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7. Explanation of the Bill and Summary of the Grant-In-Aid Program

a. The Bill.

The enactment of the Bill is intended to provide authority for the appropriation of funds for a rehabilitation program in Korea.

The Bill authorizes the appropriation to the President of a sum not to exceed 540 million dollars to carry out, notwithstanding the provision of any other law, the responsibilities and obligations of the United States in Korea. The program by which these responsibilities and obligations are to be carried out may include provision of relief and economic assistance, training and education, and such other measures as may be necessary to promote the establishment of a stable economy and a free and independent government in Korea. These are, of course, the responsibilities and obligations of the United States in Korea. The Bill also authorizes the expenditure of these funds for any incidental expenses necessary, including administrative expenses.

Section 2 of the Bill provides for its termination at the end of fiscal year 1950, except for necessary liquidation activities.

Section 3 authorizes the President to allocate sums appropriated under the Act for any of the purposes of the Act to any department, agency, or independent establishment of the Government. The purpose of this provision is to allow funds to be allocated initially to the War Department which will initially be responsible for administration of the program in Korea, and to allow for later allocation to the State Department, which at some later time may undertake responsibility for administering the program. It also permits allocation of the funds to other agencies of the Government which may participate in carrying out special parts of the Program.

Section 4 definitely limits the expenditures authorized by the Act to South Korea, the zone of the American occupation. Such funds may be expended north of this line only if the President has determined that the economic and political unification of Korea north and south of the 38 degree parallel has been accomplished or would be thereby promoted.

Section 5 requires the President to submit to Congress semi-annual report of expenditures and activities under authority of this Act.

Section 6 authorizes the President to prescribe such rules and regulations as may be necessary and proper to carry out the Act. It also authorizes him to exercise powers granted him under the Act through agencies and officers of the Government as directed by him.

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b. Total and annual cost of the Grant-In-Aid Program.

The total cost of the Grant-In-Aid Program for fiscal years 1948, 1949 and 1950 will be \$540,000,000. The annual requirements as indicated in Table A will be \$215,000,000 in fiscal year 1948 or \$78,000,000 in addition to the fiscal year 1948 War Department request of \$137,000,000; \$188,500,000 in fiscal year 1949; and \$136,500,000 in fiscal year 1950. These estimates of expenditures are made on the assumption that unification of the northern and southern zones of Korea will not take place during the three-year period of the Grant-In-Aid Program in arriving at the estimated requirements for each fiscal year the amount of exports expected has been deducted. As indicated in Table A, it is estimated that exports will be \$10,000,000, \$15,000,000 and \$20,000,000 in fiscal years 1948, 1949 and 1950, respectively. These exports will only materialize if funds are made available through the Grant-In-Aid Program, for rehabilitation of agriculture, industry and transportation.

The full utilization of all indigenous resources and other possible supply sources, such as excess Army stocks, have been considered in arriving at the total shown in this estimate.

It has been determined so far as is possible at this time that the supplies regarded as necessary under this program can be provided and that distribution facilities are adequate to handle the tonnages involved.

In stating the requirements for fiscal 1948, full account has been taken of probable delivery in fiscal 1948 of supplies procured with fiscal 1947 funds.

The following paragraphs summarize the more detailed justification statements which appear in III B, below.

(1) Food. There are nearly 20 million people in the U. S. zone of which over 7.5 million are non-self-suppliers. This includes an influx of about 2 million repatriates from Japan and other areas of the Far East and refugees from the Russian zone of Korea. As a result of the population increase and the lack of fertilizer, South Korea, known before the war as her "bread-basket," has been unable to feed its population.

For the three-year period of the Grant-In-Aid Program \$95,798,229 will be required to provide essential food imports for the civilian population in South Korea. \$46,159,295 will be required in fiscal year 1948 which is the same amount requested in the War Department budget estimate for South Korea for fiscal year 1948. The funds required for food imports will, it is estimated, drop to \$33,961,251 in fiscal year 1949 and \$15,677,683 in fiscal year 1950. This decrease in funds required for food imports is due to expected increases in indigenous production of foods made possible through increased application of fertilizer and improved transportation of agricultural supplies and products. Favorable growing conditions will be necessary if imports are to be kept at the projected levels.

(2) Fertilizer and Agricultural Supplies. For the three-year period of the Grant-In-Aid Program, requirements are estimated at \$100,500,000. Fiscal year 1948 requirements are esti-

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TABLE A

Estimated U.S. Appropriated Funds Required for a Three-Year Disease and Unrest  
Three-Year Grant-In-Aid Program by Fiscal Years 1948, 1949 and 1950

Item	Fiscal Year 1948		Fiscal Year 1949	
	Disease and Unrest Program	Grant-In-Aid Program	Disease and Unrest Program	Grant-In-Aid Program
Food	\$ 46,159,295	\$ 46,159,295	\$ 43,000,000	\$ 33,961,251
Fertilizer and Agricultural Supplies	22,125,382	35,000,000	25,000,000	34,500,000
Industrial and Transportation Supplies and Equip.	10,945,143	46,900,000	20,000,000	45,100,000
Petroleum and Petroleum Products	4,698,435	11,000,000	7,000,000	11,000,000
Medical Supplies & Equip.	3,958,120	8,000,000	4,000,000	7,000,000
Educational Supplies and Equipment	4,813,804	6,000,000	5,000,000	5,000,000
Pay and Transportation of Civilian Employees	12,936,220	15,000,000	14,000,000	15,000,000
Incidental Expenses	600,000	600,000	---	---
Transportation of Civilian Supplies	<u>31,136,357</u>	<u>56,340,705</u>	<u>35,000,000</u>	<u>51,938,749</u>
Total Requirements	\$137,372,756	\$225,000,000	\$153,000,000	\$203,500,000
Estimated Exports	(1)	10,000,000	(1)	15,000,000
US Appropriated Funds Required	<u>\$137,372,756</u>	<u>\$215,000,000</u>	<u>\$153,000,000</u>	<u>\$188,500,000</u>

(1) Some exports of fish products and minerals are expected in fiscal years 1948, 1949 and 1950 under the "disease and unrest" program. The proceeds of these exports are not deducted from estimated requirements for the purchase of raw materials, repair & replacement parts which cannot be purchased with

TABLE A

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Appropriated Funds Required for a Three-Year Disease and Unrest Program and a  
Year Grant-In-Aid Program by Fiscal Years 1948, 1949 and 1950

<u>Fiscal Year 1948</u>		<u>Fiscal Year 1949</u>		<u>Fiscal Year 1950</u>	
<u>Disease and Unrest Program</u>	<u>Grant-In-Aid Program</u>	<u>Disease and Unrest Program</u>	<u>Grant-In-Aid Program</u>	<u>Disease and Unrest Program</u>	<u>Grant-In-Aid Program</u>
46,159,295	\$ 46,159,295	\$ 43,000,000	\$ 33,961,251	\$ 35,000,000	\$ 15,677,683
22,125,382	35,000,000	25,000,000	34,500,000	25,000,000	31,000,000
10,945,143	46,900,000	20,000,000	45,100,000	20,000,000	35,000,000
4,698,435	11,000,000	7,000,000	11,000,000	7,000,000	11,000,000
3,958,120	8,000,000	4,000,000	7,000,000	4,000,000	5,000,000
4,813,804	6,000,000	5,000,000	5,000,000	5,000,000	4,000,000
12,936,220	15,000,000	14,000,000	15,000,000	14,000,000	15,000,000
600,000	600,000	---	---	---	---
<u>31,136,357</u>	<u>56,340,705</u>	<u>35,000,000</u>	<u>51,938,749</u>	<u>33,000,000</u>	<u>39,822,317</u>
137,372,756	\$225,000,000	\$153,000,000	\$203,500,000	\$143,000,000	\$156,500,000
(1)	10,000,000	(1)	15,000,000	(1)	20,000,000
<u>137,372,756</u>	<u>\$215,000,000</u>	<u>\$153,000,000</u>	<u>\$188,500,000</u>	<u>\$143,000,000</u>	<u>\$136,500,000</u>

fish products and minerals are expected in fiscal years 1948 through 1950 under a "disease and unrest" program. The value of these exports are not deducted from estimated requirements because they will be needed for repair & replacement parts which cannot be purchased with "disease and unrest" funds.

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mated at \$35,000,000 or 58% more than the present War Department request of \$22,125,382 for fiscal year 1948. The difference is accounted for by increased application of fertilizer to the depleted soil and a program for irrigation, reforestation and rebuilding of the fish products industry. Estimated requirements will drop to \$34,500,000 in fiscal year 1949 and \$31,000,000 in fiscal year 1950.

(3) Industrial Rehabilitation. Estimated requirements for industrial rehabilitation for the three-year period are \$160,000,000, the total of the requirements for raw materials, repair and replacement parts and capital equipment and petroleum products. Estimated requirements for raw materials, repair and replacement parts and capital equipment will be \$46,900,000 in fiscal year 1948, or approximately  $4\frac{1}{2}$  times the amount requested for this purpose in the War Department fiscal year 1948 estimate. The estimated requirements will drop to \$45,100,000 in fiscal year 1949 and \$35,000,000 in fiscal year 1950. Without these funds for rails, railway ties and rolling stock, coal, other raw materials and repair parts, the transportation system of South Korea and the small industrial plant of South Korea, which is now operating at 10-20% of capacity, will close down entirely adding to unemployment and cutting off important sources of textiles and other miscellaneous consumer goods. If we revive and rehabilitate South Korea's industries, she can go far towards meeting her requirements for manufactured goods upon completion of the program.

Estimated requirements for petroleum products will be \$11,000,000 in each of the three fiscal years 1948, 1949 and 1950. This yearly request is approximately twice the amount required by the War Department in its fiscal year 1948 request. The Grant-In-Aid request includes petroleum products needed for expansion of the fisheries industry in addition to the rehabilitation of transportation and planned increases in industrial production.

(4) Medical and Educational Requirements. Estimated requirements for medical care and education are \$35,000,000 for the three year Grant-In-Aid Program. Estimated requirements for medical care will be \$8,000,000 in fiscal year 1948, \$7,000,000 in fiscal year 1949 and \$5,000,000 in fiscal year 1950. The fiscal year 1948 requirement is approximately twice the amount requested in the War Department 1948 budget. Estimated requirements for the educational and informational program will be \$6,000,000, \$5,000,000 and \$4,000,000 in fiscal years 1948, 1949 and 1950, respectively. The requirement for fiscal year 1948 is approximately \$1,000,000 more than the amount requested by the War Department.

(5) Pay and~~CONFIDENTIAL~~

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(5) Pay and Transportation of Civilian Employees. Estimated requirements for pay and transportation of civilian personnel is \$15,000,000 for each of the three fiscal years 1948, 1949 and 1950. Present expenditures for civilian personnel and their transportation of \$13,000,000 must be raised to \$15,000,000 per year if adequate numbers of well qualified American civilians are to be employed to assist in running the Korean Government and economic enterprises on an efficient basis and to train Koreans to replace American personnel in supervisory and technical positions which were formerly reserved to Japanese during the Japanese regime.

(6) Transportation of Civilian Supplies. It is estimated that a total of \$148,101,771 will be required for the transportation of civilian supplies during the three-year period of the Grant-In-Aid Program. It is estimated that \$56,340,705 will be required in fiscal year 1948, \$51,938,749 in fiscal year 1949 and \$39,822,317 in fiscal year 1950.

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8. Relative Costs of Disease and Unrest Program and Grant-In-Aid Program

As indicated in Table A, the Grant-In-Aid Program will involve a sizeable increase in fund requirements during fiscal years 1948 and 1949 over the amounts which would be required if the present disease and unrest program is continued. Beginning in fiscal year 1950, however, the effect of rehabilitating the agriculture industry and transportation system of South Korea will begin to be felt. Under the Grant-In-Aid Program which is proposed, funds needed in 1950 would be about \$7,000,000 ~~less~~ than if the present disease and unrest program were continued.

For the three-year period, it is estimated that the Grant-In-Aid Program would require an input of funds approximately \$106,000,000 greater than under a disease and unrest program. If the interests of the United States require that after 1950 further assistance be granted to Korea, the sum which would be needed to aid a Korean economy already rehabilitated by the Grant-In-Aid Program would be small indeed by comparison with that which would be needed to prevent starvation in an economy allowed to disintegrate further under a disease and unrest program.

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9. What the Grant-In-Aid Program will Accomplish

The great advantage to the security interests of the United States of the Grant-In-Aid Program proposed here is not just that it will result in a most substantial and continuing reduction in the Korean foreign trade deficit, but that it will result in a strengthening of the Korean economic and political structure and of the position of the United States in relation to the U.S.S.R. in Korea, greatly in excess of the relatively small additional cost.

(a) Improvement in Economic Conditions

- (1) By increasing agricultural and fishery production, South Korea will be transformed from a food deficit to a food surplus area. Food shortages are a principal cause of the serious political unrest which now exists in South Korea and makes the populace susceptible to agitation.
- (2) By importing essential raw materials and repair parts, industrial production will be increased. The simplest goods like soap, matches and light bulbs are almost unobtainable. People's fundamental needs can be satisfied and employment opportunities provided for some of the two million repatriates, now a great source of unrest.
- (3) By increasing industrial production, and particularly that of consumers' goods, the stability of the economy will be enhanced. The current inflation is augmented by the shortage of goods.
- (4) By increasing electrical power facilities, industrial production will not only be increased but the economy of South Korea will be less dependent on Soviet-controlled electric power. South Korea is now at the mercy of the Russians for its power needs, and South Korean industries have been operating at reduced rates because of the currently diminishing power supply.
- (5) By strengthening the transportation system, adequate distribution of consumers' goods will be fostered and a breakdown of agriculture and industry prevented. Inadequate transportation facilities are now jeopardizing the distribution of food and fertilizer imports

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TABLE B

Comparison of Total Estimated U.S. Appropriated Funds Required  
for Prevention "Disease and Unrest" and "Grant-In-Aid"  
Rehabilitation, South Korea, during Fiscal  
Years 1948 through 1950

<u>Item</u>	<u>Total FY 1948, 1949 and 1950</u>	
	<u>Disease and Unrest</u>	<u>Total Grant-In-Aid</u>
Food	124,159,295	95,798,229
Fertilizer and Agricultural Supplies	72,125,382	100,500,000
Industrial and Transportation Supplies and Equipment	50,945,143	127,000,000
Petroleum and Petroleum Products	18,698,435	33,000,000
Medical Supplies and Equipment	11,958,120	20,000,000
Educational Supplies and Equipment	14,813,804	15,000,000
Pay and Transportation of Civilian Supplies	40,936,220	45,000,000
Incidental Expenses	600,000	600,000
Transportation of Civilian Supplies	<u>99,136,357</u>	<u>148,101,771</u>
TOTAL	433,372,756	585,000,000
Estimated Exports	(1)	45,000,000
U.S. Appropriated Funds Required	<u>\$433,372,756</u>	<u>\$540,000,000</u>

(1) Some exports of fish products and minerals are expected in fiscal years 1948 through 1950 under a "disease and unrest" program. The proceeds of these exports are not deducted from estimated requirements because they will be needed for the purchase of raw materials, repair and replacement parts which cannot be purchased with "disease and unrest" funds.

TABLE B

Comparison of Total Estimated U.S. Appropriated Funds Required  
for Prevention "Disease and Unrest" and "Grant-In-Aid"  
Rehabilitation, South Korea, during Fiscal  
Years 1948 through 1950

	<u>Total FY 1948, 1949 and 1950</u>	
	<u>Disease and Unrest</u>	<u>Total Grant-In-Aid</u>
	124,159,295	95,798,229
nd Agricultural Supplies	72,125,382	100,500,000
nd Transportation Supplies ment	50,945,143	127,000,000
d Petroleum Products	18,698,435	33,000,000
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Supplies and Equipment	14,813,804	15,000,000
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on of Civilian Supplies	<u>99,136,357</u>	<u>148,101,771</u>
	433,372,756	585,000,000
ports	(1)	45,000,000
iated Funds Required	<u>\$433,372,756</u>	<u>\$540,000,000</u>

ports of fish products and minerals are expected in fiscal years 1948 through 1950  
ease and unrest" program. The proceeds of these exports are not deducted from es-  
irements because they will be needed for the purchase of raw materials, repair and  
parts which cannot be purchased with "disease and unrest" funds.

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and of even the currently restricted production.

- (6) By increasing both agricultural and industrial production of all types, export availabilities will be created and a better trade position established. At present Korea has virtually no exports with which to pay for needed imports.
- (7) Through an industrial training program, needed technicians will be provided to replace the repatriated Japanese. An important contributing factor to the restricted production in South Korea has been the lack of technicians to operate the plants effectively.

(b) Political. Any further approach to the Soviets on a governmental level to attempt to persuade them to carry out the terms of the Moscow Decision would only be regarded as a "lead from weakness" with consequent unfortunate results unless accompanied by real evidence of a firm U.S. determination completely to fulfill our Korean responsibilities. A positive program such as outlined here will go far towards convincing the Soviets that the U.S. means business and will lay the groundwork for a governmental approach which would thus have real prospect of success.

In Korea itself, it is believed the fulfillment of this program will, by increasing the number of Koreans in positions of importance in government and industry, do much to assure a stable, efficient government when the time comes for Korea to have a government of its own. The extension of elections, the improvement of educational facilities, the training of teachers and the expansion of adult education will all operate to assure that the Koreans are better fitted for self-government than they otherwise would be. This program will contribute to the establishment of a firm political as well as economic basis for the development of real democracy.

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10. Effect of Unification on the Grant-In-Aid Program.

We are confident that the unification of Korea and its development along the lines envisaged by the Moscow Agreement will be worked out but the Grant-In-Aid Program is necessary regardless of how rapidly progress is made along these lines.

