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

STAFF STUDY:

SUBJECT: Coordination of United States Procurement Under a United States-Japan Economic Cooperation Program

THE PROBLEM

1. To establish adequate procedures to coordinate local procurements by U. S. military and civilian agencies under a U.S.-Japan Economic Cooperation Program and for future full mobilization of Japanese industry, so as to insure maximum returns with minimum disruptions to the Japanese economy.

FACTS BEARING ON THE PROBLEM

2. The continued economic stability of Japan, achieved during the Occupation, is a matter of particular concern to the U. S., which is vitally interested in reducing the need for economic and/or military aid to Japan after the peace treaty.

3. The use of a portion of Japan's industrial potential under a U. S.-Japan Economic Cooperation Program to:

a. Supply and service U. S. forces in Japan and the Far East,

b. Equip local defense forces,

c. Meet special requirements of U. N. forces in Korea or U. N. rehabilitation efforts in that area,

d. Participate in Military Defense Assistance Program (MDAP),

e. Supply requirements of ECA and other U. S. civilian agencies in Southeast Asia and

f. Assist in developing projects in Southeast Asia sponsored by the U. S.

could contribute in a major degree to sustaining Japanese economic stability by providing a sizable increment of the foreign exchange earnings needed to achieve a balance of international payments. Further it could afford significant advantages to the U. S. mobilization program and serve as a counter measure to anticipated post treaty Communist appeals for closer integration of the Japanese economy with areas under Red control.

4. The basis for developing a U. S.-Japan Economic Cooperation Program was indicated in a report titled "Japan's Industrial Potential" (Tab A) that was handcarried to Washington by a joint SCAP-FEC mission. During meetings with representatives of the three military departments and the Munitions Board (17-26 April 1951) it was proposed "that recommendations be made for the establishment of an organization in Japan for coordinating procurement planning and programming activities of all U. S. government agencies". (Tab B).

5. The positive interest of the Office of Defense Mobilization in developing an economic cooperation program is indicated in the following extract of a letter from Mr. Charles E. Wilson to General Marshall contained in DA 96619 (Tab C): "*** I have just received from the Assistant Secretary of the Army, Mr. Johnson, proposals which I understand have the support of the Defense Department for consideration of a more adequate use of the Japanese economy as a whole in the mobilization effort. This raises a problem of a better organization of the entire

economy of the Pacific countries in their cooperation for mutual contributions to strengthening the Pacific area. I hope to have some proposals to make to you along this line at a very early date."

6. The total demand placed upon Japanese industrial facilities by a program of this nature, however, must be carefully integrated with the demands of the domestic economy (including security) and normal export activities in order to avoid disruptions of or dislocations in the economic stability of the country.

7. Uncoordinated and competitive purchasing by U.S. military and civil agencies in Japan would result in:

a. Inflationary pressures on local prices.

b. Inefficient use of productive facilities.

c. Diversion of basic and critical raw materials to other than most essential end products.

d. Unnecessary disruptions of normal commercial export trade.

e. Unfavorable returns for U. S. expenditures in Japan.

f. Inordinate increases in "pay-as-you-go" costs for maintaining U. S. forces in Japan.

8. The immediate need for central policy coordination in this field is indicated by the volume and nature of U. S. military and civilian procurements in Japan.

9. Procurement contracts let by Japan Logistical Command (JLC) for support of U.S. Occupation Forces in Japan during FY 51 using Japanese Termination of War (TOW) funds had a value of approximately $322 million. (Since 1 July 1951 such procurement is effected under a

partial "pay-as-you-go" system wherein approximately 50% of the total cost is defrayed by payment of U. S. dollars.)

10. Over and above TOW procurement demands for U. S. Occupation Forces, approximately $642 million of contracts were let separately by Ground, Air and Naval Forces in Japan during FY 51 using their own service appropriated funds to meet special requirements for forces here or in Korea and for Korean relief. Each service has its own contracting officers. (Tab D).

11. Outside the military services there are two U. S. government agencies in Japan which contracted for $38 million of supplies and services from Japanese sources during FY 51. (Tab E).

12. In summation, there are five major U. S. procuring agencies in Japan which contracted for a total of $680 million Japanese supplies and services during FY 51, exclusive of TOW contracts. The total draft upon the economy, therefore, was in excess of $1 billion.

13. Planning estimates indicate a potential expenditure in Japan of $721 million by the above referenced U. S. authorities during FY 52. (Tab F).

