exports. European nations, however, are short of cash and will be aided if they can obtain German goods on credit. The Bizonal area has now concluded agreements with a number of European countries requiring settlement of balances only each quarter.

b. Barter would lead to an expansion of trade between Germany and certain European countries.

5. Imports to Germany.

a. U.S. authorities have tended to buy from the U.S. because they are familiar with sources of supply and it is administratively simpler. This deprives European nations of an opportunity to export. Consultation by Bizonal authorities with European economic organizations would help remedy this.

b. U.S. authorities have endeavored to limit imports to absolute essentials. This has made it impossible to accept other goods in payment for services rendered or goods sold to countries which cannot pay dollars or give essential goods (Example: vegetables from the Netherlands, fruits from Italy).

6. Allocations of Scarce Commodities. The position of the U.S. and UK before allocation authorities enables them to obtain for the Bizonal area shares of scarce commodities, especially food and fertilizer, greater than the liberated countries.

7. International Services. European countries need German services but find difficulty in paying in a way acceptable to U.S. authorities. On the other hand, Germany no longer uses certain services in European countries which deprives them of accustomed revenues. Examples:

a. Czechoslovakia must use German rail facilities for western imports. At the ACA rate for international transit, Czech traffic would cost \$25,000,000 per year. Czechoslovakia cannot pay in dollars or in essential imports to Germany. Increased German imports (of goods not absolutely "essential") or lowered rates would help. Possibly a dollar loan from the U.S. to Czechoslovakia will be necessary.

- 3 -

- b. France wants to recruit workers from POWs in France and Germans in the U.S. zone. France is willing to pay these workers but wants to arrange their remittances to Germany so that they will make no loss to the French economy or gain to the German economy. The U.S. has proposed a compromise.
 - c. The Dutch Government has protested the refusal of the occupation authorities to let Dutch barges haul traffic between German Rhine ports as they normally did.
 - d. The Dutch and Belgians have asked the U.S. authorities in Germany to use Rotterdam and Antwerp for German exports and imports, in normal times, and have offered to pay any difference in the cost over the present use of Bremen and Hamburg. A solution to this problem has been accepted by SWNCC.
8. Reparations. While the U.S. oppose reparations from current production, which would postpone the time when Germany will become self-supporting and add to the expense of the U.S., European countries consider present reparations too limited and desire additional reparation, including current production, whatever the cost to the German economy and indirectly to the U.S.
9. Restitution. Although U.S. policy in general has been to restore identifiable stolen property found in Germany, the U.S. Government has in some cases, such as rolling stock, postponed return until similar German property in liberated areas was returned.

B. Discussion

1. The economic and financial recovery of Europe as well as of Germany is of the greatest importance to the United States. European nations have been asked to appraise their needs in order that the U.S. may consider the aid we should give. Germany has always been an integral part of the European economy. German exports to and imports from other European countries have been vital to their economic stability. The realization of our purposes in all Europe as well as the attainment of our objectives in Germany will be affected by policies we now pursue in Germany with respect to reparations and restitution, German foreign trade, and German services to other European countries, such as transportation. It is therefore necessary that in making and administering policies for Germany, the United States consider its interest both in German and European recovery.

2. The German economy in the bizonal area is not yet self-supporting. Any deficit must be met from the UK and US. Because of the present position of the UK, this means that substantially the entire deficit is met in the economic sense by the US. If special economic help is given from Germany to other European countries, it must result either in a lower standard of living

for Germany

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for Germany or in a further burden on the United States. The former would endanger our objectives in Germany. The latter would becloud the record on the aid we are giving to Europe. The U.S. should, therefore, not require that special help be given by Germany to Europe, above and beyond normal economic relations, which will either materially retard German recovery or be at the expense of the U.S. funds.

3. Germany and the rest of Europe have had, historically, normal economic relationships which have been destroyed by the war and the occupation. Their reestablishment will in many cases place an added administrative burden on the occupation authorities who, for example, may obtain certain needed imports from the U.S. with less effort than would be required to arrange to import them from European countries. The value to the other countries of Europe of such normal relationships makes it important to the U.S. that they be restored when no increase in U.S. dollar outlays in Germany and no postponement of German recovery are involved.

4. The most difficult cases are those in which the restoration of normal commercial relationships will involve an indirect increase in U.S. expenditures or some delay in attainment of a self-supporting German economy but will be of substantial advantage to the recovery of other European countries. The United States, of course, has a direct financial interest in avoiding measures which will increase the German deficit to be met from U.S. appropriated funds. However, the vital interest of the United States in European recovery and the projected U.S. financing of European recovery make it essential that the U.S. consider the gain which any such measure will mean to any European country in whose recovery the U.S. is interested. This must mean that each such case must be considered from the point of view of the total interest of the U.S.

5. Recovery for each of the nations of Europe is closely related to recovery for all the others. They have consulted each other in the past through the Emergency Economic Committee for Europe (EECE), the European Central Inland Transport Organization (ECITO), and the European Coal Organization (ECO). Despite the importance of Germany to European recovery, OMGUS has not consulted closely with these organizations. There has now been established an Economic Commission for Europe (ECE). It may be an important organ for the consultations of the European nations on aid needed by them from the U.S. which they have been requested to hold. In order to accomplish U.S. objectives, both in Germany and in the rest of Europe, and in order to have U.S. policies understood, it is essential that there be fuller and more regular consultations on economic relations between Germany and other European countries.

J. H. Hilldring

DIVISION OF
COMMUNICATIONS AND RECORDS
TELEGRAPH BRANCH

DEPARTMENT OF STATE

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June 19, 1947
8 p.m.

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BERLIN (GERMANY)
1292

FOR CLAY AND MURPHY FROM SECRETARIES OF STATE, WAR, AND NAVY.

SecState has sent personal messages to Ambs Paris, Brussels, Hague and Rome of which following is summary:

Necessary to continuance of US aid that European countries agree among themselves on requirements of economic situation and what they will do to supplement US action. Piece-meal US aid cannot solve the problem and US people and Congress will only support continued aid in terms of an integrated program the end of which can be seen. Further, an integrated program would improve the economic health and morale of needy countries more than continued individual shots in arm. US role is to aid in preparing European program and support to extent practical. However, extent of US aid likely to be dependent on sincerity, effectiveness and courage of European countries in helping themselves. If European countries not prepared to bear primary responsibility (whether through ineptness, fear of Soviet obstruction or otherwise) it may be impossible for US to aid in changing decisively the course of events. Because of our vital interest in European rehabilitation and our position as occupying power, it is important that we know soonest

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-2- #1292 to BERLIN, June 19, 1947

the political and technical feasibility of a European program. Entire subject is under intensive study here. To assist in this study latest information desired following points:

- a. Economic situation in respective countries and measures required for remedy;
- b. Will urgent and desperate demand for assistance from US be made during next year;
- c. Extent to which economic difficulties could be relieved by better exchanges (commodities, financial, manpower, etc.) with other areas of western and central Europe or other countries;
- d. Main obstacles to improving such exchanges;
- e. What contribution respective countries could make to general European rehabilitation if such obstacles removed; and
- f. General state of mind of responsible govt leaders in respective countries with respect to possible program of European rehabilitation, degree to which they are inhibited by Russian or communist pressure and the prospects for their initiative or cooperation.