The program does not contemplate the construction of new plants which will duplicate facilities in North Korea. The industries to be rehabilitated are industries which have always been indigenous to South Korea and complementary to the predominantly heavy industries of North Korea. The rehabilitation of these industries is essential to either a divided or a united Korea. A Russian proffer to reconvene the Joint Commission and go forward with implementing the Moscow Agreement on terms acceptable to us would call for reassessment of this program but not for its abandonment. Without doubt a unified administration any economy would make possible a reduction in certain expenditures such as imports of fertilizers. However, the state of the economy of Northern Korea at the time of unification cannot be known now, and compensatory expenditures in other fields would no doubt be necessary; for instance, additional rehabilitation of communications facilities in order to transport the fertilizers which would be available from North Korea. It is hoped that when unification is achieved the Soviets may be induced to make a proportionate expenditure of funds, but their failure to do so would not alter our problem or our objective, and therefore a need of expenditure of American funds under American control would continue to exist.

With unification it is probable that Korean foreign trade could rapidly be brought so closely in balance that further financing could be obtained from normal sources.

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11. Administration of the Grant-In-Aid Program

The administration of the Grant-In-Aid Program will be entirely under the control of U.S. personnel. Initially it will continue to be under the direction of the War Department. At a later time administrative responsibility may be transferred to the Department of State.

The Military Government of South Korea during the period of our occupation has been under War Department administration and has been centered in the War Department Special Staff, Civil Affairs Division. In Korea, administration has been carried out by USA Military Government in Korea (USAMGIK) which is a command within the U.S. Army Forces in Korea (USAFIK) and is responsible for the administration of civil affairs in Korea. USAFIK consists of some 3200 Army officers and enlisted men, and about 500 civilians. This personnel is being augmented by an aggressive recruitment program to bring in on a permanent basis technically qualified civilian operating personnel in the political, economic and social fields. Industrial and economic consultants are also being obtained on short-term contracts to make available expert assistance and advice on current problems in those fields.

Import and export programs for Korea are carried out within a framework of procedures established by the War Department and employed in all the areas under U.S. occupation. These procedures provide for USAMGIK's submitting each quarter import requirements and exports available, prepared 12 months in advance. When approved by the War Department these requirements will constitute the basis for procurement of materials and the obligation and expenditure of funds made available under the Korean Grant-In-Aid Program. Materials to be obtained within the U.S. will be procured only by the War Department from available Grant-In-Aid funds. Materials to be obtained outside the continental limits of the United States may be procured by USAMGIK with such funds and within the framework of the approved program.

The trade position of Korea, the status of foreign exchange balances, and the status of USAMGIK's procurement with Grant-In-Aid funds will be reported monthly by USAMGIK.

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III. B. Detailed Justification of Requirements  
by Major Categories.

1. FOOD IMPORTS REQUIREMENTS.

a. Current Food Situation in South Korea.

During fiscal year 1947, total food import requirements were estimated at 683,000 metric tons in rice equivalents at a cost of \$61,454,608. This amount of food was estimated as necessary to provide, for the normal consumer, a staple food ration of 1235 calories per day and a total intake of 1550 calories. A total intake of 1550 calories is the minimum required for subsistence. The size of the estimated food import requirements for FY 1947 is in direct contradiction to the common belief that South Korea is a food exporting country. The basis for this belief was due to the Japanese practice of shipping the major share of the Korean rice crop, to Japan and other countries where it could be marketed profitably and importing cheaper millet from Manchuria for use in feeding the Koreans. These Japanese practices and the tendency to curtail the millet imports resulted in malnutrition among the Koreans.

A combination of factors, since the beginning of the American occupation of South Korea, have prevented our zone from meeting all of its food requirements from indigenous production. South Korea has the climate and land resources which should make it potentially able to become self-sufficient in regard to farm products. Since the beginning of the occupation, bad crops, floods, due in part to excessive deforestation, serious deficiencies of fertilizer, lack of transportation needed to distribute food and fertilizer, shifts of population and generally unstable economic conditions have curtailed indigenous productions and made imports essential until these handicaps are overcome.

The soil has been badly depleted through lack of fertilizer during and immediately before the war. Acute shortage of fuel during and since the war resulted in overcutting of timber, with consequent floods and erosion. During early 1946 there was a particularly disastrous flood in South Korea. The population has increased considerably since the beginning of the occupation. The normal rate of population increase in South Korea is 1.7%. In addition, some 2,000,000 Koreans have been repatriated from Japan, China and North Korea. 390,000 Koreans have fled from the Russian zone alone. Added to this has been the disruption of the transportation, and distribution system, which was under-maintained during the war, through the repatriation of all Japanese to Japan, the influx of repatriated Koreans.

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b. Requirements

b. Requirements for Fiscal Year 1948.

Under the Grant-In-Aid Program, food requirements for FY 1948, as indicated in Table C, will remain the same as the food requirements estimated by the War Department in their FY 1948 budget request. The Grant-In-Aid Program envisages the same feeding level as has been proposed by the War Department for FY 1948, namely, a total intake of 1800 calories per normal consumer per day. This may be compared with a planned total intake per normal consumer per day for FY 1948 of 1900 calories for Austria, 2000 for Germany and 1550 for Japan.

The adequate nutritional level for North Americans and Europeans is 2900 calories per day. On this basis the equivalent for Koreans, assuming a body weight differential of approximately 15%, would be 2600 calories per person per day. The planned feeding level of 1800 calories is thus slightly below the emergency subsistence level, which is 75% of the adequate nutrition level.

The increased allocations of fertilizer which are planned for FY 1948 under the Grant-in-Aid Program, will not have any effect upon indigenous production of foodstuffs until the succeeding crop year, but their early provision is all-important to the goal of self-sufficiency in food requirements by 1951.

The requirements as shown in Table C are estimated at 386,467 metric tons in rice equivalent at a cost of \$46,159,295 in FY 1948. This estimate is to provide a normal consumer staple food ration of 1550, as indicated in Table D, calories per person per day during FY 1948. (Detailed breakdowns are shown in Table D-1) Indigenous staple foods available to non-self-suppliers will furnish about 1056 calories per day for the normal consumer and imports of 494 calories per day are required. This is based on an estimated population of 19,369,000 for South Korea, of which 7,525,000 are non-self-suppliers. The food ration of 1550 calories per day for the normal consumer, plus other foods obtained outside the ration, such as fish and vegetables, will provide the desired feeding level (total intake) of 1800 calories per day for the normal consumer. The estimates of indigenous production in FY 1948 in the amount of 3,430,402 metric tons in rice equivalent are based on the assumption that production will be up to the average level of the years 1940-44. This assumes that a considerable increase in the supply of fertilizer will be available, that favorable growing conditions prevail, that extensive rehabilitation of the transport system can be undertaken, and that consumer goods in sufficient quantity can be used as inducement to increase rice and other farm product collections.

The import figure of 386,467 m.t. in rice equivalent for fiscal year 1948 is composed entirely of wheat and sugar imports. 369,969 m.t. in rice equivalent of wheat and 16,498 m.t. of rice equivalent of sugar make up the total import requirement. In terms of procurement, this amounts to 423,701 m.t. of wheat at \$104 per ton, figured on the basis of freight at shipside. The basic cost for wheat used is \$88 plus the remainder for domestic shipping, handling, etc. In terms of procurement, 15,000 m.t. of sugar at a cost of \$139 per ton is used. The weighted average used in computing the cost of imports in fiscal years 1949 and 1950 is 119.439 dollars.

In all computations the price of wheat used is that for September 1, 1946. This is the wheat price which the Bureau of the Budget directed the War Department to use.

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c. Requirements for FY 1949.

During fiscal year 1949 it is planned to increase the feeding level (total intake per normal consumer per day) from 1800 calories to 1900 calories. By this date, the additional supplies of fertilizer requested for FY 1948 should have had a marked effect in increasing agricultural production. If the additional funds requested in FY 1948 for the purchase of supplies needed for the rehabilitation of industry are forthcoming, increased industrial output should result. Neither industrial nor farm workers can increase their output without an increase over their present ration and total intake. Requirements for FY 1949 are estimated at 284,359 metric tons in rice equivalents at a cost of \$33,961,251. This assumes that indigenous production in FY 1949 will be 10% greater than in FY 1948.

d. Requirements for FY 1950.

It is planned to increase the total intake per normal consumer per day from 1900 calories to 2000 calories in FY 1950, in order to keep abreast of the added demands made upon farm and urban workers by increases in output. Production, it is estimated, will increase 10% over FY 1949, assuming that adequate supplies of fertilizer are received. Allowing for a population increase of 1.7% for the year, the estimated import requirements for the fiscal year 1950 are 131,267 metric tons in rice equivalents, costing \$15,677,683.

If the entire program envisaged under the Grant-In-Aid request can be carried out, it is expected that southern Korea will be agriculturally self-sufficient by FY 1951; that no net food imports will thereafter be required; and that other agricultural import needs can be covered by exports.

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TABLE B

Population by Consumer Category, Planned Food Ration and Estimated  
in Southern Korea for Fiscal Years 1948, 1949 and 1950

	<u>Fiscal Year 1948</u>			<u>Fiscal Year 1949</u>		
	<u>Number</u>	<u>Staple Food Ration - Calories per day</u>	<u>Approx. Feeding Level - Calories per day</u>	<u>Number</u>	<u>Staple Food Ration - Calories per day</u>	<u>Approx. Feeding Level - Calories per day</u>
Self-Suppliers (Farm Retention)	11,844,000		1929	12,045,000		1975
Non-Self-Suppliers:	7,525,000			7,653,000		
Normal Consumers	4,544,000	1550	1800	4,420,000	1600	1900
Children 1 - 4	953,000	1080	1254	969,000	1115	1324
Children 5 - 9	992,000	1500	1742	1,009,000	1548	1839
P & L Mothers	556,000	1740	2020	565,000	1795	2132
Police, ConStab.	80,000	2625	3048	90,000	2702	3209
Heavy Workers	400,000	3000	3484	600,000	3097	3678
Total Population	19,369,000			19,698,000		

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TABLE B

Population by Consumer Category, Planned Food Ration and Estimated Feeding Levels in Southern Korea for Fiscal Years 1948, 1949 and 1950

<u>Fiscal Year 1948</u>			<u>Fiscal Year 1949</u>			<u>Fiscal Year 1950</u>		
<u>Number</u>	<u>Staple Food Ration - Calories per day</u>	<u>Approx. Feeding Level - Calories per day</u>	<u>Number</u>	<u>Staple Food Ration - Calories per day</u>	<u>Approx. Feeding Level - Calories per day</u>	<u>Number</u>	<u>Staple Food Ration - Calories per day</u>	<u>Approx. Feeding Level - Calories per day</u>
844,000		1929	12,045,000		1975	12,250,000		2000
525,000			7,653,000			7,783,000		
544,000	1550	1800	4,420,000	1600	1900	4,497,000	1650	2000
953,000	1080	1254	969,000	1115	1324	985,000	1149	1393
992,000	1500	1742	1,009,000	1548	1839	1,026,000	1597	1936
556,000	1740	2020	565,000	1795	2132	575,000	1851	2244
80,000	2625	3048	90,000	2702	3209	90,000	2794	3387
400,000	3000	3484	600,000	3097	3678	610,000	3194	3871
369,000			19,698,000			20,033,000		

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TABLE C

Computation of Food Import Requirements for South Korea  
Fiscal Years 1948, 1949 and 1950

	<u>Fiscal Year 1948</u>		<u>Fiscal Year 1949</u>	
	<u>Rice Equivalent</u> <u>(Metric Tons)</u>	<u>Dollars</u>	<u>Rice Equivalent</u> <u>(Metric Tons)</u>	<u>Dollars</u>
1. Total Indigenous Food Available for Human Consumption	3,430,402		3,773,442	
2. Less Farm Retention	2,375,287		2,473,358	
3. Total Available for Non-Self-Suppliers	1,055,115		1,300,084	
4. Requirements for Non-Self-Suppliers	1,441,582		1,584,443	
5. Import Requirements	386,467	<u>\$46,159,295</u>	284,359	<u>\$33,961,251</u>

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TABLE C

Computation of Food Import Requirements for South Korea  
Fiscal Years 1948, 1949 and 1950

	<u>Fiscal Year 1948</u>		<u>Fiscal Year 1949</u>		<u>Fiscal Year 1950</u>	
	<u>Rice Equivalent</u> <u>(Metric Tons)</u>	<u>Dollars</u>	<u>Rice Equivalent</u> <u>(Metric Tons)</u>	<u>Dollars</u>	<u>Rice Equivalent</u> <u>(Metric Tons)</u>	<u>Dollars</u>
Avail- tion	3,430,402		3,773,442		4,116,483	
	2,375,287		2,473,358		2,556,721	
n-Self-	1,055,115		1,300,084		1,559,762	
elf-	1,441,582		1,584,443		1,691,023	
	386,467	<u>\$46,159,295</u>	284,359	<u>\$33,961,251</u>	131,267	<u>\$15,677,683</u>

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TABLE D-1

Basis for Computation of Food Import Requirements for South Korea, Fiscal Years 1948, 1949 and 1950

	<u>FY 1948</u>	<u>FY 1949</u>	<u>FY 1950</u>
Total Population (1)	19,369,000	19,698,000	20,033,000
I. Indigenous Production for Human Consumption (2)			
Grain and Cereals	2,912,684	3,203,952	3,495,221
Other Foods	<u>517,718</u>	<u>569,490</u>	<u>621,262</u>
	3,430,402	3,773,442	4,116,483
II. Farm Retention			
A. Self-Suppliers (000 persons)	8,844	8,994	9,147
Partial Self-Suppliers (000 persons)	<u>3,000</u>	<u>3,051</u>	<u>3,103</u>
Total	11,844	12,045	12,250
B. Retention Rate (calories per person)			
Self-Suppliers	1,970	2,000	2,000
Partial Self-Suppliers	<u>1,800</u>	<u>1,900</u>	<u>2,000</u>
Weighted Average	1,929	1,975	2,000
C. Requirements in Calories (1,000,000)	8,337,257	8,681,489	8,942,500
Self-Suppliers	6,366,257	6,565,620	6,677,310
Partial Self-Suppliers	1,971,000	2,115,869	2,265,190
D. Requirement in Rice Equivalent m.t. (3)			
Self-Suppliers	1,813,748	1,870,547	1,902,368
Partial Self-Suppliers	<u>561,539</u>	<u>602,811</u>	<u>654,353</u>
Total	2,375,287	2,473,358	2,556,721
III. Available for Non-Self-Suppliers in Rice Equivalent m.t.	1,055,115	1,300,084	1,559,762
IV. Non-Self-Suppliers			
A. Normal Consumers (000 persons)	4,544	4,420	4,497
1-4 (000 persons)	953	969	985
5-9 (000 persons)	992	1,009	1,026
P & L Women (000 persons)	556	565	575
Police (000 persons)	80	90	90
Heavy Workers (000 persons)	<u>400</u>	<u>600</u>	<u>610</u>
Total (000 persons)	7,525	7,653	7,783
B. Non-Self-Suppliers Feeding Level (calories per person per day)			
Normal Consumers	1,800	1,900	2,000
1-4	1,254	1,324	1,393
5-9	1,742	1,839	1,936
P & L Women	2,020	2,132	2,244
Police	3,048	3,209	3,387
Heavy Workers	3,484	3,678	3,871
C. Non-Self-Suppliers Requirements in 1,000,000 calories per year			
Normal Consumers	2,985,408	3,065,270	3,265,560
1-4	436,198	468,279	500,818
5-9	630,743	677,276	725,013
P & L Women	409,939	439,672	470,960
Police	89,002	105,415	111,263
Heavy Workers	<u>508,664</u>	<u>805,482</u>	<u>861,878</u>
Total	5,059,954	5,561,394	5,935,492
D. In Rice Equivalent m.t.	1,441,582	1,584,443	1,691,023
V. Import Requirement	386,467	284,359	131,261

N.B.

- (1) Rate of population increase is 1.7% per annum.
- (2) Indigenous production for fiscal years 1948, 1949 and 1950, respectively, is figured at 100%, 110% and 120% of the 1940-44 average for production.
- (3) 3510 calories per metric ton is used to determine metric tons of rice equivalents required.

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2. Requirements for Fertilizer and Agricultural Supplies

There is only a negligible amount of commercial fertilizer produced in South Korea so requirements must be met by imports.

Since 1938 the amount of commercial fertilizer available to Korea has sharply decreased. None was available for the 1945 or 1946 crops. During the war years the Japanese converted Korean fertilizer plants, which were all located in North Korea, to the production of munitions and other war materials. From that time on a serious depletion of the soil has set in. Acreages have been lost due to the reluctance of farmers to plant winter crops on rice lands already depleted by lack of fertilizer. To revitalize agricultural production, with a goal of eventual self-sufficiency in food requirements for South Korea by fiscal year 1951, generous fertilizer shipments are not only desirable but economical. Each ton of fertilizer procured and shipped is the equivalent of shipping eight to ten tons of food.

An essential part of the program to increase agricultural production will be the restoration of irrigation, insect control, better variety of seeds, and additions to the livestock herds. South Korea's livestock, which provide farm traction as well as food, is at the danger point because of excessive slaughtering.

a. Fertilizer Requirements.

Requirements for fiscal year 1948 amount of 763,000 metric tons at a cost of \$23,000,000, as indicated in Table E, or approximately 200,000 metric tons more than the present War Department request. These requirements are the result of careful screening on the basis of both need and availability of fertilizer supplies. They represent the minimum needs to insure adequate application to the 6,449,000 acres under cultivation in South Korea. These requirements will in no case permit the application of more than 60 kilograms of fertilizer per hectare, which is the average that is maintained in Japan. The fertilizer requirements set forth conform precisely with those recommended in the Harrison Report on food and fertilizer. With this increase in fertilizer no increase in the food budget will be required. Fertilizer requirements will increase to \$23,500,000 in fiscal years 1949 and 1950.

In estimating costs the following prices per metric ton were used; ammonium nitrate \$60, ammonium sulphate \$35, phosphate rock \$10 and potassium sulphate \$35. All of these prices exclude ocean transportation costs.

b. Irrigation.

