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THE FOREIGN SERVICE OF THE UNITED STATES OF AMERICA UNITED STATES POLITICAL ADVISER FOR JAPAN

ACTION is assigned to

[Handwritten signature]

No. 599

Tokyo, September 11, 1948.

CONFIDENTIAL

Subject: Forwarding Report Regarding Dunlop Rubber Company Factory, Kobe.

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THE SECRETARY OF STATE,
WASHINGTON.

INTERNATIONAL RESOURCES DIVISION
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I have the honor to enclose copies of a memorandum of August 18, 1948 on the subject of "Visit to Dunlop Rubber Company Factory, Kobe" prepared by American Consul, Douglas Jenkins, Junior.

This Mission considers as typical the practice referred to by Mr. Jenkins on page two of the enclosed memorandum, as used by the Chuo Rubber Company (operating the Kobe plant of the Dunlop Rubber Company at present) to obtain needed critical materials by the sale in the black market of its unscheduled surplus production. We also consider as typical the circumstance cited on page three of the enclosed report that the Chuo Rubber Company with 1200 laborers is now producing only 50 per cent as much as the same plant produced with 900 laborers before the war. The primary reason given for this condition is the lack of incentive for the individual laborer due to the determination of wages on a size of family and social benefit basis rather than on the basis of skill and efficiency and the relatively insignificant difference in basic wages received by labor and management.

Respectfully yours,

W. J. Sebald
W. J. Sebald.

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Enclosure:

Memorandum entitled "Visit to Dunlop Rubber Company Factory, Kobe" dated August 18, 1948.

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Enclosure to Despatch No. 599 dated September 11, 1948 from the Office of the Political Adviser for Japan, Tokyo, on the subject, "Forwarding Report Regarding Dunlop Rubber Company Factory, Kobe."

(COPY)

CONFIDENTIAL

August 18, 1948

Subject: Visit to Dunlop Rubber Company Factory, Kobe.

Subsequent to the outbreak of the War, the Kobe Factory of the Dunlop Rubber Company (British) was turned over to the Chuo Rubber Company (Japanese), which is still operating it. Mr. Charles H. Woodward, an employee of the Dunlop Rubber Company, is at present, with SCAP authority, checking on the operation of the factory with a view to conserving his Company's interests. He has no direct authority in the operation of the plant. Mr. Woodward kindly showed me through the factory today and gave me his opinions respecting its present operation and an indication of his Company's plans for the future.

Condition of Plant

Although seriously damaged by fire resulting from bombing, the factory buildings were generally intact and the heavy machinery was still in a useable condition at the close of hostilities. Limited repairs have been effected by the Chuo Rubber Company and the plant is now operating at about 50 percent of its prewar output, producing automobile and bicycle tires, rubber hosing and belting, and such minor products as rubber gloves, hotwater bottles, football bladders and tennis balls.

On the basis of a survey made in March last, Mr. Woodward estimated that it would cost about Yen 46,000,000 to restore the factory to its prewar condition. He states that with rising costs the figure now would probably be about Yen 75,000,000.

Financial Position and Business Practices

On December 7, 1941, the Dunlop Rubber Company had on deposit approximately Yen 2,000,000 and materials on hand valued at about Yen 1,800,000. These figures it must be borne in mind represent yen at their prewar value. At the present time the Chuo Rubber Company has a bank indebtedness of Yen 75,000,000.

On paper the plant is now being operated by the Chuo Company at a profit. However, it is Mr. Woodward's opinion that the profits are actually an unearned increment resulting from the rise in value of materials between the time of their purchase and their sale as finished products. Raw rubber is presently being sold to the Company by the Board of Trade at Yen 7 a pound, which would appear to be entirely out of line with the world price of some 22 to 23 cents a pound.