Geographic coverage of and forum for considering any program of European countries will depend on analysis of all factors. For example, if there is real hope that all European countries would cooperate, Economic Commission for Europe could be used. If, however, believed that Soviets would oppose a European-wide program, regional program may be

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-3-

-3- #1292 to BERLIN, June 19, 1947

necessary. It might be desirable to advance proposals in ECS in first instance but necessary to avoid situation in which action was restricted to any one channel for developing information or implementing. Scope and nature of program not yet foreseeable. It might be developed along lines of Monnet Plan covering several countries, or it might be most feasible to concentrate on few matters such as food, coal, transport. General comment from Embe addressed is requested. End Summary.

Any program of European reconstruction must necessarily take Germany into account. Effective economic restoration of western Europe requires the assistance which western Germany can give which in turn requires a substantial degree of rehabilitation in Germany. Any European reconstruction program would have to include UK and France. British cooperation in using Bi-zonal Area as part of European program would be necessary and can be expected. Close integration of French Zone with Bi-zonal Area and in a European program would seem also necessary. While the present financial difficulties re US Zone are recognized, the arrangements for carrying through a European program in which the western zones were closely integrated would probably have to include increased financial support for Germany.

The above summary of the messages addressed by SecState to European countries is sent you as background. We would like your evaluation of the role which western zones Germany could play in the next year or two

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-4- #1292 to BERLIN, June 19, 1947 -8-

in a program for European rehabilitation including the help which Germany could contribute to such a program, the help which other European countries could extend to Germany and the steps which would have to be taken in order to permit the German economy to make the greatest contribution to European recovery recognizing the necessity for working out a self-supporting economy for Germany. As time is short, an answer at the earliest practical date would be appreciated.

War sending same cable direct to General Clay.

MARSHALL

A-H: EAGross:mm 6/19/47

The above cable approved by the Secretaries of State, War, and Navy in a meeting held ~~XXIX~~ 19, 1947.
June

~~SECRET~~

SECRET

OFFICE
THE SECRETARY
DEPARTMENT OF STATE
July 1, 1947

MEMORANDUM

1947 JUL 2 AM 10 12

TO: The Under Secretary
The Secretary

THROUGH: S/S

FROM: Willard L. Thorp *WLT*

SUBJECT: | Role of Germany in European Recovery Plan⁴¹
Problem: To formulate the U.S. position

DISCUSSION:

1. While the initiative for planning European recovery will rest in Europe, it is anticipated that the United States Government will shortly be required to indicate publicly its position on the extent to which the American Zone of Germany (or the American participation in the combined US-UK zones) should be included in such a plan and the extent to which American occupation authorities in Germany would participate in the formulation and execution of such a plan.

2. It is assumed ~~in the Department that the proposals embodied in your Harvard address of June 5 were developed with recognition that Germany must cooperate fully in any effective European plan, and that the economic revival of Europe depends in considerable part on a recovery in German production - in coal, in food, steel, fertilizer, etc., and on an efficient use of such European resources as the Rhine River.~~

~~As~~ Because of its special responsibility for Germany, the War Department gives a higher priority to the satisfaction of German needs than to the needs of Europe as a whole. ~~As you have been advised, Secretary Patterson wants~~ ^{the War Department wishes} to qualify the language of paragraph 18(c) of the Revision of Directive to the Commander-in-Chief of United States Forces of Occupation Regarding the Military Government of Germany (SWNCC 327/3) by limiting the obligation of the American Zone of Germany to produce products urgently needed for European recovery to such products as will be paid for by useable imports of freely convertible foreign exchange (see Tab A).

OMGUS

DECLASSIFIED
E.O. 11652, Sec. 3(E) and 5(D) or (F)
NND 750057
By *C&O* NARS, Date NOV 7 1974

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- 2 -

OMGUS and the War Department have been shown a memorandum (substantially in the form of Tab B) prepared for submission to ~~you~~ ^{THE SECRETARY OF STATE} and outlining the (Department's views as to the desirable relationship between financial policy in Germany and United States financial policy throughout Europe. OMGUS and the War Department concur in points 1 to 3 and 5 of the memorandum but object strenuously to point 4. It is understood that the objections to the policy views formulated by the Department of State are based upon the fact that the War Department budget for occupied areas might have to be enlarged if German trade and financial policy were to be based upon European-wide rather than narrowly limited German considerations. An increase of appropriations for Germany may be a necessary incident of carrying out this Government's European policy as expressed by ~~you~~ ^{THE SECRETARY OF STATE} at Cambridge on June 5.

4. The telegram approved by the three Secretaries and sent to General Clay and Ambassador Murphy on June 19 (Tab C) goes some distance toward making the point that the working out of this Government's proposals for Europe must include Germany. It is considered necessary for the success of the Government's European policy that the three Secretaries agree at the earliest possible meeting to further decisions respecting the role of Germany in Europe as indicated in paragraph 5.

The question of the relationship of Germany to a general European plan may well come up at the meeting of the Economic Commission for Europe starting July 5 at Geneva. Mr. Clayton, the United States Delegate, must have guidance as to what position he can take with assurance that there is United States governmental agreement behind him.

Recommendation:
It is recommended that the Secretaries of State, War and Navy agree that:

(a) the United States make public its willingness, when the question is put, to have its zone of Germany collaborate fully in the preparation of European proposals to reduce the European requirement for aid from the United States, and carry out agreed recommendations. No initiative

on the part

SECRET

- 3 -

on the part of the United States Zone of Germany is called for, but the occupied area must be represented when European recovery plans are being prepared.

(b) in cases where the restoration of normal international commercial relations between Germany and the rest of Europe would involve an increase in United States dollar expenditures for the account of Germany, or a delay in the attainment of a self-supporting German economy at an appropriate standard of living, the United States interest in the gain to liberated areas must be weighed against the cost to the United States or loss to Germany before a decision can be taken.

(c) the Commander-in-Chief of United States Occupational Forces in Europe will consult other European countries and international organizations representing such countries in matters of German production and trade mentioned above, and ensure that emphasis is given, in the selection of items for export, to goods needed by European countries for their economic recovery and rehabilitation.

~~SECRET~~ RECOMMENDATION:

That the Committee of Three approve the policy statements set forth in paragraph 5.

CONCURRENCES:

This memorandum has been cleared with A-T: General Hilldring and with EUR: Mr. Matthews.

~~SECRET~~

DEPARTMENT OF STATE

THE SECRETARY

For: The Secretary

Subject: U.S.S.R. Lend-Lease Settlement

The attached letters, received from the Secretaries of War and Navy following the discussion of this matter with them on May 7, request recapture of such a large number of military and naval items, including vessels, as to be in direct contradiction to the principles to which they agreed as the basis for negotiations with the U.S.S.R. Attached is a copy of the minutes recording that agreement and a copy of the summary and recommendations which you read and which furnished the basis of the agreement.

→ Mr. Acheson's staff meeting this morning unanimously recommended that you discuss this with Ambassador Bedell Smith at lunch this noon prior to taking the matter up again with the other two Secretaries.