Modern systems of irrigation were developed in South Korea in 1909 but only since 1920 has improvement been made on a relatively large scale. \$2,000,000 will be required in fiscal years 1948, 1949, and 1950 for the completion of irrigation projects started by the Japanese. Adequate irrigation must be provided if

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any appreciable increase in agricultural production can be expected in a rice economy such as exists in South Korea. Of the 3,066,155 acres devoted to rice production in 1940-44 only 1,513,480 are controlled irrigation land. The remaining 1,552,675 acres of rice land are regarded as unimproved or uncontrolled by modern irrigation standards. The controlled area accounts for 67 percent of total rice production normally, while the larger and uncontrolled area accounts for only 33 percent.

c. Seeds, Insecticides and Agricultural Equipment.

To aid agricultural production the minimum of \$2,500,000, \$2,000,000, and \$1,500,000 will be required in fiscal years 1948, 49, and 1950, respectively, for seeds, insecticides, basic agricultural equipment, and importation of breeding livestock. Previous provisions for these types of agricultural supplies have been inadequate. Seeds for vegetables, potatoes and grains are needed to insure improved strains and varieties. Because of the fertilizer shortages, seed production did not begin in Korea until 1947 and, although requirements will be progressively lessened as this production increases, some imports will be necessary to retain disease-free stock. Livestock are needed to rebuild and improve herds.

d. Fisheries.

\$2,000,000 will be required in fiscal years 1948 and 1949 for new fishing vessels, nets and other fishing gear and equipment and also for the expansion of the fish-canning industry. Requirements will drop to \$1,500,000 in fiscal year 1950. At the beginning of the war, Korea ranked sixth in fishing production of the world. During the war, fish production decreased because of shortages of materials and manpower. At the time of U.S. entry after the surrender of Japan, Korean fishing craft was in such bad repair and supplies of materials were so limited that production had fallen almost to zero. The major obstruction to expansion of fish production in South Korea is the acute shortage of fishing supplies and materials. Fish production provides an essential part of Korea's indigenous food requirements and can well be one of South Korea's major sources of foreign exchange. Valuable fish products are now being wasted through inadequate canning facilities.

e. Forest Products.

\$3,500,000 is required in fiscal year 1948 in order to supply  
lumber

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lumber products for Korean homes, farms, and factories and also to provide for an urgently needed reforestation program. Requirements will decrease to \$3,000,000 in fiscal year 1949 and \$2,500,000 in fiscal year 1950. The reserve of forest products in North Korea, which is still heavily stocked with timber, is completely cut off from South Korea. To meet the barest needs for fuel-wood, heavy cutting into young growing trees is necessary. As young stock is depleted the capacity of the forest to meet the needs of the country will be lessened and erosion will increase with its consequent flood damage and silting of irrigation. The shortage of railroad ties is critical and threatens to impair seriously the operations of the railroads. The rejuvenation and expansion of existing forest nurseries and the establishment of new nurseries is absolutely necessary to insure a future stock of forest products.



TABLE I

Requirements for Fertilizer and Agricultural Supplies for South Korea for Fiscal Years 1948, 1949 and 1950.

Items	Present Fiscal Year 1948 (1)		Revised Fiscal Year 1948(2)		Fiscal Year 1949		Fiscal Year 1950
	m.t.	Est. Cost	m.t.	Est. Cost	m.t.	Est. Cost	
Ammonium Nitrate	254,500	\$12,725,000	153,000	\$ 9,200,000	153,000	\$ 9,200,000	153,000
Ammonium Sulphate			255,000(3)	9,200,000	255,000(3)	9,200,000	255,000
Phosphate Rock	200,000	1,200,000	315,000	3,200,000	344,000	3,400,000	344,000
Potassium Sulphate	87,233	2,965,942	40,000	1,400,000	48,000	1,700,000	48,000
<u>Subtotal - Fertilizers</u>	<u>541,733</u>	<u>\$16,890,942</u>	<u>763,000</u>	<u>\$23,000,000</u>	<u>800,000</u>	<u>\$23,500,000</u>	<u>800,000</u>
Agricultural Supplies	3,780	646,200		2,500,000		2,000,000	
Forest Products				3,500,000		3,000,000	
Irrigation		2,088,240		2,000,000		2,000,000	
Fisheries		2,500,000		4,000,000		4,000,000	
<u>Subtotal-Agricultural Supplies</u>		<u>5,235,440</u>		<u>12,000,000</u>		<u>11,000,000</u>	
<b>TOTAL - Fertilizer and Agricultural Supplies</b>		<u>\$22,125,382</u>		<u>\$35,000,000</u>		<u>\$34,500,000</u>	

- (1) As submitted by War Department.
- (2) Revised for additional requirements for grant-in-aid program.
- (3) Equivalent of 153,000 metric tons of Ammonium Nitrate.

TABLE B

Requirements for Fertilizer and Agricultural Supplies for South Korea  
for Fiscal Years 1948, 1949 and 1950.

	<u>Present Fiscal Year 1948 (1)</u>		<u>Revised Fiscal Year 1948(2)</u>		<u>Fiscal Year 1949</u>		<u>Fiscal Year 1950</u>	
	<u>m.t.</u>	<u>Est. Cost</u>	<u>m.t.</u>	<u>Est. Cost</u>	<u>m.t.</u>	<u>Est. Cost</u>	<u>m.t.</u>	<u>Est. Cost</u>
	254,500	\$12,725,000	153,000	\$ 9,200,000	153,000	\$ 9,200,000	153,000	\$9,200,000
			255,000(3)	9,200,000	255,000(3)	9,200,000	255,000(3)	9,200,000
	200,000	1,200,000	315,000	3,200,000	344,000	3,400,000	344,000	3,400,000
	87,233	2,965,942	40,000	1,400,000	48,000	1,700,000	48,000	1,700,000
<u>Fertilizers</u>								
	<u>541,733</u>	<u>\$16,890,942</u>	<u>763,000</u>	<u>\$23,000,000</u>	<u>800,000</u>	<u>\$23,500,000</u>	<u>800,000</u>	<u>\$23,500,000</u>
<u>Supplies</u>	3,780	646,200		2,500,000		2,000,000		1,500,000
				3,500,000		3,000,000		2,500,000
		2,088,240		2,000,000		2,000,000		2,000,000
		<u>2,500,000</u>		<u>4,000,000</u>		<u>4,000,000</u>		<u>1,500,000</u>
<u>Agricultural Supplies</u>		<u>5,235,440</u>		<u>12,000,000</u>		<u>11,000,000</u>		<u>7,500,000</u>
<u>Fertilizer and Agricultural Supplies</u>		<u>\$22,125,382</u>		<u>\$35,000,000</u>		<u>\$34,500,000</u>		<u>\$31,000,000</u>

Submitted by War Department.  
 Requested for additional requirements for grant-in-aid program.  
 Equivalent of 153,000 metric tons of Ammonium Nitrate.

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TABLE F

Part and Capital Equipment, South Korea  
1949 and 1950

Grant-In-Aid FY 1949 Requirements			Grant-In-Aid FY 1950 Requirements			
<u>Repair and Re- placement Parts</u>	<u>Capital Equipment</u>	<u>Total for Item</u>	<u>Raw Materials</u>	<u>Repair and Re- placement Parts</u>	<u>Capital Equipment</u>	<u>Total</u>
\$ 1,326,432	--	\$15,776,000	\$13,849,920	\$ 576,080	--	\$14,426,000
993,600	--	2,312,000	880,000	--	--	1,272,000
1,982,016	3,469,984	5,452,000	--	1,152,000	1,728,000	2,880,000
--	--	1,440,000	640,000	--	--	1,040,000
4,980,000	--	5,280,000	100,000	2,280,000	--	2,380,000
1,880,000	--	5,952,000	3,800,000	1,368,000	--	5,168,000
<u>2,640,100</u>	<u>--</u>	<u>8,888,000</u>	<u>6,322,858</u>	<u>2,303,142</u>	<u>--</u>	<u>8,626,000</u>
<u>\$13,802,148</u>	<u>3,469,984</u>	<u>\$45,100,000</u>	<u>25,592,778</u>	<u>7,679,222</u>	<u>1,728,000</u>	<u>33,990,000</u>

Equipment, South Korea

<u>1949 Requirements</u>		<u>Grant-In-Aid FY 1950 Requirements</u>			
<u>Capital Equipment</u>	<u>Total for Item</u>	<u>Raw Materials</u>	<u>Repair and Re- placement Parts</u>	<u>Capital Equipment</u>	<u>Total for Item</u>
--	\$15,776,000	\$13,849,920	\$ 576,080	--	\$14,426,000
--	2,312,000	880,000	--	--	880,000
3,469,984	5,452,000	--	1,152,000	1,728,000	2,880,000
--	1,440,000	640,000	--	--	640,000
--	5,280,000	100,000	2,280,000	--	2,380,000
--	5,952,000	3,800,000	1,368,000	--	5,168,000
<u>--</u>	<u>8,888,000</u>	<u>6,322,858</u>	<u>2,303,142</u>	<u>--</u>	<u>8,626,000</u>
<u>3,469,984</u>	<u>\$45,100,000</u>	<u>25,592,778</u>	<u>7,679,222</u>	<u>1,728,000</u>	<u>\$35,000,000</u>

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Requirements for Raw Materials, Repair and Replacement Parts, and Capital Equipment for FY 1948

Item	Adjusted War Dept FY 1948 Request Total for Item	Grant-In-Aid FY 1948 Requirements			Total for Item	Raw Materials
		Raw Materials	Repair and Re- placement Parts	Capital Equipment		
Textiles	\$ 4,310,248(1)	\$10,695,000	\$ 805,000	--	\$11,500,000	\$14,440,000
Machinery	--	960,000	740,000	--	1,700,000	1,310,000
Utilities	--	--	2,185,000	8,315,000	10,500,000	--
Public Works	--	700,000	--	--	700,000	1,440,000
Mining	--	500,000	5,000,000	--	5,500,000	300,000
Consumer Goods Industry (2)	3,363,125	5,300,000	3,000,000	--	8,300,000	4,070,000
Transportation and Communications	3,271,770(3)	5,900,000	2,800,000	--	8,700,000	6,240,000
<b>TOTAL</b>	<b>\$10,945,143</b>	<b>\$24,055,000</b>	<b>\$14,530,000</b>	<b>\$8,315,000</b>	<b>\$46,900,000</b>	<b>\$27,820,000</b>

- (1) Raw Fibers, Textile Maintenance and Repair Materials.
- (2) Rubber Goods, paper and paper processing, processed food, leather, etc.
- (3) Railway and Electrical Spare Parts, Materials and Supplies and Equipment.

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Requirements for Raw Materials, Repair and Replacement for Fiscal Years 1948

<u>Adjusted War Dept FY 1948 Request Total for Item</u>	<u>Grant-In-Aid FY 1948 Requirements</u>			<u>Total for Item</u>	<u>Raw Materials</u>
	<u>Raw Materials</u>	<u>Repair and Re- placement Parts</u>	<u>Capital Equipment</u>		
\$ 4,310,248(1)	\$10,695,000	\$ 805,000	--	\$11,500,000	\$14,449,568
--	960,000	740,000	--	1,700,000	1,318,400
--	--	2,185,000	8,315,000	10,500,000	--
--	700,000	--	--	700,000	1,440,000
--	500,000	5,000,000	--	5,500,000	300,000
5,363,125	5,300,000	3,000,000	--	8,300,000	4,072,000
and \$ 2,271,770(3)	<u>5,900,000</u>	<u>2,800,000</u>	<u>--</u>	<u>8,700,000</u>	<u>6,247,900</u>
<u>\$10,945,143</u>	<u>\$24,055,000</u>	<u>\$14,530,000</u>	<u>\$8,315,000</u>	<u>\$46,900,000</u>	<u>\$27,827,868</u>

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- (1) Raw Fibers, Textile Maintenance and Repair Materials.
- (2) Rubber Goods, paper and paper processing, processed food, leather, etc.
- (3) Railway and Electrical Spare Parts, Materials and Supplies and Equipment.

~~CONFIDENTIAL~~3. Industrial Requirementsa. Textiles

South Korea has eight large and a score of small cotton textile plants which produced over 200,000,000 yards of cotton cloth annually before liberation. Although spindles in operation and production increased steadily during most of 1946, the total year's output was less than 20% of former production. Shortages of essential raw materials, such as cotton, wool, worsted yarn and coal and shortages of repair and replacement parts and technicians is responsible for the curtailment of production. Indigenous cotton production has declined sharply because half of the acreage formerly planted in cotton is now planted with food crops. If the South Korean textile industry is rehabilitated it will mean a large saving in textile imports which require dollar expenditures.

(1) Requirements for Fiscal Year 1948. Over \$10,000,000 worth of raw materials will be required for textile production in fiscal year 1948 as indicated in Table F. This is broken down as follows: \$4,900,000 for approximately 10,000 short tons of cotton, \$1,100,000 for 1,000 short tons of wool, \$2,000,000 for 1,000 short tons of worsted yarn, and the remaining \$2,000,000 for dyes, chemicals, coal and other raw materials.

Approximately \$800,000 will be needed for repair parts and replacement parts during fiscal year 1948.

(2) Requirements for Fiscal Years 1949 and 1950. Requirements for raw materials in the textile industry for fiscal year 1949 will be approximately \$4,000,000 greater than in fiscal year 1948 because the supplies and equipment procured in the previous fiscal year will begin to increase output markedly. Requirements for repair and replacement parts will increase by \$500,000 in fiscal year 1949. It is expected that with improvements in the railroad system, increased supplies of coal and additional technicians provided through Military Government, additional plants will begin producing in fiscal year 1949. In fiscal year 1950 raw materials requirements will decrease by \$1,000,000 due to anticipated increases in domestic production, and repair and replacement parts requirements will decrease by \$800,000.

b. Machinery

No investment in capital equipment will be required in either fiscal years 1948, 1949 or 1950 as indicated in Table F. The majority of Korean plants contain specialized machinery, essential to the production process, which were originally produced in Japan

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and cannot now be duplicated in Korea. In many cases, output is hampered because the Koreans do not have sufficient equipment to produce and install replacements. It is estimated that \$1,700,000 will be required in fiscal year 1948 to rehabilitate the machinery and repair industry in South Korea. Repair and replacement parts for machinery, such as gear-hobbing machines, shearing machines, presses, dyes and tin-can manufacturing equipment is needed, at a cost of \$740,000. Raw materials, such as coal, tool steel, alloy metals, paints, and enamels, are needed in the amount of \$960,000 in fiscal year 1948. Raw materials requirements for fiscal year 1949 will be approximately \$400,000 greater than in fiscal year 1948 because the tooling-up period will be well under way. Requirements for repair and replacement parts will also increase by approximately \$250,000 for much the same reason. In fiscal year 1950, requirements for raw materials will decrease by \$300,000 over fiscal year 1949 and no funds will be needed for repair and replacement parts.

c. Utilities

South Korea is largely dependent upon the Russians for its supplies of electric power. Almost 90% of the electric generating plants in Korea are in the Russian zone. Up to the present time, the Russians have provided a limited amount of electric power to the American zone. There is no guarantee that they will continue to do so particularly since they are currently supplying it free. If the industry of South Korea is not to be subject to Russian control means must be found for building up the hydro-electric and steam generating facilities of South Korea. Even the present Korean industry, operating as it is on an extremely limited basis, suffers from spasmodic Russian power cut-offs. Russian zone power plants are gradually lowering their power output due to lack of maintenance, replacement parts and technicians. Even if the Russians should agree to unification the power plants of the entire country are not, in their present condition, sufficient to take care of needs. In South Korea there are six generating plants, rated at approximately 197,600 kva; 300 miles of 154 kva lines, 460 miles of 66 kva lines, 1450 miles of 22 kva lines, 80,000 miles of lower voltage lines and 610,000 customers. The electrical utilities system has gone without repair for the past four years.

During fiscal year 1948 a total investment in South Korean utilities of \$10,500,000 is required as indicated in Table F. \$8,315,000 of this will be required for capital equipment for a program to complete plants already started by the Japanese. This amount is needed as follows: \$2,000,000 is needed for turbines and generators to complete the Sam Dyng Ghin hydro-electric plant which was started by the Japanese and is 80% complete; \$3,000,000 is

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needed for the San Chuck steam electric plant, which will utilize local coal resources, and will supply 50,000 kva to the industries on the East coast; and \$3,300,000 will be required to start construction of a steam-electric plant in the vicinity of Pusan, the large port nearest Japan. Slightly more than \$2,000,000 is required for repair and replacement parts for the South Korean utilities in fiscal year 1948. These include such items as transformers, switches, insulators, condensers, motors, wire, and copper sheeting, which are essential to maintain operations of the four electric utility companies.

In fiscal year 1949, a capital investment of nearly \$3,500,000 and in fiscal year 1950 over \$1,700,000 will be required to improve the present power and distribution facilities. Requirements for repair and replacement parts will be approximately \$2,000,000 in fiscal year 1949 and \$1,000,000 in fiscal year 1950.

d. Public Works

The highway system of South Korea, much of which was constructed for military purposes by the Japanese, has become increasingly important as a means of transportation since lack of funds has curtailed rehabilitation of the railroad system. Trucks are being used by Military Government in distributing supplies of fertilizer and in collecting rice from farmers under the rice collection program. During the war the highway system was permitted to fall into disrepair. The main highway from Seoul to Pusan, for example, passes through an area that has long been harassed by floods and heavy mountain slides. The existing road must be quarried out in many areas and filled in others on a large scale to make the highway safe for travel.

During fiscal year 1948, as indicated in Table F, \$700,000 will be required for raw materials. Reinforcing steel bars, cement, asphalt and steel I beams are needed for completion of construction work necessitated by flood damage to bridges and culverts. Pipe, wire rope and specialized road-building equipment are needed. The funds required for fiscal year 1949 will be approximately \$1,400,000, and for fiscal year 1950 approximately \$640,000. These funds are essential if the highway system is to keep abreast of increased farm and industrial activity.

e. Mining

Minerals, ores and metals were Korea's second largest source of exports before the war. Although most of the minerals needed for heavy industry, such as iron ore and coal, are located in the Russian zone, South Korea has supplies of tungsten, graphite,

molybdenum,

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molybdenum, fluorite, and gold which can become valuable exports. Approximately twenty gold mines and ten special metal mines are being put back into production. Most of these mines are short of machinery. Some of them were stripped entirely by the Japanese. The coal mines of South Korea, which produced 1,500,000 metric tons of coal in 1944, should be rehabilitated.