As now operated the plant receives allocations of raw rubber, sulphur, and other materials and chemicals made by the Board of Trade

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Encl. to
Tokyo's No. 599
September 11, 1948

CONFIDENTIAL

-2-

and approved by ESS, SCAP, on the basis of the size of outstanding orders for finished products. In actual practice the allocations of materials granted are approximately 10 percent over the amounts which would be required in an economically operated plant in the United States or Britain to produce the amount of finished products for which they are to be used. While a certain portion of these surplus allocations are lost as waste due to inefficient operation, nevertheless, the Chuo Rubber Company is able to produce a surplus of products over and above the amount set by the Board of Trade. This surplus, which does not have to go into the controlled market, is used by the Company to barter for scarce materials which it is unable to obtain in sufficient quantities through regular controlled trade channels. While this is, of course, only one instance, it is probably typical and constitutes an example of the methods employed to conduct trade outside of government controls and of the source of black market goods.

Labor

Mr. Woodward being a representative of the entrepreneur, his opinions respecting labor relations and wages naturally tend to the employer's viewpoint rather than to that of labor. He let me read two reports which he had sent to his head office, one describing labor relations and wages, and the second reporting an informal interview between himself and the union representatives in the plant.

The company union is affiliated with Sodomei, whose leadership is Social Democratic. So far as Mr. Woodward has been able to ascertain, there has been no Communist infiltration among the factory's employees, and the local union officials have assured him that they are taking every precaution to prevent such infiltration.

The opinion of the factory union officials as expressed to Mr. Woodward is that the Japanese Military were responsible for the war and that they were the ones who were defeated, not Japanese labor. They glibly quote democratic pronouncements regarding the right of the individual to social security and a living wage and with these arguments supported by the Occupation have succeeded in winning from the factory management a host of concessions and wage increases. Meanwhile, the productive capacity of labor has diminished markedly.

The Chuo Rubber Company is now employing 1200 laborers (900 male and 300 female) whereas the Dunlop Company before the war employed around 900, and it is producing only 50 percent of what the factory produced before the war. Part of this drop in the productive capacity of labor can be attributed to a diminution in the plant's efficiency and to the reduction of the working day from 10 to 8 hours. Still, according to Mr. Woodward, the productive capacity of the individual laborer per hour is now only about 50 percent of what it was when the Dunlop Company was operating the factory. This falling off of the productive capacity of the individual laborer he attributes primarily to the lack of incentive engendered by the fact that wages now are determined mainly by such factors as family allowances, marriage allowances, sickness benefits and other social benefits

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Encl. to
Tokyo's No. 599
September 11, 1948

CONFIDENTIAL

-3-

rather than on the basis of industry, efficiency and skill. For example the difference in basic wages between a shop foreman and an ordinary laborer is relatively insignificant. On the management side this uniformity of wages is equally marked, the head of a department receives only 800 yen a month more basic wage than an ordinary employee of his department.

The average male employee of the factory now receives a take home pay of between 7,000 and 8,000 yen a month plus certain health benefits, holiday with pay, and the right to buy his midday meal for 20 sen from the Company canteen. The average female worker receives about 3,000 yen a month less. At the present time there is pending before the management a union demand for an over all wage increase of about 60 percent.

An interesting feature of the union organization is that the plant union officials although they perform no services in the plant are, nevertheless, regarded as Company employees and receive their salaries from the Company rather than from union funds. This system, I understand, is the general practice in Japan.

Plans for the Future

From my conversation with Mr. Woodward, I gathered that the Dunlop Rubber Company is anxious to regain possession of its Kobe factory as soon as possible and to operate it from the Company's own account. Moreover, the Company is apparently seriously considering the advisability of constructing and operating other rubber factories in Japan - Mr. Woodward mentioned six or seven.

Difficulties are at present being encountered in the negotiations with the Civil Property Custodian who, Mr. Woodward states, is insisting that the Dunlop Company when it repossesses its plant should assume the liabilities of the Chuo Rubber Company. Naturally, the Dunlop Company is averse to this suggestion. It is maintaining that its plant should be returned without encumbrances and in the condition in which it was on December 7, 1941.

Judging from the fact that Mr. Woodward has received instructions from his head office to endeavor to find accommodations in Kobe for three additional foreign members of the Company, it appears that the Dunlop Rubber Company is reasonably confident that it will shortly again control its property in Kobe and that it is planning to carry on the operation of the plant.

Douglas Jenkins, Jr.

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