→ To: Return this file to
Mr. Allen
CWA

S/S:WPA:en
May 16, 1947
WPA:en

Russia

USSR LEND-LEASE SETTLEMENT
NEGOTIATIONS

Tab 1 - Summary and Recommendations

Tab 2 - Letter of April 29, 1947 from
Secretary of State to the
Secretaries of War and Navy

USSR Lend-Lease Settlement Negotiations

Problem: To obtain agreement that in these negotiations the U.S. should follow the same general principles as were followed in settlements with the UK and France. These principles are:

- ✓ (1) to transfer title to and obtain payment for an inventoried list of non-military items (i.e., all articles other than "arms ammunition and implements of war" as enumerated in Presidential Proclamation 2717, February 14, 1947);
- ✓ (2) to designate for return a small number of specific military or naval articles which are of use to the U.S. *and for which the United States has real need.*
- ✓ (3) to permit retention by the recipient of all other military or naval articles, other than vessels, reserving the right of recapture but stating in the agreement that the right will not be generally exercised;
- (4) to require constructive return of all vessels other than those actually returned, in order to satisfy Public Law I, 78th Congress; to have them declared surplus if they are; then to sell them back to the country through the OFLC under the Surplus Property Act;
- ✓ (5) to make no claim for compensation for articles lost, destroyed or consumed during the war.

Present status: Negotiations with the USSR are now underway. Letters were sent to the Secretaries of War and Navy on April 29 (tab 2) asking their views on settlement policy and requesting a determination of those articles they desire returned. Replies have not yet been made.

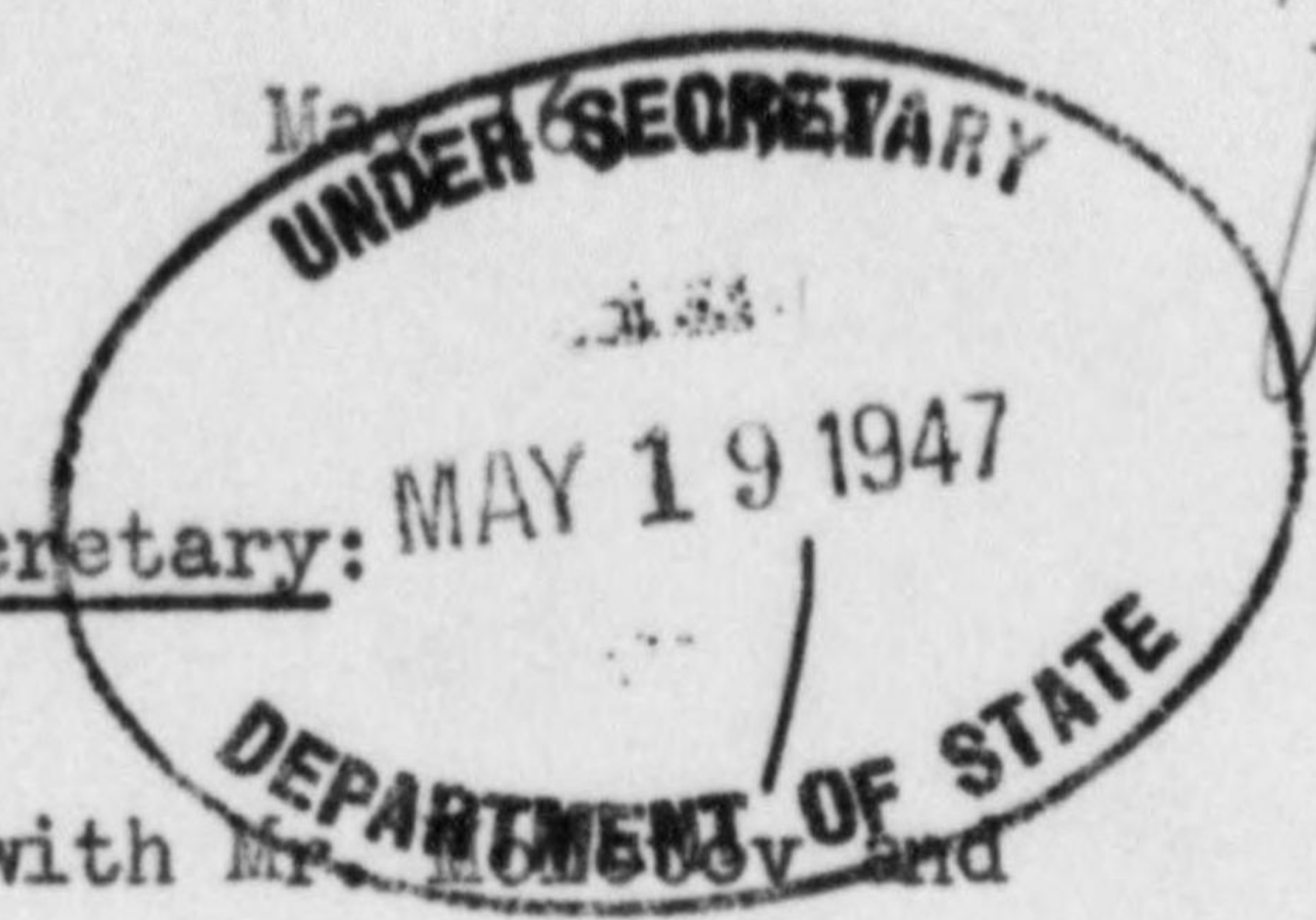
Recommendations: 1. That the agreement of the Secretaries of War and Navy be obtained to following the above principles in the USSR settlement.

2. That, in accordance with this policy, the Secretaries of War and Navy be requested to transmit a restricted list of specific articles for the return of which justifiable reason exists.

Discussion: In the opinion of the Department, the above principles constitute a reasonable basis for settlement, and any effort to obtain from the USSR substantially more severe terms than were reached with the UK and France regarding the return of articles might well cause a breakdown of negotiations and prevent settlement.

In addition to other articles, approximately 595 small naval craft were transferred to the USSR. They have previously been asked to return 3 (icebreakers) for which the Navy has urgent need. No response has been received. There may be additional specific vessels whose return should be sought, but it would be highly undesirable to request the return of all 595.

W. Acheson *Russia*
S/S file



Statement made by Ambassador Smith to the Secretary:

In the various discussions I have had with Mr. ~~Mr. Vyshinski~~ and Mr. Vyshinski on the subject of Lend-Lease settlements, I have made it very clear, first, that in discussing settlement under Article 7 of the master Lend-Lease Agreement, the United States had no intention of exacting a pound of flesh or of playing the part of the grasping creditor; and, second, that with regard to purely military items which were provided the Soviet Union to further military action against the common enemy, the United States did not intend to exact full settlement for repayment of munitions of war expended or used in campaign. It was, however, made equally clear that an accounting was necessary for those recapturable items specified in the Lend-Lease Agreement, particularly merchant vessels and naval vessels, as well as for aircraft. However, I gave the Russians to understand that we appreciated the fact that most of the aircraft furnished under Lend-Lease had out-lived their usefulness. I am certain that the Foreign Office and the Ministry of Foreign Trade who will handle these negotiations will be bitterly resentful of a demand by us for return or for full payment for purely military items which it could be expected would be worn out or expended in action.