During fiscal year 1948, as indicated in Table F, a total of \$5,500,000 will be required to start the rehabilitation of the mines. \$5,000,000 of this will be needed for repair and replacement parts, for heavy duty mining machinery and general supplies such as electric motors, switches, rubber drive belts, conveyor belting, transmission belting, ball bearings, air hose and tools. Supplies, such as chemicals for ore-processing, timbers for mine props, coal for power plants and heating are needed in the amount of \$500,000. It is estimated that requirements for supplies will drop to \$300,000 in fiscal year 1949 and \$100,000 in fiscal year 1950. \$4,980,000 is required for repair and replacement parts in fiscal year 1949 and \$2,280,000 in fiscal year 1950.

f. Consumers Goods

The consumers goods industry produces such products as rubber goods, including rubber-soled shoes, paper and paper products, processed foods, leather goods and household supplies. These items have been in such short supply that prices for them have been excessive and imports have been necessary. It is important to increase consumers goods production in South Korea and so conserve dollar funds. Additional supplies of consumers goods will be of great value as incentive goods to induce farmers to sell their rice to urban consumers. Lack of raw rubber is forcing closure of more rubber plants each month. The rubber shoe industry, which has a capacity of about 1,500,000 pairs of shoes monthly, produced only 93,000 pairs in December 1946 and will be closed down entirely by April 1947 unless raw rubber becomes available. Paper mills, which produced about 4,000 metric tons of paper in 1946, are closing because of exhaustion of stockpiles of sulphite pulp which normally was secured from North Korea. The paper, pulp and paper products industry is one of South Korea's important small industries. There are 117 paper mills in South Korea. Lack of raw materials and replacement parts has seriously curtailed paper production, which, in turn, has reduced supplies of newsprint needed for the educational and information program in South Korea.

During fiscal year 1948, as indicated in Table F, a total of \$8,300,000 will be required to start the rehabilitation of the consumers goods industry. \$5,300,000 of this will be needed for raw materials and \$3,000,000 will be needed for repair and replacement parts. Raw materials, such as chemicals for leather tanning,

palm oil

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palm oil for soap plants, rubber, caustic soda and inks will be necessary. Repair and replacement parts, such as motors, paper producing machinery, printing machinery parts, replacement parts for shoe manufacturing equipment and replacement parts for glass plants will be required. Raw materials requirements will drop to a little over \$4,000,000 in fiscal year 1949 and \$3,400,000 in fiscal year 1950. Repair and replacement parts will require funds in the amount of approximately \$1,800,000 in fiscal year 1949 and \$1,300,000 in fiscal year 1950.

g. Transportation and Communications

The railroad system of South Korea, which is the core of the transportation system in this mountainous country, has suffered from four years of wartime neglect by the Japanese. Since American occupation, the railroads have barely maintained service through lack of funds for replacement parts, broken rails, rotten ties and a lack of competent supervisory, maintenance and technical personnel. Rolling stock and locomotives are in bad condition and inadequate in number. Frequently service is disrupted completely through lack of replacement parts. Rehabilitation of the railroad system is essential if the program for making South Korea agriculturally self-sufficient and more self-sufficient industrially is to succeed.

During fiscal year 1948, as indicated in Table F, it is estimated that \$8,700,000 will be required to start the process of rehabilitating railroads and communications services. Of this total \$5,900,000 will be required for raw materials such as ties and rails. The raw materials needs of the highway transportation industry are listed in the data provided below on petroleum products requirements. For the telephone and telegraph facilities, raw materials, such as hard drawn copper wire, steel strand wire, cables, telephone and telegraph poles, are needed.

During fiscal year 1948, \$2,800,000 is required for repair and replacement parts. For the rail transportation system, replacement parts are needed for cranes, scrapers, graders, rollers and tractors, gondola cars and box cars, drive axles, engine truck axles and tender truck axles. Also cylinders, wheels, air compressors, and air hoses, are needed. For the highway transportation system, truck parts, automotive parts, and tires and tubes are needed.

Approximately \$2,500,000 will be needed for replacement parts in both fiscal years 1949 and 1950. As the railroad system begins to function, increased amounts of raw materials will be needed in the amount of \$7,247,900 in fiscal year 1949 and approximately \$6,320,000 in fiscal year 1950.

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4. Petroleum and Petroleum Products

The Grant-In-Aid Program for South Korea will increase demands for petroleum and petroleum products to a marked extent. The plan to increase agricultural output through increased supplies of fertilizer and through irrigation projects and an enlarged fishing fleet, will mean that large supplies of gasoline, diesel oil, greases and lubricants will be required for rail transportation, motor transportation and for diesel-powered fishing boats. Also the industrial rehabilitation program, including the plan to increase textile output, mining output, enlarge the electric power generating plant and improve the railroad and highway transportation systems will mean increased demands for diesel oil, gasoline and other petroleum products.

It is estimated that the total requirements (refer to Table G) for each of the three fiscal years, 1948, 1949 and 1950, will be approximately 400,000 metric tons of petroleum and petroleum products costing \$11,000,000. The largest item of expenditure for each of the three years will be \$7,000,000 for gasoline or approximately 60% of the total, approximately \$2,000,000 for diesel oil, and \$1,000,000 for lubricants.

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TABLE G

Requirements for Petroleum and Petroleum Products, South Korea  
for Fiscal Years 1948, 1949 and 1950

Item	Present FY 1948(1)		Grant-in-Aid FY 1948		Grant-in-Aid FY 1949		Grant-in-Aid FY 1950
	Metric Tons	Est. Cost	Metric Tons	Est. Cost	Metric Tons	Est. Cost	
Gasoline	101,443	\$3,012,807	237,892	\$ 7,051,000	237,892	\$ 7,051,000	237,892
Kerosene	6,763	117,879	15,833	275,000	15,833	275,000	15,833
Diesel Oil	52,413	880,538	122,706	2,057,000	122,706	2,057,000	122,706
Lubricants	6,763	464,753	15,833	1,089,000	15,833	1,089,000	15,833
Greases	1,183	154,038	2,375	363,000	2,375	363,000	2,375
Wax	507	68,420	1,187	165,000	1,187	165,000	1,187
TOTAL	169,072	\$4,698,435	395,826	\$11,000,000	395,826	\$11,000,000	395,826

(1) Present War Department FY 1948 Request.

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TABLE G

Requirements for Petroleum and Petroleum Products, South Korea  
for Fiscal Years 1948, 1949 and 1950

<u>Present FY 1948(1)</u>		<u>Grant-in-Aid FY 1948</u>		<u>Grant-in-Aid FY 1949</u>		<u>Grant-in-Aid FY 1950</u>	
<u>Metric Tons</u>	<u>Est. Cost</u>	<u>Metric Tons</u>	<u>Est. Cost</u>	<u>Metric Tons</u>	<u>Est. Cost</u>	<u>Metric Tons</u>	<u>Est. Cost</u>
101,443	\$3,012,807	237,892	\$ 7,051,000	237,892	\$ 7,051,000	237,892	\$ 7,051,000
6,763	117,879	15,833	275,000	15,833	275,000	15,833	275,000
52,413	880,538	122,706	2,057,000	122,706	2,057,000	122,706	2,057,000
6,763	464,752	15,833	1,089,000	15,833	1,089,000	15,833	1,089,000
1,183	154,038	2,375	363,000	2,375	363,000	2,375	363,000
507	68,420	1,187	165,000	1,187	165,000	1,187	165,000
169,072	\$4,698,435	395,826	\$11,000,000	395,826	\$11,000,000	395,826	\$11,000,000

(1) Present War Department FY 1948 Request.

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5. Medical Requirements

Pharmaceuticals, typhus vaccine and penicillin are required for the protection of health and the treatment and control of communicable disease in South Korea. They are for immediate distribution to doctors and hospitals to provide minimum necessary medical treatment. Hospital equipment and supplies, medical books, and surgical instruments are necessary to supplement the equipment of fifty large hospitals, 3 leprosariums, and many clinics. Dental supplies and instruments are required to supply and equip 650 dentists who administer minimum dental care to the population of South Korea. Veterinary supplies and instruments are to be used by one thousand veterinarians who are engaged in preserving health and preventing the spread of communicable disease among Koreans animals.

South Korea has the capacity to produce much of the pharmaceutical requirements of the country if certain necessary raw materials are imported for this production. The request for these supplies is made as it is considered desirable to import these raw materials to the extent it is possible to manufacture for local requirements. Similarly, certain biologicals for the control of communicable disease among both the human and animal population can be produced in Korea if the necessary raw materials for their manufacture are obtained from imports.

The requirements for fiscal years 1948, 1949 and 1950, as presented in Table B, are based upon minimum essential supplies necessary to do an effective job of disease control among the civilian population, and to prevent outbreaks of communicable disease. This has become a particularly acute problem due to the great influx of refugees into South Korea from other areas where typhus, cholera and other communicable diseases are prevalent. In determining the minimum import requirements full consideration has been given to utilization of indigenous resources, captured enemy stocks and excess army supplies. The fiscal year 1948 requirements of \$8,000,000 amounts to a per capita expenditure of \$.41. The per capita expenditures based on the \$7,000,000 required in fiscal year 1949 and the \$5,000,000 required in fiscal year 1950, amounts to a per capita expenditure of \$.35 and \$.25 respectively.

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TABLE H

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Requirements for Medical Supplies and Equipment, South Korea  
for Fiscal Years 1948, 1949 and 1950

Item	Present FY 1948(1)		Grant-in-Aid FY 1948(2)		Grant-in-Aid FY 1949		Grant-in-Aid FY 1950
	Metric Tons	Est. Cost	Metric Tons	Est. Cost	Metric Tons	Est. Cost	
Pharmaceuticals	545.5	\$ 724,848	1113	\$1,464,000	973.6	\$1,281,000	69
Typhus Vaccine	10.	146,775	21.8	296,000	19.1	259,000	1
Penicillin	3.5	356,250	7.3	720,000	6.4	630,000	
Hospital Equipment, Supplies, 1050. Surgical Instruments, Medical Books		848,067	2138.	1,712,000	1870.9	1,498,000	133
Dental Supplies and Instruments	205.	320,850	414.6	648,000	362.7	567,000	25
Veterinary Supplies and Instruments	130.	33,200	261.8	64,000	229.1	56,000	16
Supplies for manufacture of drugs and pharmaceuticals	1020.	1,055,120	2072.8	2,136,000	1813.6	1,869,000	129
Supplies for manufacture of bacteriologics	611.	473,000	1243.7	960,000	1088.2	840,000	77
TOTAL	3575	3,958,120	7273.	\$8,000,000	6363.6	\$7,000,000	454

(1) Present War Department FY 1949 Request.

(2) Revised for Grant-In-Aid Program.

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TABLE H

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Requirements for Medical Supplies and Equipment, South Korea  
for Fiscal Years 1948, 1949 and 1950

	<u>Present FY 1948(1)</u>		<u>Grant-in-Aid FY 1948(2)</u>		<u>Grant-in-Aid FY 1949</u>		<u>Grant-in-Aid FY 1950</u>	
	<u>Metric Tons</u>	<u>Est. Cost</u>	<u>Metric Tons</u>	<u>Est. Cost</u>	<u>Metric Tons</u>	<u>Est. Cost</u>	<u>Metric Tons</u>	<u>Est. Cost</u>
	545.5	\$ 724,848	1113	\$1,464,000	973.6	\$1,281,000	695.4	\$ 915,000
	10.	146,775	21.8	296,000	19.1	259,000	13.6	185,000
	3.5	356,250	7.3	720,000	6.4	630,000	4.5	450,000
ment, Supplies, 1050.		848,067	2138.	1,712,000	1870.9	1,498,000	1336.4	1,070,000
struments,								
es and Instru-	205.	320,850	414.6	648,000	362.7	567,000	259.1	405,000
plies and	130.	33,200	261.8	64000	229.1	56,000	163.6	40,000
manufacture of	1020.	1,055,120	2072.8	2,136,000	1813.6	1,869,000	1295.5	1,335,000
armaceuticals								
manufacture of	611.	473,000	1243.7	960,000	1088.2	840,000	777.3	600,000
icals								
	3575	\$3,958,120	7273.	\$8,000,000	6363.6	\$7,000,000	4545.4	\$5,000,000

Department FY 1949 Request.

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Grant-In-Aid Program.

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6. Educational Supplies, Services and Equipment for Korea

Almost half a century of Japanese domination has made the task of reeducating and reorienting the Korean people an extremely difficult one. Its successful completion, however, is essential to the success of the overall U.S. objective of creating an independent, democratic and economically stable Korea.

The seriousness of the present educational situation in Korea is heightened by the fact that during the period of Japanese domination, Koreans were generally excluded from securing adequate formal education. This has resulted in an acute shortage of educational personnel, both teachers and administrators. During the same period, Koreans were prevented from acquiring technical and professional skill, except in the lower levels. The resulting shortage of technicians of all types is hampering our efforts to rehabilitate Korea. In many cases we are having to rely upon Korean youngsters, trained by the Japanese during the height of the war-time labor shortage, for such jobs as welding and operating locomotives.

In addition to this desperate shortage of educational and technical personnel, Korea is in immediate need of school supplies and equipment, chiefly textbooks and laboratory facilities, and, no less important, competent advice on how modern educational techniques may best be fitted into the rehabilitation and development of its school system.

Apart from educational and technical aid, funds are required for an effective information program to enlighten the Korean people about U.S. political, social, economic and cultural institutions, in short, the American way of life, to the end that U.S. policies may be more readily accepted and supported. Furthermore, only through such a program can the propaganda emanating from the Russian zone in North Korea be counterbalanced and overcome.

A total of \$6,000,000 will be required for FY 1948 as indicated in Table I. A sizable portion of this, \$1,530,000, will be needed for textbooks. Under Japanese rule, textbooks in Korea were printed almost wholly in the Japanese language and were designed to indoctrinate the Koreans in the Japanese way of life. This means that entirely new textbooks, in Korean for Koreans, have to be written and published. Other major items of expenditure for FY 1948 are \$750,000 for educational supplies and equipment; \$900,000 for the interchange of persons and materials, a program proposed to alleviate Korea's shortage of competent technical and professional personnel; \$1,000,000 for radio broadcasting and receiver equipment, of which Korea is critically short; \$510,000 for teacher training; and \$600,000 for film rawstock and projectors needed for a vigorous

documentary

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documentary film program to promote adult education among the Koreans.

Totals for FY 1949 and 1950 are \$5,000,000 and \$4,000,000 respectively. The 1948 figure of \$6,000,000 is proposed to make up for a large portion of Korea's shortages in educational and technical personnel and material during the first year of the Grant-In-Aid program.

a. Teacher Training:

There are in Korea few trained teachers or educated persons who can be pressed into service as teachers. In June, 1946, it was estimated that there were 26,500 teachers of all kinds in Southern Korea, and, while this figure may seem high in comparison with the total of 23,804 reported for all Korea in 1945, it is to be noted that the figure of 26,500 includes a great number of persons who, though not fully qualified, have been placed in teaching positions simply because teachers were badly needed. Accordingly, a program must be instituted at once for sending Korean teacher trainees to the United States for study in normal schools. The Grant-In-Aid FY 1948 calls for a total of \$510,000 to be spent for teacher training. With a calculated figure of \$2500 per trainee to cover travel, tuition and living expenses, it is estimated that some 200 Korean teacher trainees would be brought to the United States in FY 1948. In FY 1949 and 1950 funds called for would permit some 190 trainees in each year to come to the United States for study. War Department shipping facilities would be used to transport trainees from and to Korea, and the State Department's International Exchange of Persons Division would be in charge of their activities while studying in the United States.

b. Interchange of Persons:

To help make up for Korea's dire shortage of trained professional and technical personnel, the outgrowth of Japanese domination which generally excluded Koreans from receiving adequate formal education and prevented them from acquiring technical and professional skill, the Grant-In-Aid program for FY 1948, 1949, and 1950 calls for the expenditure of \$900,000 each year under the heading of Interchange of Persons. Under this heading it is planned that 100 Korean university students in each year would be brought to the U.S. to study in American universities. Also, some 250 Korean specialists in the fields of public health, welfare, administration, agriculture, mining, commerce, industry, etc., would be brought to the United States for further study. It is estimated that \$2500 per student or specialist per year would cover travel, tuition, and living expenses. Transportation and supervision in the U.S. would be the same as in the case of teacher trainees.

c. Private Agencies:

To supplement activities made possible by teacher trainee and interchange of persons appropriations, support will be sought from American private institutions, foundations, commercial firms and individuals with a view to eventually placing this phase of Korean educational training wholly in private hands.

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\*\* Total Grant-In-Aid figure for FY 1948, 49, 50. TABLE I

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Requirements for Educational Supplies, Services and Equipment.  
South Korea for Fiscal Years 1948, 1949, and 1950.

<u>Item</u>	<u>Present FY</u> <u>1948 Budget</u>	<u>Grant-In-Aid</u> <u>FY 1948</u>	<u>Grant-In-Aid</u> <u>FY 1949</u>	<u>Grant-</u> <u>FY 1950</u>
Textbooks		\$ 1,530,000	1,500,000	\$ 1,000,000
Educational Supplies and Equipment		750,000	625,000	600,000
Teacher Training		510,000	495,000	450,000
Adult Education		50,000	50,000	50,000
Interchange of Persons and Materials		900,000	900,000	900,000
Press Supplies and Activities		500,000	200,000	200,000
Radio Broadcasting and Receiver Equipment		1,000,000	745,000	745,000
Film Rawstock and Projectors		600,000	375,000	375,000
Libraries		110,000	60,000	60,000
Photographs and Posters		<u>50,000</u>	<u>50,000</u>	<u>50,000</u>

\* This is total figure. Itemization omitted since it differs in nature of items from that of proposed Grant-In-Aid budget and would not serve purpose of comparison.

\$ 4,812,804\*

\$6,000,000

\$5,000,000

\$4,000,000

N.B. Grant-In-Aid figures do not include an estimated \$425,000 annually for FY 1948, 1949, 1950, which, it is assumed, will be supplied from an overall administrative personnel appropriation.

Grant-In-Aid figure for FY 1948, 49, 50. TABLE I

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Requirements for Educational Supplies, Services and Equipment.  
South Korea for Fiscal Years 1948, 1949, and 1950.

<u>Present FY</u> <u>1948 Budget</u>	<u>Grant-In-Aid</u> <u>FY 1948</u>	<u>Grant-In-Aid</u> <u>FY 1949</u>	<u>Grant-In-Aid</u> <u>FY 1950</u>
	\$ 1,530,000	\$ 1,500,000	\$ 1,055,000
Supplies	750,000	625,000	625,000
Printing	510,000	495,000	495,000
Education	50,000	50,000	50,000
Personnel	900,000	900,000	900,000
Printing and Equipment	500,000	200,000	100,000
and	1,000,000	745,000	400,000
	600,000	375,000	265,000
	110,000	60,000	60,000
and Posters	50,000	50,000	50,000
Total figure. Itemization omitted	<u>\$6,000,000</u>	<u>\$5,000,000</u>	<u>\$4,000,000</u>
differs in nature of items from proposed			
budget	<u>\$ 4,812,804*</u>		<u>\$15,000,000*</u>

N.B. Grant-In-Aid figures do not include an estimated \$425,000 annually for FY 1948, 1949, 1950, which, it is assumed, will be supplied from an overall administrative personnel appropriation. ~~CONFIDENTIAL~~

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7. Pay and Transportation of Civilian Employees.

The United States Army Military Government in Korea performs all of the governmental functions except those reserved for the Interim Legislative Assembly. This means that a sizable number of civilians are required for administration of USAMGIK's political, economic and educational programs. The United States, through Military Government, acts as the trustee for all of the Japanese property in South Korea which has been vested. This amounts to from 80% to 90% of the property in South Korea. Military Government must directly operate or supervise leased operations in hundreds of plants. No other occupied area has such a complicated administrative problem to overcome. It is not a matter in South Korea of directing a government as SCAP does the Japanese Government, it is a matter of actual administration.

There are three variable factors which must be taken into account in determining the personnel needs of South Korea: the plan to replace the military personnel engaged in civil affairs-military government activities with civilian personnel, the "Koreanization" of the administration of civil affairs and the increased need for technical personnel which will result from increased industrial activity under the grant-in-aid program. At the end of 1946 there were 526 civilians in military government and over 3200 military personnel engaged in civil affairs-military government activities. There are many Koreans now active in all branches of military government. The implementation of "Koreanization" plans will mean that these Koreans are given more and more responsibility for actual administration. The Koreans in military government will be paid in yen and so will not be a charge against appropriated funds. The rate at which Koreans come into active administration will offset, to some extent, the rate at which civilianization of military government takes place. It is believed that the request for 2445 positions for the three years of the grant-in-aid program will provide the minimum personnel needed in view of "civilianization", "Koreanization" and increased economic activity.

During the period of Japanese rule the Koreans developed antagonisms toward government which increases administrative problems and makes it even more important to have high-caliber American civilian personnel. To administer South Korea, with an estimated population of 19,369,000 in fiscal year 1948, to implement plans for increased agricultural and industrial output, and to allow for civilianization of the administration will require 2,445 positions for each of the next fiscal years at a yearly cost of \$15,000,000, as indicated in Table J. This is approximately 300 positions more than was requested in the present War Department request for fiscal year 1948.

It is estimated that \$1,270,838 will be required yearly for transportation of civilian employees in fiscal years 1948, 1949 and 1950 as indicated in Table K. Transportation costs are based on the funds required to hire additional personnel and transport them to the theater and to transport replacements from the U.S. to the theater. In addition, persons recruited in the U.S. will travel an average of 400 miles from place of hire to the port of embarkation in the U.S. All transportation is based on the assumption that 20 percent of persons will travel by air and 80 percent will travel by water. No per diem is authorized for persons traveling to duty by water since the fare includes meals and accommodations.

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TABLE J

Requirements for Pay and Transportation of Civilian Employees,  
South Korea, for Fiscal Years 1948, 1949 and 1950.

	<u>Present FY 1948</u>		<u>Grant-In-Aid FY 1948</u>		<u>Grant-In-Aid FY 1949</u>		<u>Grant-In-</u>
	<u>Positions</u>	<u>Est. Cost</u>	<u>Positions</u>	<u>Est. Cost</u>	<u>Positions</u>	<u>Est. Cost</u>	<u>Positions</u>
Pay	2.108	\$11,839,348	2.445	\$13,729,162	2.445	\$13,729,162	2.445
Transportation		<u>1,096,872</u>		<u>1,270,838</u>		<u>1,270,838</u>	
TOTAL		<u>\$12,936,220</u>		<u>\$15,000,000</u>		<u>\$15,000,000</u>	

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TABLE J

Requirements for Pay and Transportation of Civilian Employees,  
South Korea, for Fiscal Years 1948, 1949 and 1950.

<u>Present FY 1948</u>		<u>Grant-In-Aid FY 1948</u>		<u>Grant-In-Aid FY 1949</u>		<u>Grant-In-Aid FY 1950</u>	
<u>Positions</u>	<u>Est. Cost</u>	<u>Positions</u>	<u>Est. Cost</u>	<u>Positions</u>	<u>Est. Cost</u>	<u>Positions</u>	<u>Est. Cost</u>
2.108	\$11,839,348	2.445	\$13,729,162	2.445	\$13,729,162	2.445	\$13,729,162
	<u>1,096,872</u>		<u>1,270,838</u>		<u>1,270,838</u>		<u>1,270,838</u>
	<u>\$12,936,220</u>		<u>\$15,000,000</u>		<u>\$15,000,000</u>		<u>\$15,000,000</u>

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8. Incidental Operating Expenses

Funds in the amount of \$300,000 will be needed in South Korea to defray incidental operating expenses during fiscal year 1948, as indicated in Table A. No funds will be required for this purpose in fiscal year 1949 and fiscal year 1950. The funds required for fiscal year 1948 will be used to finance a reissue of the currency used in South Korea. This is essential to eliminate counterfeiting of the larger notes, to control the influx of currency from North Korea and to implement the economic stabilization program. Currency circulation in South Korea has increased tremendously since the beginning of the occupation due to currency issuance by the Japanese and due to increased occupation costs and lack of consumer goods.

The engraving of plates and printing of notes in the higher denominations must be done in the United States to eliminate the danger of counterfeiting which would exist if Korean equipment were utilized. It is not expected that the reprinting of the currency will, in itself, stabilize economic conditions. It is an important adjunct, however, of the economic stabilization program for South Korea.

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9. Transportation of Civilian Supplies

From 25 to 30 percent of the funds required for the Grant-In-Aid program for fiscal year 1948 must be earmarked for the transportation of civilian supplies to South Korea from ports in the U. S. and from other countries where procurement takes place. The distance from Seattle, Wash. to Seoul, Korea, via the Great Circle Route, is in the neighborhood of 6,000 miles. This is one of the longest unbroken ocean hauls in the world. So far, supply conditions in the Far East have made impossible any significant utilization of closer sources of supply. Transportation costs include those required for packing, crating, handling and inland rail charges from source of supply to dockside and loading from dockside to vessel. In addition to actual ocean transportation costs, they include insurance costs and the charges for unloading from vessels to dock at port of destination. In preparing this estimate, continuation of the present policy of transporting civilian supplies on commercial vessels has been assumed.

Funds required for transportation, vary according to the total volume of goods to be transported, and will decrease from \$58,340,705 in fiscal year 1948 to \$53,938,749 in fiscal year 1949 and \$41,822,317 in fiscal year 1950. The cost of transporting civilian supplies amounts to 36%, 37% and 39% of the total cost for supplies in fiscal years 1948, 1949 and 1950. This increase is accounted for by the fact that there is a disproportionate increase in the imports of industrial equipment. This type of equipment requires more expensive packing and handling. Fertilizer transportation costs are high because potash comes from the Russian zone of Germany. Distance is also an important factor in the somewhat higher transportation costs to Korea. The haul from Seattle and San Francisco to Pusan is one of the longest straight hauls in the world.

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Copy No. \_\_\_\_\_

Justification for a Grant-In-Aid Program for the  
Rehabilitation of South Korea Covering Fiscal Years 1948 through 1950

April 8, 1947

~~CONFIDENTIAL~~

- 2 -

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 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.

November 3, 1947

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



DEPARTMENT OF STATE  
WASHINGTON

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October 29, 1947

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OFFICE  
THE SECRETARY  
DEPARTMENT OF STATE

TO: The Under Secretary  
THROUGH: S/S  
FROM: A-S, Mr. Moseley  
SUBJECT: The possible transfer of munitions in the  
Marianas to the Chinese

Apparently some confusion has arisen between the Army and the Department over the question of the possible transfer to the Chinese of the munitions in the Marianas, and as this matter will be discussed at the next Committee of Two meeting (tentatively scheduled for 2 P.M. October 31), it is believed that you should be advised of the points involved.

Colonel Byroade called on Mr. Butterworth and myself yesterday and said that he was concerned, that based upon Secretary Marshall's remarks at the Meeting of the Committee of Secretaries on Monday, October 27, that the Secretary was under the impression that the Army could go ahead and transfer the munitions in the Marianas, whereas this is not the case at all. He pointed out that at the meeting held in Secretary Marshall's office last week, at which you were present, it was agreed only that the Army should determine whether these munitions could be declared "unstable" and thus turned over to the Chinese, or whether any other method short of sale could be devised. Colonel Byroade added that he had since advised Mr. Butterworth that investigation had revealed that there were no legal steps open to the Army whereby it could initiate action to transfer this materiel to the Chinese. He pointed out that the Army could not even make formal declaration that such munitions were surplus as FLC, under present restrictions, would not accept custody of munitions. He further stated that the Army saw no solution to the problem unless the State Department could see its way clear to change the existing Bulk Sale Agreement with China to include munitions, or to initiate a supplemental agreement which would allow such transfer to the Chinese.

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By CAB NARS, Date NOV 7 1974

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- 2 -

At the Committee of Secretaries meeting, you will recall that Mr. Draper asked the Secretary about this transaction and said that the Army was uncertain about it particularly as it would involve some publicity. Secretary Marshall replied that at the meeting of State and Army Officials, that took place in his office last week, it had been agreed to go ahead with this entire program, and that we would have to take any risk involved in the publicity given to the transactions. It is with respect to this statement of the Secretary's that the confusion has apparently arisen.

As indicated above, Colonel Byroade is concerned that the Secretary is of the opinion that the Marianas transaction can now go forward, although the Army has advised the Department that this can not be done. Mr. Butterworth believes that when the Secretary made the statement, at the meeting of the Committee of Secretaries, to the effect that it had been agreed to go ahead with this transaction, that the Secretary was referring not to the munitions in the Marianas but rather to the decision to go ahead and provide planes and parts to complete the 8-1/3 Group Air Program.

It was agreed by Mr. Butterworth, Colonel Byroade and myself that the confusion on this point should be clarified at the next Committee of Two meeting. Mr. Butterworth asked Colonel Byroade to explore the matter again to see if some means could be found whereby the munitions could be turned over to the Chinese, suggesting that the Army might decide that rather than go to the expense of demilitarizing the material it be handed over as salvage to the Chinese. Colonel Byroade agreed to look into this matter again. The Colonel said that the Army was very anxious to transfer this equipment but that so far no legal way could be found. He pointed out again that to declare the munitions "unstable" would involve falsification of documents.

*H. W. Moseley*  
H. W. Moseley

A-SHWMoseley:bco

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cc: Mr. Butterworth

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 DEPARTMENT OF STATE  
 ASSISTANT SECRETARY

*File  
Cowan gr*

October 31, 1947

To: The ~~Under~~ Secretary

Through: S/S

From: A-S, Mr. Moseley *MM*

Subject: Matters Relating to the Chinese Aid Program which May Be Brought Up at the Committee of Two Meeting on Monday, November 3.

It is anticipated that General Draper will bring up for discussion at the Committee of Two Meeting on Monday, November 3 the question of the transfer of munitions in the Marianas to the Chinese. The present situation with respect to this matter appears to be as follows:

At our request the Army has explored means by which the munitions might be transferred short of direct sale. At Secretary Marshall's specific request Colonel Byroade has been asked to investigate whether some of the materiel in these Islands may be in such condition that it could be declared "unstable". Presumably Colonel Byroade or General Draper will report on this situation at the Monday Meeting.

Colonel Byroade has informed Mr. Butterworth and Mr. Moseley that even if it should be found that some of the munitions could be declared "unstable", this would still not solve the transfer problem as there is no legal way by which the Army can turn over "unstable" materiel to a foreign nation. The Colonel maintains that the only way these munitions can be transferred to the Chinese is to have them declared surplus and have FLC handle the transaction. He has pointed out that this would require the State Department to take the initiative to change the existing bulk sale agreement with China to include munitions, or to effect a supplemental agreement which would allow such transfer. It is anticipated that the Army will present its position on this matter along this line. It would appear, however, that the Secretary is under the impression that if the munitions are declared "unstable" some means can be found to give the Chinese the munitions. Presumably this point will be resolved at the Meeting.

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 By *C&O* NARS, Date NOV 7 1974



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Another matter which may be mentioned at the Meeting is a report by the Army to the effect that it considers the 39 Division Program completed. It will be recalled that Colonel Byroade made such a statement at the Meeting in the Secretary's office on October 21, but that he was asked to determine whether this was the official Army view.

With respect to the plans for the completion of the 8 1/3 Group Air Program, it should be noted that Mr. Butterworth has contacted the War Assets Administration and has arranged for the earmarking of several of these planes for the Chinese.

I should like to suggest that you may possibly wish to explore further the possibility of making available to the Chinese some of the munitions which have recently been sold to the Philippine Government as surplus. General Crain, Chairman of the Department's Policy Committee on Armaments, has advised me that his Committee recently approved the sale of over 100,000 tons of munitions to the Philippines. General Crain also stated that it was obvious that the Philippine Government did not need all of this materiel, and that it would probably demilitarize some of it for other uses.

cc:FE-Mr. Butterworth  
A-S/General Crain

*[Handwritten signature]*  
A-S:HW Moseley:hmh

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GOFY

Moscow

March 31, 1947

Dear Mr. Molotov:

In response to your letter of March 24, 1947, and in connection with that portion of the Moscow Agreement of 1945 referring to China, I attach for your information copies of self-explanatory statements made public by the President of the United States on December 15, 1945, and again on December 18, 1946. The United States forces mentioned therein assisted substantially during the period covered by these reports in the repatriation from China of approximately 3,000,000 Japanese to their homeland, as laid down by the Potsdam Agreement and the Surrender Terms. As for the disposition of the estimated 700,000 Japanese taken in Manchuria by the Soviets, I have no information.

On January 29, 1947, the Government of the United States announced its decision to terminate its connection with the Committee of Three which was established in Chungking for the purpose of terminating hostilities in China, and its concurrent decision to terminate its connection with Executive Headquarters which was established in Peiping by the Committee of Three for the purpose of supervising the execution of the agreements for the cessation of hostilities and the demobilization and reorganization of the armed forces in China. A statement regarding the withdrawal of the marine forces, which had the mission of assuring the security of the United States personnel with the Executive Headquarters and its communications with the sea, was made at the same time. This action permitted a substantial reduction in the number of United States military and naval

personnel

The Honorable

V. M. Molotov

Minister of Foreign Affairs  
of the U. S. S. R.

Moscow.

- 2 -

personnel required in China, and removals are continuing as rapidly as shipping becomes available. When current reductions are completed (estimated date June 1, 1947), there will remain, at the request of the National Government of the Republic of China, approximately 6,180 military and naval personnel, distributed substantially as follows:

United States Army (All staff and service):

Advisory Group	750
Office and Property Guards	351
Air Transport	160
Graves Registration Service	94
Miscellaneous Staff and Services	<u>155</u>
Total	1510

United States Navy (All staff and service):

Advisory Group	128
Services in connection with port and weather facilities in Shanghai, Tsingtao and Tientsin	<u>1043</u>
Total	1171

United States Marines (all on guard and security duty):

Enclosures  
Combat type:

Infantry	1636
Air	<u>499</u>
	2135

Staff and Service:

Ground	1154
Air	<u>210</u>

	1364
Total Marines	3499

I have

- 3 -

I have furnished a copy of this letter to Mr. Bevin, and another copy to the Chinese Ambassador in Moscow for the information of the Chinese Government.

Faithfully yours,

**Enclosures**

United States Policy Toward China, Statement by the  
President of December 15, 1945  
United States Policy Toward China, Statement by the  
President of December 18, 1946

MSCarter:MVM

cc: Mr. Bevin, Mr. Foo (with enclosures)

~~TOP SECRET~~

June 12, 1947

To: The Secretary  
 Through: S/S  
 From: Secretary of SWNCC  
 Subject: U. S. Policy Toward China (SWNCC 83/22 and SWNCC 83/21).

In SWNCC 83/22 the Joint Chiefs of Staff have presented a study of the military aspects of U. S. policy toward China. This study was made at the request of SWNCC at your suggestion and was based upon the State Department's memorandum of February 11, 1947, setting forth eight recommended proposals with respect to American policy toward China, and your exchange of letters with the Secretary of War with reference to this proposed policy (these documents are set forth in SWNCC 83/21, the proposed policy appearing on page 99).

The Joint Chiefs of Staff advised that Colonel J. H. Caughay and Lt. Colonel C. E. Hutchin, Jr., assisted in the preparation of this study, as requested by you. The Joint Chiefs further state that they have attempted to limit their comments to the military aspects of the problem, but point out that it has been necessary to take cognizance of the fact that this is in reality but one element of the global problems with regard to the military security aspects of overall U. S. policy.