X -> WBSmith:fg

Korea

Korean Rehabilitation Program

- Tab 1 - Summary and Recommendations
- Tab 2 - Letter of Transmittal to the Bureau
of the Budget
- Tab 3 - Text of the Proposed Legislation
- Tab 4 - Detailed Justification for the Proposed
Program

Korean Rehabilitation Program

Present Status: On April 10, the Department with War Department approval transmitted to the Bureau of the Budget a bill seeking Congressional authorization for a program of rehabilitation for Southern Korea, involving a maximum total of \$540 million for the next three years and requesting \$215 million for the fiscal year 1948 (this is \$78 million above the disease and unrest estimate now included in the War Department budget). The Department has transmitted to the War Department a proposal for the early establishment of a provisional government for Southern Korea after enactment of a new electoral law and the designation of a Political Adviser to the Commanding General in Korea to become the Civil Commissioner when the provisional government is established.

Question has subsequently arisen as to whether the requests for Congressional authorization should be for a three-year program or be limited to the fiscal year 1948.

The Secretary of War agrees with the program, provided the State Department will assume administrative responsibility for political, economic, and cultural aspects of the occupation.

No determination has yet been made as to the timing and strategy of introduction of the legislation to Congress.

Recommendations:

1. Agreement should be reached as to whether a three-year or a one-year program should be recommended to Congress.
2. Whatever legislative program is decided upon should be submitted to Congress as soon as possible after the completion of action on the Greek-Turkish bill.
3. The Department of State should agree to assume administrative responsibility for non-military aspects of the occupation at the time the Civil Commissioner takes office.
4. The provisional government for Southern Korea should be set up as soon as possible following the passage of a suitable electoral law.

Korean Rehabilitation Program

Problem: To decide whether the enabling legislation for the above program should be for the \$215 million required for the fiscal year 1948 or for only \$78 million.

Present Status: Of the \$215 million dollars needed for 1948, \$137 million is expected to come from the pending War Department request for \$725 million for all occupied areas. The remaining \$78 million would be requested separately.

Enabling legislation will be introduced either for the full \$215 million or for the \$78 million balance.

Arguments in favor of requesting enabling authority only for the \$78 million are:

- (1) It would have the psychological advantage of requesting less money;
- (2) To seek enabling authority for the full \$215 million might provoke Congressional question as to the absence of specific enabling authority for the remainder of the \$725 million of the pending War Department request. At present the only "enabling" authority for this latter is the general obligation under international law and the Hague Convention to provide for people in areas under military occupation. It is understood that Secretary Patterson is somewhat apprehensive that such question might be raised to delay the entire War Department request.

The following argument favors requesting enabling authority for the full \$215 million:

If Congress grants the War Department less than the \$725 million for occupied areas, then the contemplated \$137 million of that would not be available for Korea. To obtain the \$215 million needed, it would thus be necessary to request more than the additional \$78 million. This could not be done if the enabling legislation authorized only \$78 million and the Korean program would thus fall short.

Recommendation: That the enabling legislation requested for the Korean program be for the full \$215 million, for the above-stated reason.

COPY

2

April 9, 1947

My dear Mr. Webb:

In order to carry out the responsibilities and obligations of the United States with respect to Korea, it is necessary that certain relief and economic assistance be made available during the next three years on a somewhat larger scale than has heretofore been provided by our occupying forces in South Korea under the so-called "prevention of disease and unrest" formula.

Estimates prepared by the Department indicate that the total cost of an expanded program for such assistance during the fiscal years 1948, 1949 and 1950 would be \$540,000,000.

Copies of proposed legislation authorizing the appropriation to the President of funds necessary to carry out this program are enclosed, together with copies of a justification therefor. The justification shows in detail the purposes for which the funds are required.

You will note that the appropriation estimated to be required for the fiscal year 1948 is \$215,000,000. A suggested draft of appropriation language for fiscal year 1948, together with a justification for the \$215,000,000 required will be transmitted to you at a later date.

The War Department, which will administer this program initially, has been consulted on the program and will support it.

Your early consideration of this proposal would be appreciated.

Sincerely yours,

(Signed): _____
Acting Secretary

- Enclosures:
1. Budget estimates.
 2. Proposed Bill.

The Honorable
James E. Webb
Director
Bureau of the Budget

DB:RCYost:vs
4/9/47

A-P JK FE A-T A-H DB OBF War Dept.

~~CONFIDENTIAL~~

DRAFT MESSAGE ON KOREA

For Transmission

by

The President

DECLASSIFIED
E.O. 11652, Sec. 1.4
STATE DEPT. FILE
MAY 19 1963
SCETP
MAR. DATE

~~CONFIDENTIAL~~

CONFIDENTIAL

DECLASSIFIED

E.O. 11652, Sec. 11

State Dept. Office 9 Aug 93
CIA NARC Date 2/13/75

I am happy to report to the Congress the recent agreement between the United States and the Soviet Union by which we have resumed our efforts to discharge our mutual responsibilities in Korea. At the same time I wish to recommend that the Congress give favorable consideration to a supplemental program of economic assistance to Korea during the fiscal year 1948 in the amount of \$78 million to advance the fulfillment of our American commitments in Korea at minimum cost to the United States.

Let me review briefly the relations between the United States and Korea as they have developed.

The American people have long had sympathetic feelings for the Korean people. A strong bond of friendship has been erected between us and them by the fearless and unstinting work of those American missionaries who, supported by American churches of all denominations, have brought spiritual guidance, education and medical aid to the Korean people during their forty years of Japanese bondage. We in America have come to know and appreciate, as perhaps only Americans can, the fierce passion of all true Koreans for independence and their desire to create for themselves a free and democratic nation. Our warm regard for the people of Korea has combined with our traditional sympathy for oppressed people wanting freedom to make us seek a way by which the Korean people can realize their great ambition.

The opportunity for liberating Korea came with the ruthless war launched by Japan. The United States was therefore happy to join with the United Kingdom and China in December, 1943 to declare that in due course Korea should become free and independent. To leave no doubt of our intentions, this pledge was reaffirmed in the Potsdam Declaration of July 26, 1945, and was joined in by the Soviet Union when it entered the war against Japan.

With our

CONFIDENTIAL

- 2 -

With our victory over Japan twenty months ago, I was able to herald the liberation of the freedom-loving and heroic people of Korea from their long and cruel subjection under the warlords of Japan. I cited the courage with which they had kept alive their devotion to national liberty and to their proud cultural heritage. I said then that the building of a great nation had begun.

However, I regret to have to report that despite the pledges of the Allied nations and despite our hopes for Korea's rapid progress toward independence and economic stability, she is still a divided nation with no government of her own.

The division of Korea into two zones of occupation was never intended or agreed to by the United States. The sole purpose of the line along the 38th parallel was to facilitate acceptance by the Soviet and U.S. forces of the surrender of Japanese troops north and south of that line. Therefore, immediately after the completion of the Japanese surrender, General Hodge, the American Commander in Korea, endeavored to obtain the cooperation of the Soviet Commander in unifying the economy and administration of Korea. His efforts were unsuccessful.

In order to remedy this unintended and unfortunate division of Korea and to provide a plan for the early independence of Korea, the foreign ministers of the United States, the United Kingdom and the Soviet Union, meeting at Moscow in December, 1945, agreed, with China's adherence, on procedures to unite Korea and to aid the Korean people in the development of democratic self-government and the establishment of national independence.

This agreement contemplated the early establishment of a provisional government of Koreans for all Korea. It placed on the United States and the

Soviet Union

- 3 -

Soviet Union the responsibility for taking action through a Joint US-Soviet Commission to consult with Korean democratic parties and social organizations in preparing proposals for the formation of such a government.