Pages 117 to 125 set forth a discussion of the problem leading up to the opinion that "from the military point of view, carefully planned, selective and well-supervised assistance to the National Government, under conditions which will assure that this assistance will not be misused, will definitely contribute to United States security interests." (paragraph 11, page 124.) The major conclusions arrived at as the result of this study are set forth in paragraph 13, pages 125-126. In the Appendix, pages 127 to 131, the Joint Chiefs of Staff set forth their comments from the military point of view to the eight points contained in the State Department's memorandum of February 11, 1947.

This study is being circulated to the Members of SWNCC and any further comments from the War or Navy Departments will be brought to your attention.

H. W. Moseley

A-H:SWNCC:HWM:djf

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 NND 750057  
 By CSO NARS, Date NOV 7 1974

*Committed to Three*

THE SECRETARY OF THE NAVY  
WASHINGTON

My dear Mr. Secretary:

In response to your request for suggestions as to our future course in China, may I recommend the following:

1. A reiteration of America's traditional open-door policy in China and a restatement of our determination to assist the Chinese people to work out the solution of their own affairs.
2. The above should be accompanied by an announcement that we intend to keep in China such armed forces as are necessary for the protection of American interests and that we have no intention to withdraw either troops, diplomatic representatives or our nationals.
3. The immediate dispatch to China of a staff of practical businessmen and bankers to develop such trade as is possible even under the present chaotic conditions.

Sincerely yours,

Honorable George C. Marshall

Secretary of State

October 27, 1947

~~CONFIDENTIAL~~REVISIONS OF ITEM I1. Future Status of the Committee of ThreeDecision:

It was agreed that:

- (a) The Committee of Three should become the Committee of Two (Secretary of State and Secretary of Defense), with the understanding that the Secretary of Defense would invite the Secretaries of Army, Navy and Air Force to attend meetings when appropriate.
- (b) That the Committee will continue to use the services of the Secretariat of SANACC.

Implementing Action:

None.

Discussion:

SECRETARY FORRESTAL said that the proper relationships of the new agencies created by the National Security Act and the State Department will be worked out by pragmatic evolution and that experience will dictate the proper pattern of coordinating machinery. However, he said that he was of the opinion that SWNCC should be continued in its reconstituted form of State-Army-Navy-Air Force Coordinating Committee (SANACC). As for the Committee of Three, he said that he believed that it should become the Committee of Two using the secretarial services of the Executive Secretary of the National Security Council, and that the Secretaries of Army, Navy, or Air Force would be invited to attend when items were of particular interest to them.

UNDER SECRETARY DRAPER said that it was Secretary Royall's view that with the National Security Council and SANACC in existence there was no longer any need for the Committee of Three. CAPTAIN AUSTIN stated that although he did not know the views of the Secretary of the Navy on the matter, that Under Secretary Kenney also felt that SWNCC should continue as SANACC but that probably the establishment of a formal Committee to replace the Committee of Three was not necessary. SECRETARY SYMINGTON said that he held similar views except that if the Committee of Three were not abolished it should become a Committee of the five Secretaries, or the Committee of Two (Secretaries of State and Defense).

MR. SOUERS said that although there had been considerable thought given to the National Security Council taking over SWNCC, he believed that it was better at least for the time being, that it continue as a separate entity working in close liaison with the Council. He said that there was a need for separate coordinating machinery which would also be an operating agency that could direct action; he pointed out that the Council did not take action but could only recommend. He added that experience in the functioning of the National Security Council will indicate the proper place and relationships for the coordinating mechanisms.

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UNDER SECRETARY LOVETT pointed out that the Committee of Three is a voluntary Committee which was established during the war to facilitate the agreement of the top Presidential advisors on politico-military matters, and that there was no necessary relationship between this Committee and SANACC or the National Security Council. He said that it was the view of the State Department that SWNCC should be continued and also that the Committee of Three should continue in the form of the Committee of Two. The Committee of Two should be retained for the purpose of resolving numerous problems that need not be referred to the National Security Council or which can be referred to that agency after prior consideration. SECRETARY MARSHALL said that his views were similar, and he felt that the Committee of Two should continue with the Service Secretaries in attendance where appropriate. He said, however, that he favored retaining the services of the existing Secretariat. SECRETARY FORRESTAL said this was agreeable.

UNDER SECRETARY DRAPER raised the question of voting procedure and SECRETARY MARSHALL pointed out that in actual practice no votes were taken and that decisions generally represented a compromise of views.

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MINUTES OF THE MEETING OF THE SECRETARIES OF  
STATE, DEFENSE, ARMY, NAVY AND AIR FORCE (OR THEIR REPRESENTATIVE)  
MONDAY, OCTOBER 27, 1947 - 10:30 A.M.

PRESENT

STATE

SECRETARY MARSHALL  
UNDER SECRETARY LOVETT  
MR. RUSK  
MR. BUTTERWORTH  
MR. WOODWARD  
MR. McWILLIAMS  
MR. ROSELEY (SANACC) Secretary

DEFENSE

SECRETARY FORRESTAL  
MR. OHLY

ARMY

UNDER SECTY DRAPER  
COLONEL MUNSON

SECURITY COUNCIL

MR. SOUERS  
MR. LAY

NAVY

CAPTAIN AUSTIN

AIR FORCE

SECRETARY SYMINGTON

I. Future Status of the Committee of Three

Decision:

It was agreed that: (a) the Committee of Three should become the Committee of Two, (Secretary of State and Secretary of Defense); (b) that the Committee will continue to use the services of the Secretariat of SANACC.

Implementing Action:

None.

Discussion:

SECRETARY FORRESTAL said that the proper relationships of the new agencies created by the National Security Act and the State Department will be worked out by pragmatic evolution and that experience will dictate the proper pattern of coordinating machinery. However, he said that he was of the opinion that SWNCC should be continued in its reconstituted form of State-Army-Navy-Air Force Coordinating Committee (SANACC). As for the Committee of Three, he said that he believed that it should become the Committee of Two using the secretarial services of the Executive Secretary of the National Security Council.

UNDER SECRETARY DRAPER said that it was Secretary Royall's view that with the National Security Council and SANACC in existence there was no longer any need for the Committee of Three. CAPTAIN AUSTIN stated that although he did not know the views of the Secretary of the Navy on the matter, that Under Secretary Kenny also felt that SWNCC should continue as SANACC but that probably the continuance of the Committee of Three or its successor was unnecessary. SECRETARY SYMINGTON said that he held similar views except that if the Committee of Three were not abolished it should become the Committee of the five Secretaries.

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MR. SOUERS said that although there had been considerable thought given to the National Security Council taking over SWNCC, he believed that it was better at least for the time being, that it continue as a separate entity working in close liaison with the Council. He said that there was a need for separate coordinating machinery which would also be an operating agency that could direct action; he pointed out that the Council did not take action but could only recommend. He added that experience in the functioning of the National Security Council will indicate the proper place and relationships for the coordinating mechanisms.

UNDER SECRETARY LOVETT pointed out that the Committee of Three is a voluntary Committee which was established during the war to facilitate the agreement of the top Presidential advisors on politico-military matters, and that there was no necessary relationship between this Committee and SANACC or the National Security Council. He said that it was the view of the State Department that SWNCC should be continued and also that the Committee of Three should continue in the form of the Committee of Two. The Committee of Two should be retained for the purpose of resolving numerous problems that need not be referred to the National Security Council or which can be referred to that agency after prior consideration. SECRETARY MARSHALL said that his views were similar, and he felt that the Committee of Two should retain the existing Secretariat. SECRETARY FORRESTAL said this was agreeable.

UNDER SECRETARY DRAPER raised the question of voting procedure and SECRETARY MARSHALL pointed out that in actual practice no votes were taken and that decisions generally represented a compromise of views.

## II. Plans for Guided Missile Experiments over Mexican Territory

### Decisions:

It was agreed that the problem should be referred to the Joint Chiefs of Staff with a view to recommending alternative locations for a guided missile experimental range, which locations could then be discussed with the State Department for the purpose of deciding upon which would meet technical requirements and those of foreign relations.

### Implementing Action:

The Secretary of the Committee to refer the matter to the Joint Chiefs of Staff. *RESEARCH & DEVELOPMENT BOARD.*

### Discussion:

SECRETARY MARSHALL said that the State Department has been approached by officers of the Research and Development Board who advise that it has been decided that the most appropriate site for a guided missile experimental range is from Southern California southward over the Gulf of California, Mexico, with the possibility that sometime in the future the range would be extended as far as the Galapagos Islands. It would be necessary to build control stations on Mexican territory. The State Department has been requested to consider approaching the Mexican Government in this connection. He said that the State Department did

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not wish to approach the Mexican Government at this time in this connection for the following reasons: (a) the fact that certain disclosures would have to be made to the Mexicans is a factor insofar as security is concerned, (b) there is also the possibility that the project could be built up into an anti-American campaign by one of several Mexican factions, (c) the fact that two objects have allegedly recently landed and exploded near Juarez, Mexico will make it difficult if not impossible to obtain permission, (d) that if guided missiles are sent over populated areas of any other country, the immediate assumption will be that the United States has less regard for those people than it has for its own. Furthermore, it is not inconceivable that ratification of the Inter-American Treaty on Reciprocal Assistance signed at Rio de Janeiro in September might be jeopardized if we proceed with this proposal at this time. SECRETARY MARSHALL summarized by stating that we are having some difficulties with the Mexicans now which should not be agitated, and that it was the opinion of the State Department that it was inadvisable to take up this matter with the Mexican Government at this time. He said that the State Department wished to propose that this problem be referred for study to the JCS to determine alternative locations for a guided missile experimental range, which sites could then be discussed with the State Department with a view to any necessary negotiations with foreign governments.

SECRETARY SYMINGTON said that he understood that Banana River, Florida - Bahama Islands was a second choice for an experimental range of this type and the feasibility of using this location should be further explored.

SECRETARY FORRESTAL said that he was agreeable to having the JCS look into this matter.

### III. Aid to China and the Wedemeyer Report

#### Decision:

None. Consideration deferred.

#### Implementing Action:

None.

#### Discussion:

(Discussion on this subject will be continued at the next meeting and supplemental minutes will be issued on this item.)

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DEPARTMENT OF STATE

THE SECRETARY

To: The Secretary

Subject: Tentative Agenda for the meeting of the Committee  
of Three, Monday, October 27, at 10:30 a.m.

The following items have been scheduled for discussion:

- (1) The future status of the Committee  
of Three
- (2) Plan for Guided Missile Experimental  
Range
- (3) The Wedemeyer Report

Mr. Souers, Executive Secretary of the National Security  
Council has been invited to be present for item 1.

Mr. Woodward, Acting Director of the Office of American  
Republic Affairs will be present to assist you with item 2.

Mr. Butterworth will be present to assist you with  
item 3.

FUTURE STATUS OF THE COMMITTEE OF THREEDiscussion:

With the passage of the National Defense Act and the establishment of the National Security Council, it has become necessary to review the existing mechanisms for coordination between the Departments responsible for the National Security.

The State-War-Navy Coordinating Committee considered this question in regard to its own status. The Executive Secretary of the National Security Council advised the Committee that he did not believe that the work being done by SWNCC should be absorbed by the National Security Council. The Committee then decided that the Department of the Air Force should be added to the membership of the Committee and that it would function as in the past. The Committee changed its name to the State-Army-Navy-Air Coordinating Committee.

The Committee of Three has consisted of the Secretaries of State, War and Navy. The question which arises is whether the Committee should continue or should the questions considered by it be referred to the National Security Council, composed of the Secretaries of State, Defense, Army, Navy, Air, the Chairman of the National Resources Board, and the President. If the Committee is to continue, consideration should be given to its membership in the light of the change in organization of the service Departments.

Recommendation:

That the Secretaries decide whether or not to continue the meetings of the Committee.

That, if the meetings are to be continued, the composition of the Committee be determined.

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PLANS FOR GUIDED MISSILE EXPERIMENTS OVER  
MEXICAN TERRITORY

Discussion

The Department of State has been approached by Officers of the Research and Development Board, stating that it had been decided that the most appropriate site for a guided missile experimental range is from southern California southward over the Gulf of California, Mexico. The range would, sometime in the future, be extended as far as the Galapagos Islands off Ecuador. It will be necessary to build control stations on Mexican territory, and a group of Air Force officers have in mind approaching the Mexican Government on this subject. (Tab A)

Due recognition of certain dangers involved in such a proposal is essential. The fact that certain disclosures will have to be made to the Mexicans is a factor in so far as security is concerned. There is also the possibility that the project could be built up into an anti-American campaign put on in Mexico by one of several factions. If there should be an accident in which Mexican citizens were killed or Mexican property destroyed, adverse repercussions could be expected upon Mexican-United States relations. The fact that two objects have allegedly recently landed and exploded within the area around Juarez, Mexico, will make it difficult if not impossible to obtain permission. The attached telegram No. 1117, October 15, from the Embassy at Mexico City (Tab B) indicates the seriousness of the possibilities inherent in the landing on Mexican soil of any projectile fired from the United States. Furthermore, if guided missiles are sent over populated areas, or in the general direction of populated areas, of any other country, the immediate assumption is that we have less regard for those people than we do for our own people. Moreover, the Inter-American Treaty of Reciprocal Assistance signed at Rio de Janeiro in September of this year requires legislative ratification in the signatory countries. It is not inconceivable that ratification of the Treaty would be jeopardized if we proceed with this proposal at this time.

Recommendation

It is recommended that the Secretary of State request Secretary Forrestal to have this entire project reviewed

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By CB NARS, Date NOV 7 1974

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because of the dangers referred to above. It is suggested that Major General Gruenther, Director, Joint Staff of the JCS, be asked to prepare some alternative locations for a guided missile experimental range, which could then be discussed with the State Department with a view to deciding upon one which would meet technical requirements and those of foreign relations.

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14 October 1947

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## MEMORANDUM FOR THE CHAIRMAN, SUBCOMMITTEE FOR MILITARY INFORMATION CONTROL OF THE STATE-ARMY-NAVY-AIR COORDINATING COMMITTEE

SUBJECT: Disclosure of Classified Guided Missile Range Information to Mexico

1. The Research and Development Board (JRDB) has designated Headquarters, United States Air Force as the executive agency to initiate action with a view to establishing the National Guided Missile Range. It has been determined by the Research and Development Board that the most appropriate site for the range is in the area Southern California-Lower California (Mexico).

2. In order to ascertain the views of the Mexican Government regarding the establishment of the Range, it will be necessary for U.S. Military representatives to disclose to that government general information concerning the proposed project.

3. As an exception to Paragraph III e. SWNCC 206/29, it is requested that the Department of the Air Force be authorized by the Committee to disclose to the Mexican Government, through the Joint United States-Mexican Mission, information classified no higher than CONFIDENTIAL pertaining to the proposal to establish the National Guided Missile Range. Preliminary discussions will not include classified information concerning the missiles.

4. It is further requested that in the event agreements are reached which will result in the establishment of the proposed Range that the Department of the Air Force be authorized by the Committee to exchange information classified no higher than CONFIDENTIAL with the Government of Mexico on installation, instrumentation and operating techniques as is necessary for the development of the National Guided Missile Range.

## Copies Furnished:

Army (Col. M.H. Hole)  
Navy (Capt. Taylor)

B.A. SCHRIEVER  
Colonel, USAF  
USAF Member, SANAC-MIC

DECLASSIFIED

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

NND 750057By CRD NARS, Date NOV 7 1974~~CONFIDENTIAL~~

*FR*

# INCOMING TELEGRAM

DEPARTMENT OF STATE—DIVISION OF COMMUNICATIONS AND RECORDS

TELEGRAPH BRANCH

7-X

~~RESTRICTED~~

Action: ARA  
 Info:  
 SS  
 C  
 OCD  
 CIA  
 FC  
 DCR

Control 4767

Rec'd October 15, 1947  
 10:42 p.m.

**B**

FROM: Mexico City  
 TO : Secretary of State  
 NO : 1117, October 15, 6 p.m.

Mexican Minister National Defense informed Military Attache receipt report from investigating officer that in his belief remains of projectile which landed Sunday near Ciudad Juarez are those of V-2 bomb. This report published in today's Mexico City newspapers. In view published denial by Major General John L. Homer of Fort Bliss any such projectile had been fired and published statement by Public Relations Officer White Sands Proving Grounds to effect no V-2 bomb launched since October 9, Military Attache today telegraphed War Department requesting report. This projectile like one several months ago caused no damage. I strongly feel matter must be thoroughly investigated and if found to have been projectile from US Army base appropriate apologies presented immediately Mexican Government. Moreover highly important that steps be taken prevent future recurrence. Consequences could be serious if any projectile coming from US should cause casualties Mexico.

THURSTON

WMB:DFP

DECLASSIFIED

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

NND 750057

~~RESTRICTED~~

By CLD NARS, Date NOV 7 1974 INFORMATION COPY

WEDEMEYER'S REPORT

Secretary Forrestal has indicated that he wishes to discuss the Wedemeyer report. Mr. Butterworth has prepared the attached briefs for your information and use.

USSR Lend-Lease Settlement

*- for May 21 meeting*

- Tab 1 Summary and recommendations.
- Tab 2 Excerpt from minutes of May 7 meeting of Secretaries of State, War, and Navy.
- Tab 3 Letter of May 8 to the Secretary of State from the Secretary of Navy listing items for recapture.
- Tab 4 Letter of May 8 to the Secretary of State from the Secretary of War.
- Tab 5 Letter of May 15 to the Under Secretary of State from Lieutenant General Lutes listing items for recapture.

USSR Lend-Lease Settlement

Problem: To reach further agreement with the Secretaries of War and Navy as to the nature of the items whose recapture will be requested in the lend-lease settlement negotiations with the USSR.

Present Status: At the meeting of the three Secretaries on May 7 certain principles were agreed upon as basis for these negotiations (Tab 2) and it was agreed that the service departments would provide the State Department with a list of "a small number of specific military or naval articles [and vessels] which are of use to the U.S. and for which the U.S. has real need".