The first session of the Joint Commission was unable to carry out the intent of the Moscow decision because the two sides could not agree on the Korean parties and social organizations to be consulted. The United States delegation took the position that representatives of all democratic Korean parties should be consulted. The Soviet delegation contended that all Koreans who had spoken or written against the Moscow Agreement should be excluded from consultation. The criterion proposed by the Soviet representatives would have made a narrow minority of the left the spokesmen for all Korea. It would have been contrary to American principles of freedom of speech and was therefore rejected. The Joint Commission adjourned May 8, 1946.

Repeated efforts by the U.S. Commander to reconvene the Joint Commission failed. However, in April of this year, Secretary Marshall urged upon Foreign Minister Molotov the importance of reconvening the Joint Commission and, after an exchange of letters, the Soviet Foreign Minister agreed to its reconvening on terms which the U.S. Commander had proposed five months ago. The Commission resumed discussion on May 21. I sincerely hope for its success.

Unfortunately, however, the long delay in unifying Korea has left her economically and politically ill. Her thirty million people already were suffering from the effects of forty years of aggressive colonial rule which geared industrial production to Japan's war machine and exploited the trade of Korea for Japanese profit. The separation of Korea into two zones has severed the agricultural south from the industrial north and has further handicapped her recovery. Crop shortages resulting from floods and the lack of fertilizer,
plus a

plus a cholera epidemic, and difficulties in transportation have aggravated an already grave situation. As would be expected, economic difficulties of this magnitude have resulted in serious political unrest.

We cannot risk further delay. Whatever the outcome of the deliberations of the Joint Commission, the United States has a serious interest in the welfare of the people of Korea. The basic needs of twenty million Koreans who live in the United States area of occupation and the conservation of our own resources require that we proceed at once with a positive program which will enable them as rapidly as possible to stand on their own feet.

A program has been prepared by the Secretaries of State and War designed to establish a stable economy in southern Korea. In view of the developing situation in Korea, particularly the prospect that the Joint Commission may reach agreement in the establishment of a provisional government for all Korea, it is the course of wisdom to put only the first year of this program into effect now. Developments before the end of the coming fiscal year will enable us to recommend to the Congress the further steps to be taken.

A sound program in the coming fiscal year will require the appropriation of an aggregate sum of \$215 million. I have previously recommended to the Congress appropriations to the War Department for Government and Relief in Occupied Areas which would permit the use of \$137 million from that source for those purposes in Korea. The supplemental sum needed in the coming fiscal year for the program planned for Korea will, therefore, be \$78 million in order to make available the necessary aggregate of \$215 million.

I want to emphasize that the expenditure of the entire sum provided for our program in Korea will be under American control, will be open to inspection by representatives of the press and radio and will be reported on to Congress.

I believe that the adoption of this program makes sense. The supplemental expenditure involved would start the transformation of southern

Korea

- 5 -

Korea from a food deficit to a food surplus area. The attainment of that goal would not only improve the low nutritional standard of the Koreans but would provide some exports to pay for necessary imports. The proposed program would increase the supply of consumer goods by re-starting essential local industries. It would underwrite intensive training of a nucleus of Korean technicians, now few in number as a result of the Japanese policy of monopolizing all positions requiring technical skill. By strengthening the transportation system, it would make possible the adequate distribution of consumer's goods, a necessity in preventing a breakdown of agriculture and industry. By increasing Korean agricultural and basic industrial production, we will progressively and sharply reduce the need for essential imports now furnished by the United States, at an annual cost of \$140 million, to provide bare subsistence.

Furthermore, by making possible the training of an increased number of Koreans to take positions of responsibility in government and industry, the grant-in-aid program would do much to assure a stable, efficient government and accelerate the assumption of full responsibility by the Koreans. The extension of suffrage, the improvement of educational facilities, the training of teachers, and the expansion of adult education all would serve to assist the Koreans in establishing self-government and in applying the principles of democracy.

As we progress toward fulfillment of the Moscow Agreement, it is appropriate that the U. S. administration of this liberated area be gradually transferred from military to civilian responsibility. Accordingly, I have approved the recommendation of the Secretaries of State and War that the State Department should through successive stages assume the responsibility for discharging

non-military

- 6 -

non-military responsibilities in Korea. This eventual change to civilian administration will facilitate the accomplishment of the proposed program.

The United States Government was pleased to note, and agrees with, the Soviet Foreign Minister's view that the Joint Commission consider with the provisional Korean Government when it is established, American and Soviet proposals concerning aid to the Korean people. The initiation of our program now will demonstrate concretely our willingness to bring urgently needed aid to the Korean people. Since it is designed to meet basic needs it may be readily integrated in a program for the whole of Korea in consultation with the provisional government of Korea when it is established. Meanwhile, despite the efforts of our occupation forces, the long delay in unification has resulted in a disintegration of the Korean economy which makes positive action imperative now. We must proceed at once to strengthen the economy of southern Korea.

We are resolved to meet our existing obligations to Korea. We are fully aware, however, of the great interest of the other members of the United Nations in a solution which will bring about the independence of Korea at the earliest possible moment and bring Korea into the United Nations. It was to achieve such a solution that we entered into the agreement at Moscow with the USSR, United Kingdom, and China concerning Korea. It is also with that purpose in mind that we are renewing our discussions in the US-Soviet Joint Commission. Should developments indicate the wisdom of endeavoring to solve this problem through the machinery of the United Nations we would be favorably disposed toward consideration of the matter in the General Assembly. The United States will encourage and will participate in all appropriate efforts of the

United Nations

- 7 -

United Nations and other international agencies to help Korea to assume its rightful place as an independent, democratic member.

Korea, with its 30 million people, is an area of peculiar strategic and political significance in the Far East. Its control was the direct object of two major Far Eastern wars. It was the launching ground for Japan's aggressions in this war. A weak Korea, unable to sustain its own independence, would constantly invite some new disturbance. An economically sound and politically stable Korea will be an active force toward the peace and well-being of all Asia. This objective is of paramount importance to the peace and well-being of the United States.

We know now that in this one world of ours there must be one peace. War anywhere is all too likely to mean war everywhere. We know also that democracy is indivisible. As we hope for it to survive at home, so must we seek to make it live abroad. For these reasons it is plainly in the direct interest of the peace and security of the United States, as well as in recognition of the right of the Korean people to independence, that we now resolutely endeavor to help them build a new and unified Korea, economically self-supporting, enlightened and resourceful, politically free and independent, and ready and able to take its place among the United Nations.

II

A B I L L

To carry out the responsibilities and obligations
of the United States in Korea

WHEREAS the President of the United States, Generalissimo Chiang Kai-shek, and Prime Minister Churchill agreed at Cairo on December 1, 1943, that "in due course Korea shall become free and independent," and the President of the United States, the President of the National Government of the Republic of China and the Prime Minister of Great Britain agreed on July 26, 1945, at Potsdam, that "the terms of the Cairo Declaration shall be carried out," to which agreement the Union of Soviet Socialist Republics adhered on August 8, 1945; and

WHEREAS the Japanese Government accepted in the Terms of Surrender on September 2, 1945, the provisions set forth in the Potsdam Declaration of July 26, 1945, and has ceased to exercise any authority in Korea, where the United States Forces have been in occupation south of 38 degrees north latitude since September 8, 1945; and

WHEREAS the President of the United States declared on September 18, 1945, that "The building of a great nation has now begun with the assistance of the United States, China, Great Britain and the Soviet Union who are agreed that Korea will become free and independent;" and

WHEREAS at a meeting in Moscow in December 1945 the Ministers of Foreign Affairs of the Union of Soviet Socialist Republics, the United Kingdom and the Secretary of State of the United States of America agreed to the establishment of a Soviet-United States Joint Commission to assist the formation of a provisional Korean government and to work out measures for the development of democratic self-government and the establishment of the national independence of Korea; and

WHEREAS this Joint Commission was unable to reach agreement in regard to its procedures and adjourned sine die on May 8, 1946, without having accomplished the purposes set forth in the Moscow Declaration; and

WHEREAS the United States of America, by virtue of its above-mentioned declarations, has undertaken to promote the establishment of a United Korea with an independent and democratic government;

Therefore

Be it enacted

- 2 -

Be it enacted by the Senate and House of Representative of the United States of America in Congress assembled, That there is authorized to be appropriated to the President not to exceed \$540,000,000 to carry out, notwithstanding the provisions of any other law, the responsibilities and obligations of the United States in Korea, including the provision of economic assistance, training and education, and the taking of such other measures as may be necessary to promote the establishment of a stable economy and a free and independent government for Korea, and for any necessary expenses, including administrative expenses, incident thereto.

SEC. 2. The authority contained in this Act shall expire on June 30, 1950, except to the extent that funds herein authorized to be appropriated shall be required subsequent to June 30, 1950 for necessary administrative expenses incident to the liquidation of the activities undertaken prior to June 30, 1950 in accordance with the provisions of this act.

SEC. 3. The President may allocate sums from the appropriations made pursuant to section 1 for any of the purposes of this Act to any department, agency, or independent establishment of the Government. Any sums so allocated shall be available as advancement or reimbursement, and shall be credited, at the option of the department, agency, or independent establishment concerned, to appropriate appropriations, funds or accounts existing or established by it for the purpose. Whenever any portion of any such allocation is used as reimbursement, the amount of reimbursement shall be available for entering into contracts and other uses during the fiscal year in which the reimbursement is received and the ensuing year.

SEC. 4. No part of the appropriations authorized by this Act shall be used in any manner for that part of Korea north of 38 degrees north latitude unless the President determines that the economic and political unification of the two areas of Korea located north and south, respectively, of the 38 degree parallel has been accomplished or would be thereby promoted.

SEC. 5. The President shall submit to the Congress annual reports of expenditures and activities under authority of this Act.

SEC. 6. The President may from time to time prescribe such rules and regulations as may be necessary and proper to carry out any of the provisions of this Act; and he may exercise any power or authority conferred upon him pursuant to this Act through such department, agency, independent establishment, or officer of the Government as he shall direct.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That there is authorized to be appropriated to the President ~~not to exceed \$540,000,000 to carry out, notwithstanding the provisions of any other law, the responsibilities and obligations of the United States in Korea, including the provision of to be expended in his discretion, and without regard to such provisions of law regulating the expenditure of government funds or the employment of persons in the Government service as he shall specify, to provide~~ economic assistance, training and education, and the taking of to take such other measures as may be necessary to promote the establishment of a stable economy and a free and independent government for Korea, and for any necessary expenses, ~~including administrative expenses, incident thereto.~~

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* The portions stricken through are deletions proposed by the Bureau of the Budget.

I - SUMMARY STATEMENT

As a result of commitments entered into during the war, the United States has assumed important responsibilities with respect to Korea. At Cairo on December 1, 1943, the United States, the United Kingdom, and China joined in declaring that "in due course Korea shall become free and independent." This statement was reaffirmed at the Potsdam Conference in July 1945 and the USSR subscribed to it when she entered the war against Japan. In December 1945 the Foreign Ministers of the United States, the United Kingdom and Soviet Russia, with China's adherence, agreed upon procedure looking to the establishment of a four-power trusteeship which, during a period of not more than five years, would aid the Korean people in developing a democratic government, economy and educational system and prepare them for United Nations membership.

Because the American and Soviet authorities in Korea have been unable to implement the Moscow decision to establish a provisional Korean government and a four-power trusteeship, the United States is still in occupation of the southern section of this country of some thirty million people. We have consistently worked for the establishment of a united, independent, democratic and economically viable Korea. To abandon this aim would be to break pledges upon which the Koreans have been relying, would be disastrous to American world prestige, and would suggest that our intentions and professions are not as serious as our words imply. The importance of Korea to our foreign policy is enhanced by the fact that it is the one place in the world where only the United States and Soviet Russia have joint responsibilities to collaborate in solving an international problem. It would be unfortunate for us to make less than the best effort of which we are capable to carry out our commitments in Korea.

Three lines of policy are open to us: One is to withdraw our occupation troops and all assistance from Korea. This would be most undesirable from the point of view of our solemn commitments to the Koreans and our international prestige. A second line of policy would be to maintain our military occupation program at its present level, which is that of supporting the Korean economy in our zone sufficiently to prevent disease and unrest endangering the forces there. This would lead to an interminable and never diminishing dole which would fail completely to alleviate the threatening economic and political conditions in Korea. A third option is to plan and carry out a positive political and economic program in our zone.

A consideration of all the factors involved points to the third line of policy as the most practical. By spending a

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sufficient amount of money to place the present bankrupt economy of Southern Korea on a solvent basis, we may lessen our obligations for the future, create the basis for a friendly and democratic Korea and show in an unmistakable fashion our serious intention of carrying out the international commitments to which we are a party.

The joint resolution which has been prepared for Congressional consideration would authorize the President to spend through any Department, agency or independent establishment of the Federal Government an aggregate sum during the next three years of \$540 million. This would represent \$106 million increase over what would be spent during this period under a continuation of the unproductive "disease and unrest" program carried on by Military Government today. It is confidently believed that the additional expenditure recommended will transform Southern Korea from a food deficit to a food surplus area, thus improving the low nutritional standard of the Koreans and providing some exports to pay for necessary imports. Such a program also would increase the supply of consumer goods by restarting local industries. It would decrease the dependence of the southern zone upon the northern for electrical power. By increasing production, it would contribute to the financial stability of Southern Korea. It would permit a start to be made upon an intensive scheme to train Korean technicians and to eradicate illiteracy, two serious deficiencies resulting from the Japanese policy of monopolizing with their own nationals nearly all positions requiring technical skill and of keeping the Koreans a servile people.

The grant-in-aid program briefly outlined above is based upon the assumption that Korea will remain divided for some time at the 38° parallel. There is nothing in the program, however, that would delay or hinder unification. In fact, it is believed that such a positive program by indicating our determination to carry out our commitments, would be a distinct aid toward prompt unification of the zones.

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III - Explanation of Grant-In-Aid Program

A. General Statement

1. Background Information on Korea

Korea is a mountainous peninsula which projects southward from Manchuria into the East China Sea. It has a 6,000-mile coastline, an area of 85,228 square miles--slightly larger than the State of Minnesota--and a climate similar to that of our eastern seaboard between Maine and South Carolina.

The Koreans are a Mongoloid people, with racial characteristics distinct from the Chinese and Japanese. The present population of Korea is estimated at near thirty millions, of whom two-thirds reside south of the 38° parallel. At least three-quarters of the population is engaged in agriculture, rice being the principal crop.