The list received from the Navy Department May 8 (Tab 3) requests recapture of 480 of the 585 vessels transferred.

A reply from the Secretary of War of May 8 (Tab 4) states that the War Department is interested in:

- "1. Recapture of such items still serviceable as can be used in current War Department programs, including military assistance programs already approved or likely to be approved.
- "2. Denial to the Soviets of military equipment and supplies which, although not usable for any of our programs, would serve to enhance Soviet military power if the items were retained by the Soviets."

However the letter recognizes that unless the State Department can determine a course of action which would achieve this second objection, "it appears that such items will have to be left with Soviet Russia". A specific list of items for recapture received from the War Department May 15 (Tab 5) is so extensive as to include substantially all arms, construction and engineering equipment, jeeps, and other non-combat items originally transferred provided they are still in serviceable condition.

Recommendation: That the Secretaries of War and Navy be requested to agree to a drastic reduction in the categories and quantities of materials, the recapture of which is to be sought.

Discussion: The recapture lists of both the War and Navy Departments are so extensive that their presentation to the Soviet

Government

Tab. 1

-2-

Government would be likely to render agreement on a lend-lease settlement impossible and cause a further deterioration in our over-all relations with the Soviet Union. The Soviet Government would certainly interpret the difference between such a policy of extensive recaptures of equipment from it, and our policy in the lend-lease settlements with other governments, as provocative. Viewed in conjunction with other action on our part, the Soviets might well conclude that our policy has moved in a direction which it could only interpret as unfriendly, if not aggressive. This, in turn, might provoke retaliatory action by the Soviets in some quarters and could not fail to impair our attempts to reach agreement on certain outstanding matters of importance. Such a possibility at the present time, especially when it is readily avoidable, cannot be anything but extremely serious.

Appendix "C"

COPY

April 29, 1947

My dear Mr. Secretary:

Negotiations between this Government and the Government of the Union of Soviet Socialist Republics for the settlement of lend-lease pursuant to the terms of the Soviet Master Lend-Lease Agreement of June 11, 1942 will shortly begin.

The Soviet Master Agreement of June 11, 1942 contains an Article V which provides as follows:

The Government of the Union of Soviet Socialist Republics will return to the United States of America at the end of the present emergency, as determined by the President of the United States of America, such defense articles transferred under this Agreement as shall not have been destroyed, lost or consumed and as shall be determined by the President to be useful in the defense of the United States of America or of the Western Hemisphere or to be otherwise of use to the United States of America.

In view of the imminence of the lend-lease settlement negotiations with the Soviet Government, it is now necessary for this Government to determine its policy with respect to the retention by the Soviet Government of lend-lease articles not lost, destroyed or consumed in the war which now remain in its possession or control. It is to this policy question and its several ramifications that I wish to direct your immediate attention. I solicit your view on this subject both with respect to articles transferred by your Department to the Soviet Government, and with respect to military articles generally.

It is

The Honorable

Robert P. Patterson,

Secretary of War.

Tab 2

- 2 -

It is my view that this question bears most directly upon articles of a strictly military or naval character, which the State Department generally takes to mean "arms, ammunition, and implements of war" as enumerated in Presidential Proclamation 2717 of February 14, 1947.

Naval vessels, of course, present a special question, inasmuch as they are subject to return to the United States under Public Law I of the 78th Congress which limits the terms of their transfer.

In the case of certain other countries, arrangements have been or are being made to dispose of small naval vessels by sale to the countries which used them under lend-lease during the war. Procedurally, as you know, this requires their constructive return to United States custody to satisfy the provisions of law, and their sale as surplus property after a determination had been made that they are no longer needed by the United States Navy. Your views regarding the appropriateness of a similar disposition of surplus military or naval lend-lease vessels in the case of the Soviet Government would be most helpful.

Article V of the Soviet Master Agreement, cited above, provides that articles which are of use to the United States, either for defense or otherwise, will be returned at the end of the emergency upon request of the President of the United States. One immediate question is to decide which lend-lease articles should be requested for return at the time of the settlement with the Soviet Government.

In previous settlements with major powers, it has been the policy of this Government to permit retention of lend-lease military or naval articles, other than vessels, but to reserve to the United States Government the right of recapture of such articles for an indefinite period into the future. This policy has applied, of course, only to articles not designated for return at the time of the settlement. In point of fact, recapture of articles not subject to special statutory provisions, such as those relating to vessels, have been negligible. This Government has also stated in its settlement agreements generally that while it reserves unto itself its right of recapture of lend-lease military or naval articles, it does not intend to exercise generally this right of recapture. The State Department is inclined to believe that, in view of the practicalities of the situation, this policy is applicable in the case of the Soviet Union as to articles not recaptured at the time of the settlement.

I understand



-3-

I understand that this general question has frequently been discussed by officials of the War and State Departments, and hope therefore that I may have your views urgently. A similar letter has been addressed to the Secretary of the Navy.

Sincerely yours,

Under Secretary

THE SECRETARY OF THE NAVY  
WASHINGTON

MAY 15 1947  
DEPARTMENT OF STATE  
8 MAY 1947

2 LP  
EE  
A-T  
DK

My dear Mr. Secretary:

Consideration has been given within the Department to your letter received April 30, 1947, in which you solicit my views on the Lend-Lease settlement to be negotiated between this Government and the Government of the Union of Soviet Socialist Republics with respect to articles transferred by the Navy Department to the Soviet Government and with respect to Military articles in general. Paralleling previous settlements with major powers, the Navy Department believes that the policy of the United States to permit retention of Lend-Lease military or naval articles subject to the right of recapture should be adhered to in the settlement with the Union of Soviet Socialist Republics. The Navy has no objection to items of a naval or military character subject to recapture being taken to mean "arms, ammunition, and implements of war" as enumerated in Presidential Proclamation 2717 of February 14, 1947.

Exclusive of ships, boats, barges and floating drydocks of the Navy transferred to Russia under Lend-Lease, the Navy Department does not presently desire to have the right of recapture exercised except for 260 - 40 mm anti-aircraft gun assemblies (single) as requested in my letter to you Serial No. 2039P411 dated 9 December 1946. (Annex A)

With respect to ships, boats, barges and floating drydocks of the Navy, signed custody receipts are held in the Navy Department for 585 craft as listed in Annex (B) hereto. Reports received in the Navy Department indicate that of the above craft three (3) Motor Torpedo Boats Nos. 85, 87 and 197 have been lost. Of the craft listed in Annex (B), not reported destroyed or lost, the Navy Department desires that the following types and numbers be recaptured and returned to the custody of the United States upon the conclusion of the Lend-Lease settlement agreement:

<u>TYPE</u>	<u>NUMBER OF VESSELS</u>
(a) Ice Breakers (CR)	3 - Returned to a port in the Continental United States, to be designated by the Navy Department.

*976*  
*1947*

*W*

Tab 3.

861.24/E-847

CS/A

861.24/5-847

THE SECRETARY OF THE NAVY  
WASHINGTON

8 MAY 1947

	<u>TYPE</u>	<u>NUMBER OF VESSELS</u>
<i>recapture for security reasons if serviceable</i>	(b) Large Mine Sweepers (AM)	34 - off
	(c) Landing Craft, Infantry (LCIL) ④	30
	(d) Frigates (PF) ①	28
	(e) Torpedo Boats (PT & HPT) ②	202 - life?
	(f) Submarine Chasers (SC, PTC, & RPC) ②	140 - off
	(g) Motor Mine Sweepers (YMS)	43 - off

The above listed vessels, (b) through (g), either to a port in the Continental United States or a near port to be designated by the United States. For craft located in the Far East and Maritime provinces of the Union of Soviet Socialist Republics, the port of return should be in Japan as specified by the United States. Under no circumstances should we agree to vessels being delivered to or touching in the Aleutians.

The following ships, boats, barges and floating drydocks of the Navy transferred under Lend-Lease to the Union of Soviet Socialist Republics should be recaptured in compliance with Public Law #1 of the 78th Congress and offered for disposal to the Union of Soviet Socialist Republics under the terms of the Surplus Property Act of 1944. Should the Soviet Government not desire to conclude the purchase of these vessels under the Surplus Property Act, they should be recaptured and returned to ports as designated for vessels in (b) through (g) above:

<u>TYPE</u>	<u>NUMBER OF VESSELS</u>
(a) Shallow Water Craft River Tugs (AG)	15
(b) Landing Craft Tanks (LCT)	17
(c) Floating Workshops (YR)	4
(d) Landing Craft, Mechanized (LCM'S 3)	54
(e) Motor Launch (ML)	1
(f) Plane Personnel Boat	1
(g) Landing Craft Support (LCS(S))	2
(h) Landing Craft Veh. & Pers. (LCVP)	2
(i) Pontoon Barges (250 tons)	6

As a first step in accomplishing the above recommendations, the Navy Department considers that the Union of Soviet Socialist Republics should be requested to inform the United States as to the present status of all 40 mm guns and location and condition of United States Naval craft, which step I have been given to understand has already been initiated by your Lend-Lease Settlement Committee.

The Honorable  
George C. Marshall  
Secretary of State

Sincerely yours,

*James Forrestal*

108-51-24/5-847

THE SECRETARY OF THE NAVY  
WASHINGTON

Oo-411X/meg  
Serial: 2039P411

9 December 1946

The Honorable  
The Secretary of State  
Washington, D. C.

Sir:

The records of the Navy Department indicate that the Navy of the U.S.S.R. received two hundred and sixty (260) 40mm AA single gun assemblies under lend-lease authority by transfer from the Navy Department for use in the present wars. These transfers were made in the defense of the United States.

It is requested that the Government of the U.S.S.R. be requested to return to the most convenient U. S. Naval Command such of the above mentioned guns which were not destroyed in the course of the war, in accordance with Article V of the Soviet Master Agreement signed in Washington on the eleventh day of June 1942.

In the event that all of the 40mm AA single gun assemblies were destroyed during the war, it is recommended that the Soviet Government be requested to furnish a statement to that effect for the legal purposes of the Navy Department.

Respectfully,

/s/ Forrestal

CC: BuOrd  
Gen'l, Counsel  
JAG  
ORD

Copy

Annex "A"

~~CONFIDENTIAL~~  
WAR DEPARTMENT  
WASHINGTON

8 MAY 1947

#  
EE  
AT  
EUR  
1A

The Honorable  
The Under Secretary of State  
Dear Mr. Secretary:

see 861.24/5-2947  
LP EE A-7 EUR D-1A  
S/S

Reference is made to your recent letter, in which you advised that lend-lease settlement negotiations are to begin shortly with the U.S.S.R. and pointed out the necessity for early determination of a U. S. Government policy with respect to the retention by the Soviet Government of lend-lease articles not lost, destroyed or consumed in the war.

From the War Department viewpoint, the interests in Russian lend-lease settlement negotiations appear to be three; namely,

1. Recapture of such items still serviceable as can be used in current War Department programs, including military assistance programs already approved or likely to be approved.
2. Denial to the Soviets of military equipment and supplies which, although not usable for any of our programs, would serve to enhance Soviet military power if the items were retained by the Soviets.
3. Information concerning the present status and distribution of lend-lease supplies furnished to the Soviets.

As to the items desired for recapture, a list is being prepared and will be submitted to you within a few days. Items recaptured must, of course, be limited to those in serviceable condition, and arrangements should include provision that the Soviet Government will return the items to the physical custody of the U. S. at such point as the latter may designate. The War Department recognizes the political difficulties that may be involved in recapture of items, particularly if their desired disposition would involve delivery to, say, Greece, Turkey or some other country in connection with military assistance programs.

As to items which may still be serviceable, which are not desired for recapture and whose continued possession by the Soviets enhance their military power, there are practical difficulties. The War Department does not have funds or facilities to handle any equipment over and

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~~CONFIDENTIAL~~

Let 4

~~CONFIDENTIAL~~

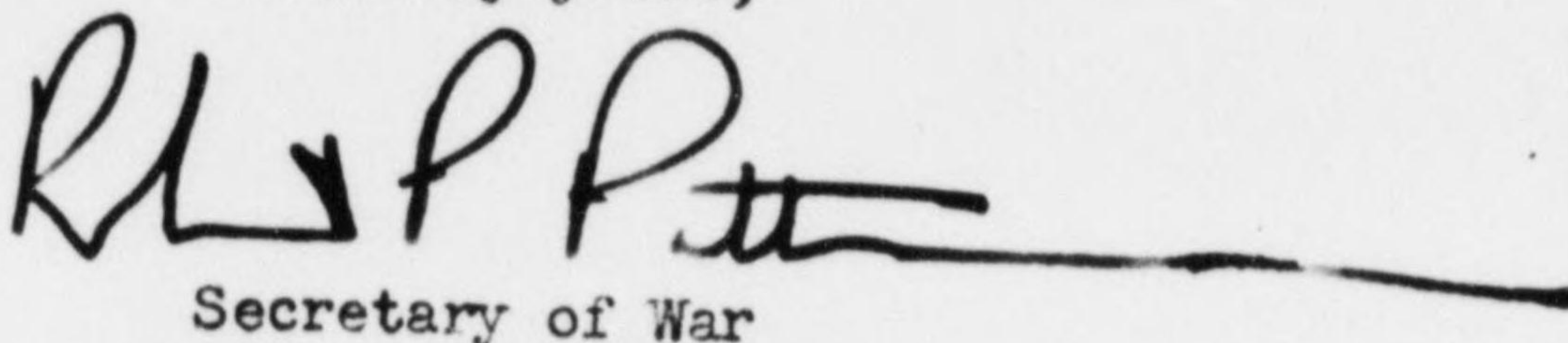
Ltr to The Under Secretary of State

above that which it is contemplated to deal with under the preceding paragraph. From the military point of view, it would be desirable to destroy the equipment. This course of action, however, appears beyond the realm of consideration. Hence, unless the State Department can, from consideration of the political factors involved, determine some course of action which would achieve the desired objective, it appears that such items will have to be left with Soviet Russia. However, the War Department sees no military reason for continuing to reserve the right of recapture for such items, since, from the practical standpoint, there appears no chance at a later date of exercising such right. Accordingly, if the State Department desires to waive all rights of recapture on the balance of lend-lease items above and beyond those actually recaptured, the War Department will offer no objection.

As to military interest and information concerning the status of disposition of lend-lease items transferred to the U.S.S.R. by the War Department, all information on this subject will be of assistance in connection with preparation of military estimates concerning the U.S.S.R. Here again, however, it appears unlikely that the Soviets will prove sincerely cooperative. The War Department prepared and furnished the State Department some time ago an estimate of the then-current condition of lend-lease items transferred to the Soviets by the War Department, based on U. S. experience in deterioration of these items. The list of estimates will be brought up to date for use of the State Department in connection with the forthcoming negotiations.

Finally, it is the opinion of the War Department that, consistent with our current policy and estimates, public reaction will demand that maximum effort be made to obtain the return of all military equipment either for use in implementing our own programs or to deny such use to the Russians. This will be particularly true if we fail to obtain tangible returns, either financial, political or otherwise, for items not recaptured.

Sincerely yours,



Secretary of War

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

#-A

WAR DEPARTMENT  
WAR DEPARTMENT GENERAL STAFF  
SERVICE, SUPPLY, AND PROCUREMENT DIVISION  
WASHINGTON 25, D. C.

15 MAY 1947

The Honorable

The Under Secretary of State

Dear Mr. Secretary:

Reference is made to letter from the Secretary of War dated 8 May 1947 regarding the U.S. - U.S.S.R. Lend-Lease settlement negotiations in which you were advised that the War Department would transmit a list of items of Lend-Lease origin desired for recapture from the U.S.S.R. The list is attached as an inclosure hereto.

Items included in the list are limited to those in short supply and which are needed to fulfill requirements of present and anticipated War Department programs including military assistance programs to foreign governments.

Sincerely,

1 Incl  
List of Items  
of LL Origin  
which WD desires  
to recapture from  
U.S.S.R. (in dup)

LeR. LUTES *altsc*  
Lieutenant General, GSC  
Director of Service, Supply  
and Procurement

~~CONFIDENTIAL~~

Tab 5 D-1

~~CONFIDENTIAL~~

ITEMS OF LEND-LEASE ORIGIN WHICH THE WAR DEPARTMENT DESIRES TO  
RECAPTURE FROM THE U.S.S.R.