Korea is not richly endowed with natural resources. It has some mineral wealth and water power and the seas around the peninsula are good fishing grounds. In general, the northern half of the country possesses the largest part of the mineral and industrial resources, and the southern half is the principal agricultural region.

Until the late 19th century, Korea was oriented toward China, politically and culturally. In 1894-5, Japan by force of arms assumed a position of dominance in Korea and blocked the Czarist Russian advance toward the East. The Japanese annexation of Korea in 1910 provided a base for the invasion of Manchuria in 1931 and subsequent penetration of the Asiatic mainland. Until August 1945, Korea was governed as an integral part of the Japanese Empire. Her industries and internal communications were developed to fit an economic and strategic empire embracing Japan, Korea and Manchuria.

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2. Background of Current U.S. Responsibilities in Korea

For the purpose of facilitating the Japanese surrender Korea was divided into two zones of military occupation, the United States occupying that part south of 38°, and the U.S.S.R. occupying the northern part of the country. This division persists. However, through the Cairo and Potsdam Declarations, the United States, the United Kingdom, and China are committed to the eventual independence of all of Korea. In its declaration of war on Japan on August 8, 1945, the U.S.S.R. joined in the Potsdam Declaration.

In the early days of the occupation the U.S. Commander, General Hodge, was unable to establish satisfactory liaison with the Soviet Commander in the north. Political and economic problems created by the artificial division of the country into two zones became acute. In December 1945, at the Moscow Conference, these serious consequences of the bi-zonal occupation were discussed and an agreement between the U.S., U.S.S.R. and U.K. was reached regarding Korea. This agreement, to which China subsequently subscribed, provided that:

(i) There would be an immediate conference between representatives of the U.S. and Soviet Commands in Korea for the purpose of settling acute economic and administrative matters.

(ii) The U.S. and Soviet Commanders in Korea would establish a Joint Commission which, in consultation with local democratic parties and social organizations, would prepare plans for the formation of a provisional Korean government.

(iii) The Joint Commission, with the participation of the provisional Korean government (when established) and Korean democratic organizations, would work out measures "for helping and assisting (trusteeship) the political, economic and social progress of the Korean people, the development of democratic self-government and establishment of the national independence of Korea" which would be submitted for the joint consideration of the Governments of the U.S., U.S.S.R., U.K. and China "for the working out of an agreement concerning a four-power trusteeship of Korea for a period of up to five years."

It has always been and continues to be our hope that any system of trusteeship that may be set up will be under the Trusteeship Council of the United Nations.

The conference called in subparagraph (i) above met early in April 1946 but achieved no substantial results.

On March 20,

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On March 20, 1946, the Joint U.S.-U.S.S.R. Commission provided for in the Moscow Agreement met for the first time. It was the U.S. view that the formulation of plans for the creation of a provisional Korean government was the first and most pressing task before the Commission.

The Soviets at first insisted that the provisional Korean government be formed after consultations with only those political parties and social organizations fully in favor of the Moscow Agreement including its provisions for a trusteeship for Korea. The Soviet position would have had the effect of excluding from consultation all parties save the Communist party and its fellow travelers, even though, until indoctrinated with the "party line," Communists in South Korea, like those in the north, initially opposed trusteeship. The Joint Commission finally agreed that it would consult with Korean democratic parties and social organizations which were "truly democratic in their aims and methods" and which would subscribe to a declaration that they would "uphold the aims of the Moscow Decision," "abide by the decisions of the Joint Commission in its fulfillment of paragraph 2 of the Moscow Decision in the formation of a provisional Korean Democratic Government," and cooperate with the Commission "in the working out by it...of proposals concerning measures foreseen by paragraph 3 of the Moscow Decision."

The Soviet delegation then insisted that if any of these Korean parties were represented by any individuals who had expressed opposition to the Moscow Agreement, and particularly to the provision for trusteeship, these individuals should be declared ineligible for consultation with the Joint Commission. The United States delegation did not accept this proposal on the ground that such an exclusion would constitute a violation of democratic, representative principles and particularly the principle of freedom of speech. As it became evident that no progress could be made, the Commission adjourned sine die on May 8, 1946.

Immediately after the Commission adjourned the U.S. Command took the initiative in pressing the Soviet Command for resumption of negotiations. Continued efforts by General Hodge since May 9, 1946, to secure agreement of General Chistiakov to some acceptable basis on which the Joint Commission could be reconvened, have proven fruitless.

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3. Current Political-Economic Situation in Korea.

a. In South Korea.

There is considerable unrest in South Korea because of the Koreans' desire for immediate independence and their growing pessimism regarding the prospects of U.S.-Soviet agreement. This unrest is aggravated by the serious economic situation, which cannot improve until material assistance is received from the U.S. The right wing elements are increasing their vocal opposition to trusteeship and are threatening to instigate widespread civil disorder.

The Korean Communists are using terrorism and other typical Communist tactics to weaken and confuse other political elements. They assert that the U.S. will some day withdraw from South Korea and that Soviet sponsored Communism will inevitably triumph in the entire nation. They threaten that they will then mete out dire punishment to those who now oppose Communists objectives. Complicating the confused political picture is the political inexperience of the Koreans after forty years of Japanese domination, during which Korean national life and self-expression were ruthlessly suppressed and the Koreans were forced to adapt themselves to the Japanese mold.

In spite of these developments, however, U.S. friendliness toward Korea prior to the Japanese annexation, and extensive American missionary activity both before and during the period of Japanese rule, have resulted in a backlog of good will among Koreans generally toward the U.S. Also, many Koreans realize that much as they yearn for freedom from foreign supervision, withdrawal of the U.S. would merely mean coming under a more oppressive regime. Therefore, the effect of hysterically emotional appeals for immediate independence and driving out of the "imperialist oppressor" is potentially less in Korea than it would be otherwise.

Korea, as an integral part of the Japanese Empire, was forced to contribute to the Japanese war-making potential and was not organized as a self-sustaining economic unit. With the end of the war and the abolition of Japanese controls there was a complete collapse of all manufacturing effort. Few Koreans had the technical training to fill the vacancies created by repatriation of Japanese technicians. Factories built to produce war supplies were not suited to a peacetime Korean economy. The limited stockpiles left by the Japs at the end of the war were quickly used up. The industries of South Korea are now operating far short of capacity. Heavy and light metals are at 20% of capacity, mining is at 10% of capacity, textile production is at 20% of capacity, consumer goods and chemical industries are at approximately 30% of capacity. In one consumer goods item, the rubber shoes, customarily worn by Koreans, 93,000 pairs are produced monthly out of a total estimated capacity of 1,500,000 pairs per month.

The collapse of the domestic economy was, of course, accentuated by the breaking off of Korean economic and financial relations with Japan and the yen bloc countries from which nearly 95% of Korean prewar imports came.

The population of South Korea has increased by two million through repatriation of Koreans from other countries and an influx of refugees from north Korea, consisting, largely, of groups not immediately employable. This

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has posed a difficult problem of employment and food supply.

Rice, the basic commodity of the South Korean economy, is in short supply because of failure of the Japanese to provide adequate fertilizer during the war years and inability, since the surrender, to secure sufficient supplies of fertilizer, either from the Soviet zone or as imports. In addition the 1946 crop was seriously damaged by floods caused by deforestation. During 1946, 650,000 metric tons of food had to be imported to make up for this and other food crop deficits.

The railway transportation system, which is particularly necessary to the economy in view of the mountainous terrain, was allowed to deteriorate by the Japanese. The removal of Japanese technicians and operators left a void which military government has found difficult to fill. New rolling stock and urgent right-of-way maintenance are necessary to prevent a complete breakdown of this basic means of transportation. Only 182 of South Korea's 474 badly worn engines are operable.

Recovery from these blows has been severely handicapped by the separation of Korea into two zones. The hydro-electric power, chemical, metal and mining industries of the Russian zone are a necessary complement of the agriculture and textile industry of South Korea. South Korea is obtaining from the Russian zone 90% of the electric power needed for domestic and industrial purposes. At any moment and without warning this supply of electric power could be cut off, disrupting all economic activity in our zone.

The United States economic program in South Korea has been, up to the present time, almost entirely a "disease and unrest" program. By this it is meant that import requirements have been based upon the amounts needed to prevent disease and unrest in South Korea. The disease and unrest formula was taken over from the ex-enemy countries, Germany and Japan. In spite of the fact that the Cairo Declaration and the President's statement of September 18, 1945, recognized that Korea is a liberated country, it has been treated, in terms of appropriated U.S. funds, as an ex-enemy country. In previous appropriation acts, Korea's needs have been lumped with those of Germany and Japan. The effect of this has been that, although some funds were obtained for use in Korea for urgent needs above the disease and unrest level, almost none of these funds have in fact been available for these purposes. This has been because the increased needs of Germany and Japan and the higher cost of all supplies have made it necessary to use these funds to prevent simple starvation in Germany and Japan.

b. In North Korea,

In North Korea, governmental control is ostensibly in the hands of the "Provisional People's Committee" which, according to its announced program, has jurisdiction over land reform, industrial development, transportation, communications, business, banking, justice, education, labor, and public peace. The Soviet military are withdrawing more and more from the administration of civilian affairs. Control over the Korean-staffed governmental framework in North Korea is achieved by parallel Communist party organizations and Communist factions within the governmental hierarchy. The pattern is typical of that in other areas under Soviet control. Support for proposed or accomplished governmental action is secured through a series of controlled organizations embracing economic, social and cultural groupings such as peasants, labor

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unions, women, youth. All are combined into a "Democratic Peoples Coalition Front". With pressure exerted to force every person into one of these organizations, the dissident individual voice is lost in that of the organization which speaks for him. Organizations outside of the official hierarchy are dealt with by infiltration or suppression. The Soviets are reported to be recruiting, arming and training a Korean military force the strength of which is variously estimated up to 500,000.

Despite the framework designed to eliminate contrary views, some opposition still exists. This is in evidence in relation to issues such as trusteeship, taxes and the behavior of Soviet troops. Active opposition is not likely to occur, however, because of the general approval of land and labor reforms, the authoritarian nature of the government, the strictness of its police measures and the presence of Soviet troops.

The major portion of Korea's natural resources -- hydroelectric power, minerals and coal -- are found in North Korea, accompanied by the corresponding heavy industries. The Soviets have retained and are using Japanese technicians in their zone.

The economic outlook in the American zone appears more favorable now than in the Soviet zone. Agricultural production during 1946 in north Korea was probably relatively better than in south Korea, due to greater availability of commercial fertilizers and to less flood damage. However, agricultural prospects for 1947 for south Korea are at least as favorable as for north Korea, where Soviet grain collection policies have tended, it is believed, to discourage production. The over-all food situation currently appears to be much better in the southern half of the peninsula because of more equitable distribution of available foodstuffs, greater cereal imports from abroad, and the contrasting policies of the two occupation armies, with the Red Army largely living off the land and, according to numerous reports, even exporting grains.

Industry and mining in the north appear to be operating at not more than 10-15 per cent of over-all capacity, and production of hydroelectric power has fallen off considerably as a result of inadequate maintenance and repair.

The condition of the railroads is even more serious in north Korea than in South Korea. There has been little attempt to repair or replace worn-out rail equipment and only the most casual attempts at maintenance. The recall of Japanese technicians to the railroad shops has been necessary to prevent complete stoppage.

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4. U.S. Policy Toward Korea

U.S. policy toward Korea is based on the following objectives: (1) To establish a self-governing, sovereign Korea as soon as possible, independent of foreign control and eligible for membership in the United Nations; (2) to insure that the national government so established shall be fully representative of the freely expressed will of the Korean people; and (3) to assist the Koreans in establishing a sound economy and adequate educational system as essential bases of an independent, democratic state.

5. Relationship of Korean Policy to Overall U.S. Foreign Policy

The United States has long been interested in the progressive development toward independence of dependent and suppressed peoples in the Far East. This basic policy motivated our grant of independence to the Philippines in 1946, our initiative at the San Francisco Conference in 1945 in obtaining agreement for inclusion of a chapter on international trusteeship in the Charter of the United Nations, and our acceptance of a commitment to ensure in due course a free and independent Korea. This policy has increased the confidence of dependent peoples in the United States and enhanced our position in the Pacific. Failure fully to live up to our Korean responsibilities would result in immediate damage to our position in dependent areas and those regions immediately subject to Soviet pressure, a development which would seriously affect our interests throughout the world.

Korea is strategically located in the northeast Asia close to both China and Japan, where we have extremely important political interests.

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6. Reasons Why Grant-In-Aid Program Needed

In view of the clear international commitments of the United States in regard to Korea and our relations there with the Soviet Union it is obvious that the United States cannot abandon its responsibilities in Korea. It must stay until a real measure of success has been achieved in building a sturdy economic structure that can support a truly independent Korea. Only the establishment of an effectively independent Korea will honorably discharge our international commitments and enable us to withdraw without the certainty that our place will be taken by forces which would impose upon the Korean people, as has been done elsewhere, a totalitarian regime which we are certain they do not want.

Our present program in Southern Korea provides for limited imports of food and other essentials to prevent disease and unrest. It was based on the assumption that the provisions of the Moscow Decision would soon be carried out. It is only an interim program and it has been hampered by insufficient funds. As a result conditions are deteriorating rather than improving. If sufficient funds can be made available it is believed it will be possible to halt this present trend toward economic disintegration which is causing the Korean people to become daily more antagonistic toward military government, toward U.S. objectives in Korea and even toward the U.S. itself. There have already been riots and loss of life. Only by the expenditure of sufficient funds to make possible a real program of rehabilitation and reconstruction may we expect eventually to see Korea start on the road to self-sufficiency. Only in this way may we expect to see the time come when our expenditures may begin to decrease without danger to ultimate U.S. objectives.

It is believed that the initiation of an aggressive, positive, long-term program will not only have a beneficial economic effect but will, in the political field, be equally if not more effective. It will strengthen our position in negotiations with the Soviets since it will show them that the United States has no intention of allowing Korea to fall into their hands by default. It will force their realization that they will either have to expend additional funds and effort of their own or acquiesce in fulfilling the Moscow Agreement. By demonstrating our real interest in the present welfare and future development of Korea as an effectively independent nation we may not only obtain the cooperation of the Korean people but also strengthen U.S. prestige among all peoples of the Far East.

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