B-25 aircraft  
P-47 aircraft  
C-47 aircraft  
AT-6 aircraft  
Crane, Revolving, Crawler, Mtd 3/8 cy 3-4 T.  
Crane, Revolving, Crawler, Mtd 3/4 cy 7-10 T.  
Crane, Revolving, Crawler, Mtd 1 to 1 1/2 cy 20-30 T.  
Crane, Revolving, Crawler, Mtd 1 3/4 to 2 cy 30-40 T.  
Crane, Revolving, Crawler, Mtd 2 1/2 cy 45-60 T.  
Crane, Revolving, Truck, Mtd Pneu Tired  
    one (1) engine 14-18 Ton  
Compressor, Ged, Sktd, 105 CFM  
Compressor, Ded, Trail, 500 CFM  
Crushing & Screening Plant, Ged, 2 Unit, 25 Cu. Yd. per min.  
Distributor, Bitum, Trl. Mt 1250 Gal.  
Distributor, Bitum, Trl. Mt 800 Gal.  
Ditching Mach, Ladder type, Crwr Mtd, Ged, 8 ft.  
Grader, Road, Ged, 12'  
Grader, Road, Tow. 10'  
Grader, Road, Tow. 12'  
Heater, Asphalt, Trail Mtd, 42 HP  
Loader, Agg. Bckt, Crl, Mtd, Ged, 3 Cu. Yd. 7'4" Boom  
Mixer, Asphalt, Ded, Trvl-Cntl, Trl 110-220 Ton  
Roller, Road, Ged, 6-8 Ton (5-8)  
Roller, Road, Ged, 10-12 Ton (9-14)  
Scraper, Road, Tow, Cable Opr, 8 cu. yd.  
Transit, Eng, 1 min Read, nite, Illum Various degrees  
Trailer, TLT TY, Srchlt, 4-wheel  
Welder, Blec Arc, Mtr Drn, 300A, Shop Wheel Mtd, 220-440 V 60 C 3 PH  
Level, Engineers, w/acces & tripod  
Gun, machine, Cal..30, M1919A4, M1919A6, FXD and FLX  
Launcher, Rocket, 2.36", M1 & M9  
Pistol, Cal..45, M1911, M1911A1  
Gun, 40mm Auto, M1 on carriage, M2A1 AA  
Gun, 90mm, M1 and M1A1, w/mt  
Gun, 90mm, M2, w/mt, M2  
Gun, 120mm, w/mt, M1, AA, Mobile  
Tank, Med, M4 Series, 75mm Gun  
Tank, Med, M4 Series, 76mm Gun  
Binoculars, all types

~~CONFIDENTIAL~~

D-2



~~CONFIDENTIAL~~

Trucks,  $\frac{1}{2}$  ton, 4x4 (not on Z/I reqrd list)  
Trucks,  $\frac{3}{4}$  ton, 4x4, C&R (not on Z/I reqrd list)  
Truck,  $\frac{3}{4}$  ton, 4x4, w/c (not on Z/I reqrd list)  
Truck,  $2\frac{1}{2}$  ton, 6x6, cargo (not on Z/I reqrd list)  
Truck, Wrecking, Heavy  
Tractor, Hi-speed, 13 ton, M5 Series  
Cartridge, Cal..30, Ball, M2  
Cartridge, Cal..30, Tracer, M1  
Radio Sets, SCR 399  
Radio Sets, SCR 499  
Radio Receiver, Hallicrafter,  
SX-28  
S-29  
National, HRO, Recvrs, NC 100-ASC  
Camera, PH 330 G (PH 330 G ( ) )

~~CONFIDENTIAL~~

D-3

Turkey

Survey Mission to Investigate  
Turkish Aid Needs

Tab 1 - Summary and Recommendations

Tab 2 - Letter of April 29, 1947, from Secretary  
Marshall to Secretaries Patterson and  
Forrestal

Survey Mission to Investigate  
Turkish Aid Needs

Problem: In accordance with the Department's view, the SWNCC Subcommittee on the Near and Middle East has recommended that the survey mission to Turkey be composed of Military and Naval personnel with only 1 or 2 State Department representatives. This is based on the position that the aid to Turkey will be primarily military supplies and equipment and perhaps certain economic projects designed primarily to strengthen the armed forces. A letter was sent to both Secretaries along these lines (Tab 2).

It is understood that the Secretary of War has <sup>commented</sup> ~~objected~~ on the composition of the mission, feeling that there should be greater State Department representation and apparently greater emphasis on non-military aid.

Recommendation: The Secretary may wish to explain to Secretary Patterson that the reasons for the primarily military character of the aid and of the survey mission are:

1. That the Turkish Government has definitely stated it wishes the aid confined to military forms because their military needs are great and they can probably obtain general economic aid from other sources, such as the International Bank;
2. That the Turkish Government further prefers military aid because it will simplify the problem of American observation which is a difficult issue for the Turks. They fear domestic and foreign repercussions from any extensive and continuing observation. Military aid requires less official supervision and permits the limiting of unofficial observation on security grounds.

Ambassador Wilson supports this reasoning and it is consistent with the testimony before Congress. Unless the nature of the aid is changed there is, therefore, no need to expand State Department representation on the survey mission beyond 1 or 2 persons. In any event, the mission would operate under our Ambassador to Turkey.

Tab. 1

In reply refer to  
UE

My dear Mr. Secretary:

Although the legislation authorizing Aid to Greece and Turkey is still under consideration by the Congress, the Department of State has been doing what preliminary planning it could at this stage, in order to be prepared to carry out the program at the proper time.

Our preliminary conclusion is that aid to Turkey should be primarily in the form of military supplies and equipment with the possibility of such economic projects as may be in support of the military supply program. It is felt that the position of Chief of Mission can be filled quite satisfactorily by our present Ambassador to Turkey, Mr. Wilson.

In the light of these conclusions I would appreciate it if the War Department and the Navy Department, to whom I am addressing a similar letter, would jointly nominate a Planning Group composed primarily of military personnel, who would go to Turkey as soon as the legislation is passed. We would like to attach to this group at least one economist from the Department of State, for the purpose of studying possible economic projects related to the military program.

It would also be appreciated if the War Department and Navy Department would at the same time prepare proposed terms of reference for this Planning Group for submission to the Secretary of State. It is our thought that the Planning Group, while in Turkey, should study the present and long range military requirements of Turkey and should consult with the Turkish General Staff. It should then prepare its report and recommendations for submission through the Ambassador to the Secretary of State.

In view of the expected early passage of the Greek and Turkish Aid legislation I would appreciate it if we could have your reply as a matter of urgency.

Sincerely yours,

The Honorable  
Robert P. Patterson,  
Secretary of War.

UE:GCMcGhee:gem      NE      U  
S/S:WJMcWilliams:MLM

60M  
4-29-47

Tab 2

Germany II

US - UK Negotiations on Revision of  
Bizonal Arrangements for Germany

- Tab 1 - Summary and Recommendations
- Tab 2 - British Note on Bizonal Arrangements  
submitted to General Clay April 29 and  
to State Department April 30.
- Tab 3 - Telegram April 29, 1947 from  
General Clay
- Tab 4 - Proposed reply telegram to  
General Clay
- Tab 5 - Previous cables on negotiations  
in Berlin and Moscow

U.S.-U.K. Negotiations on  
Revision of Bizonal Arrangements for Germany

Problem: The British note on Bizonal arrangements (Tab 2), submitted to General Clay on April 29 with a copy to the Department, proposes the establishment of the Bizonal Economic Council based on equal states representation (resulting in substantial SPD majority). It would be a political body but limited to activities in the economic sphere.

General Clay, in reporting his conference on this with General Robertson (Tab 3), states that Robertson's position was more reasonable in proposing the Council. General Clay expresses fear that the British proposal would result in a strongly socialized German Government with more central power than we desire and states that although compromise will be necessary to make economic fusion work, he would like assurance that desire for economic fusion does not mean that U.S. Government would accept highly centralized economic control which would be utilized by SPD and the British to extend socialist influence.

Present Status: A reply to General Clay has been prepared and cleared with Messrs. Matthews, Hildring, and Cohen. It states that the U.S. Government shares his fears regarding a highly centralized controlled economy and socialization, but that such danger may be obviated by (a) careful delimitation of powers to be exercised at bizonal level, (b) retention by the two military governments of powers of control and approval of acts of bizonal Council, and (c) carrying out agreed U.S.-U.K. views at CFM on the composition of the Council

A copy of the proposed cable has been transmitted to Secretary Patterson.

Recommendation: That the proposed cable be discussed with Secretary Patterson and his approval obtained.

SECRET

Return to CF

TEXT OF BRITISH NOTE ON BIZONAL ARRANGEMENTS SUBMITTED TO GENERAL CLAY AND TRANSMITTED BY BRITISH EMBASSY TO STATE DEPARTMENT ON APRIL 30, 1947.

## 1. Establishment of a Bizonal Economic Council:

(A) to be announced simultaneously with declaration on level of industry and reparations.

(B) constitution: as decided in Moscow for the German Advisory Council.

(C) functions:

(1) to advise the Bizonal authorities on all matters within its field and

(2) to direct subject to our approval the reconstruction of the economic structure of the two zones on the basis of the new plan for the level of industry and reparations.

(D) field of action: the subjects covered by the Bizonal agencies.

(E) powers: to be given power to issue directives to be binding upon the land Government within its field of action and endorsed by United States/United Kingdom Military Government. The United States/United Kingdom Military Government to take the necessary legislative or other action to ensure that the land Governments are empowered to carry out these directives.

(F) the council will nominate State Secretaries (or their equivalent) who will take charge of the existing Bizonal agencies and direct their operations subject to the directives of the Council.

(G) the existing executive committees will then be abolished.

## 2. Immediate action:

Weir and Draper to examine on the spot the functioning of the present machinery and make recommendations for its improvement without reference to 1 above within 4 weeks. The question of controls to be examined and discussed but no expression of our view to be given by us to the Germans. If at the end of ten days it seems to either General Clay or General Robertson that Weir and Draper are unlikely to be able to reach agreement upon these recommendations by the end of the 4 week period the discussions between Weir and Draper may be suspended and resumed at a higher level.

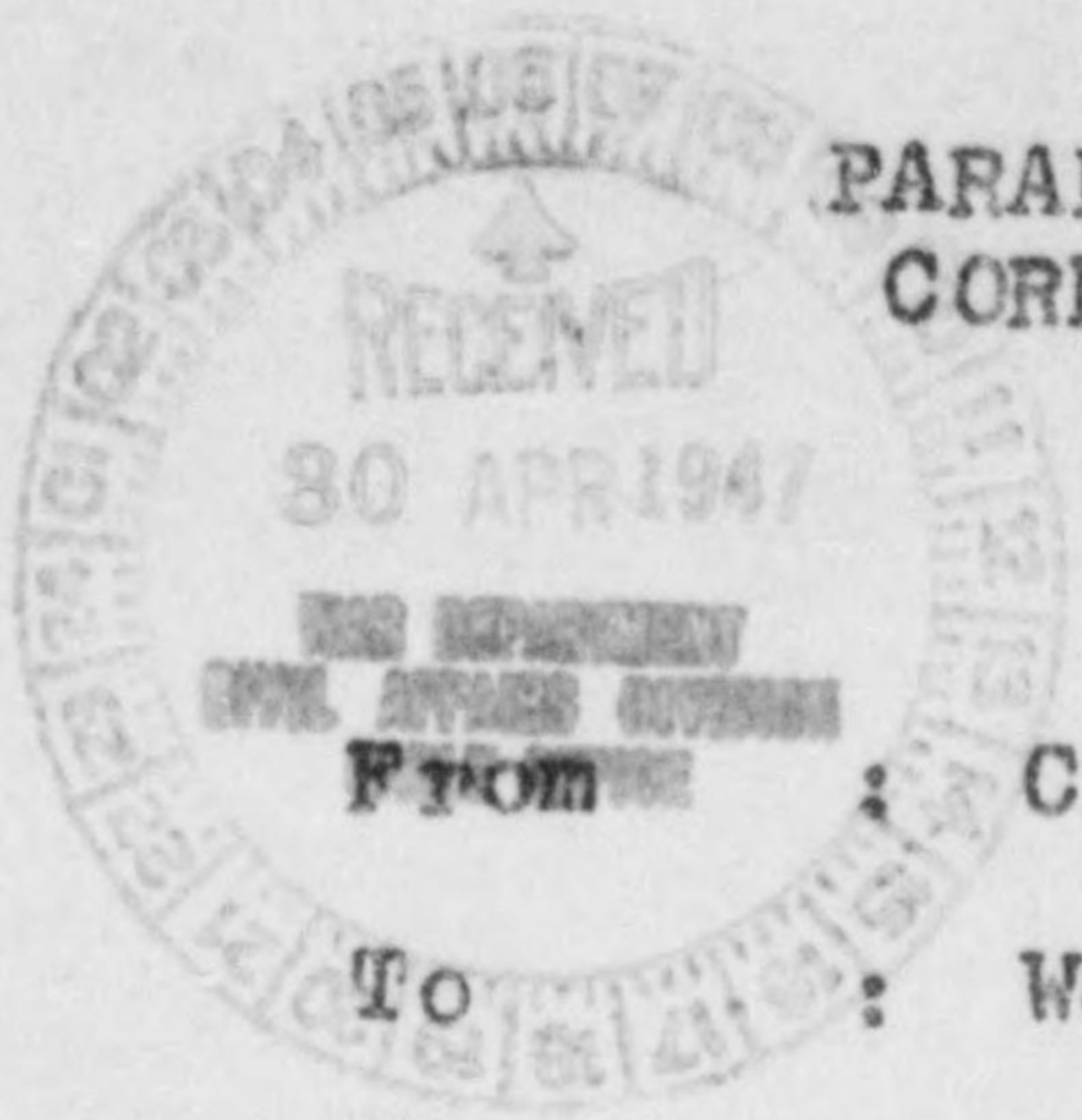
## 3. Reference to Governments.

If no agreement on 1 or 2 above by 1st June 1947 a joint recommendation that an inter-Governmental Conference be convened. If at the end of 10 days it seems to either General Clay or General Robertson that it is unlikely that they will reach agreement by 1st June on a joint recommendation either General Clay or General Robertson may ask for the discussions between them to be suspended and the matters under discussion will be examined on an inter-Governmental level.

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CORRESPONDENCE PER PARAS 511 and 60a (4) AR 380

From : CINCEUR Berlin Germany sgd Clay  
To : War Department PERSONAL for Noce (info to none)  
Wr : CC 8959 29 April 1947

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3

This is an important message. In reading it please refer to our previous radios numbered CC 8871 and CC 8933.

Robertson returned to my office for further conference this morning, having had the opportunity to discuss our previous conference with Mister Bevin. He was much more moderate and no longer demanded an immediate decision with respect to our acceptance of a highly centralized controlled German economy. He was also prepared to resume all agreed studies and perhaps to accept our proposals for immediate short-cuts in present Minden procedures which should have an early stimulating effect on our lagging export program.

Robertson again brought up the question of Bizonal political fusion. He stated that Mister Bevin was reluctant to consider a full political fusion pending the November conference. However, he proposed as his own view without committing his government the establishment of a Bizonal German Economic Council, the members of which would be elected by the several Landtags. The Council would select an Executive Director who would have approximately the status and authority in the two zones of a Reichsminister for Economics. The Bizonal Council thus would become a political body which, however, would be limited in its sphere of activity to economic matters only. To render it less susceptible to Soviet criticism he proposes to emphasize its part in developing the revised reparations plan and in effecting deliveries.

CM-IN 5136 (30 Apr 47)

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From : CINCEUR Berlin Germany sgd Clay

Nr : CC 8959

29 April 1947

This raises the question as to the advisability of half-way measures. Full political fusion of the two zones would eliminate many of our present difficulties without destroying the political gains, and particularly the strong feeling of States' Rights which have developed in encouraging fashion in the American Zone. A half-way measure will not resolve the political differences existing in Germany and will not satisfy the German people. It will develop as much Soviet propaganda and opposition as an all-out political fusion. In my own view, if we are going to take a half-way measure, we might better proceed to full political fusion of the two zones. I believe the latter is now desirable and justified. However, in the interest of a better economic integration, I would be prepared to compromise in accepting a half-way measure except for the inherent risk to our national policy.

The British proposal (wisely conceived in their political interest) would create an economic council for both zones which, based on equal State representation, would have a substantial SPD (Social Democratic Party) majority. At present, the SPD is headed by Doctor Schumacher, who works in close collaboration with the British Labor Party and consequently could be expected to dictate the majority views in this council. Doctor Schumacher has already expressed himself as in favor of the immediate socialization of Germany, the nationalization of industry, a highly centralized controlled economy, and in fact a strong central government. His views are, of course, diametrically opposed to our policies of decentralization and federalization. This SPD majority might not in fact, represent majority German opinion, as the strong conservative German vote represented by the CDU (Christian

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From : CINCEUR Berlin Germany sgd Clay

Nr : CC 8959

29 April 1947

Democratic) and LDP (Liberal Democratic) Parties is concentrated in heavily populated States of Bavaria and North Rhine Westphalia. Under equal State representation these 2 parties would have a much lesser voice in bizonal affairs than entitled to by their size.

In discussing this proposal, we shall try to work out a more proportionate representation which still provides for State representation although this will be difficult to accomplish in view of the larger number of small states predominantly SPD. If the Council materializes on the basis of the British proposal, we must be prepared for a vigorous German effort in the Council to obtain a high degree of centralization which will be directed to the development of a socialistic bizonal area. American Military Government will then be placed in the position of accepting such measures or of being in constant opposition to the German majority supported by British Military Government. This would place us in a difficult position which might receive sufficient opposition in America to endanger our appropriation as the adoption of socialistic controls by the Council proceeds. Of course our policy does not call for opposition to socialization although we have assumed that we should not promote such measures and should evidence our continuing faith in free enterprise. Thus, we have insisted that socialistic measures cannot be adopted except by vote of the German people and then only on a land basis until German government is reestablished under electoral procedures. We believe that

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we should try informally to limit socialistic controls to as few basic industries as possible while maintaining the broad principle of free enterprise. In our view, in the long run this will represent the desire of the German people. In their present extremity, State control of the economy looks attractive, even though it was such control that made Hitler's rise to power and subsequent ability to wage war, successful.

There can be no question but that the long range issue involved in this entire matter is the establishment of State controls of economy, which will lead to a planned economy as advocated by Socialists everywhere and with a substantial degree of state ownership. There will be little field in such an economy for private initiative and free enterprise. I believe that we can work the matter out here with reasonable compromises, provided that is the desire of our government. However, each issue may well be taken to government level unless it is clear that our government desires the issue to be worked out in Germany. Certainly, Robertson and, most probably Mister Bevin, are under strong pressure from the British Government to get these matters agreed now when the condition of the German economy makes the proposal seem more reasonable, so that there will be an established pattern by the time economic conditions are improved.

With every desire to make economic fusion work, we must compromise. However, if we cannot secure reasonable compromises, we must realize that if we accept the British proposal, the results are almost certain to be a strongly socialized German government with much more central power

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than we desire. Such a control as contemplated by the British given to the Bizonal Council would almost certainly be opposed by the French and might even make tri-partite agreement impossible. What we would like is assurance from our Government that its desire to make economic fusion work does not make it willing to accept a highly centralized economic control, which will be utilized in the hands of the SPD with the support of British Military Government, to extend the Socialist influence. With such assurance, we should be able to insist on compromise solutions here which will, at least protect in some degree our policy of decentralization, and also a reasonable degree of free enterprise and initiative.

End

NOTE: CC 8871 1s CM-IN 3646 (21 Apr) CAD  
 CC 8933 1s CM-IN 4619 (26 Apr) Gen Noce

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ACTION: Gen Noce

INFO: Mr Petersen, Gen Norstad, CSA

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