14. In July 1950, the Economic and Scientific Section recommended establishment of central coordinating agency for U. S. procurement agencies in Japan to preclude undue competition, inordinate high advances, and possible disruptions of local production programs for the domestic economy. (Tab G).

15. On 1 February 1951 FEC Circular No. 5 was issued which (in Para 2d) authorized the Japan Logistical Command (JLC) to procure for

the requirements of all U. S. government agencies within Japan but only "when so requested by the respective commanders, chief, or duly authorized representatives thereof". (Tab H). Hence as of this date there is no formal requirement for coordination of procurement activities but informal coordination has been accomplished through G-4 and ESS.

16. The advisability of procurement coordination was indicated by a review of procurement activities in Japan undertaken by the Inspector General in which a recommendation was made that continuing efforts be exercised to determine more effective means of coordinating procurements to prevent unfair prices. (Tab I).

17. It may be reasonably expected that overall U. S. economic cooperation activities, particularly MDAP and industrial mobilization planning operations, will accelerate rapidly in the post treaty period. It would appear logical to assume that military commanders charged with defense missions exclusively should not be burdened with major procurement responsibility outside of direct command needs, nor would they seek such delegation of authority. Therefore, immediate consideration should be accorded to the reorganization of existing military procurement agencies to insure that they are provided with permanent staffs, adequate to service local forces as well as execute other facets of the overall procurement in Japan regardless of the size or locations of U. S. forces in the Far East.

DISCUSSION

18. Competitive buying among procuring agencies that is disadvantageous to United States interests and disruptive to the domestic

economy could be minimized by assignment of authority to a central coordinating administration to prescribe policies governing facilities, materials, finance and programming. Such functions would include:

a. Facilities:

(1) To assist the JG in implementing plant registration, production control, production scheduling and other regulatory measures necessary to permit a smooth integration of production activity occasioned by U. S. procurements with that occasioned by domestic and export requirements.

(2) To allocate to U. S. agencies, where necessary, access to those categories of industrial facilities wherein total capacities made available from the Japanese economy are not adequate to meet total demands of procurements.

(3) To establish priorities, as required, among U. S. agencies seeking to obtain similar types of special equipment or machinery from the U.S. under "DO" ratings or other controlled materials systems, for Japanese plants engaged in procurement production.

b. Materials:

(1) To allocate to U.S. agencies, as required, those critical materials that are in short supply in Japan and necessary to produce end items required by separate procuring authorities.

(2) To review and to make recommendations to appropriate U.S. authorities concerning Japanese justifications submitted in support of requests for basic and/or critical raw materials that are under U.S. or world allocation.

(3) To supervise the controls exercised by the JG over end uses of materials allocated to Japan to insure that such uses conform with the specified conditions of allocation.

(4) To advise the U.S. Government regarding the effectiveness of Japanese cooperation in the execution of local export controls established in consonance with objectives of the U.S. and the free world needs.

(5) To advise the U.S. Government regarding Japanese trade or development programs in the Far East that are implemented to increase the availability of materials in critical world supply.

c. Finance:

(1) To administer in behalf of the U.S. Government, the U.S. Aid Counterpart Fund or such other funds as may be established under economic assistance programs under post peace treaty conditions.

(2) To review fiscal policies of the JG and report their scope and effect to appropriate U.S. agencies.

(3) To counsel the JG concerning the advisability and techniques of providing capital and/or operating financing for private plants undertaking expansion programs to meet U.S. procurement orders.

(4) To maintain cost analysis on end item procurements to provide U.S. contracting authorities with reliable marketing information and to assist the JG in regulating prices on U.S. procurement items when required.

d. Programming:

(1) To provide economic information and data needed by U.S. procuring agencies and/or the U.S. government.

(2) To maintain central and continuing records of U.S. expenditures in Japan to permit efficient utilization of funds and practical revisions of separate procurement programs when required.

(3) To advise the JG in developing programs to provide access to raw materials which are needed to support U. S. procurement programs and which may be obtained from sources subject to U.S. influence or from undeveloped sources.

(4) To survey overall increases in military production in Japan and to recommend outbacks in U.S. programs as may be necessary to prevent a regeneration of any undesirable war potentials.

19. The differences in technical standards and contractual regulations among the various military services and civilian agencies render it imperative that procurement continue to be a direct relationship between the separate U.S. contracting authorities and the private suppliers. The policy controls indicated above should be exercised by a central administration to smooth out processes, to assist and expedite actions and should be exercised without interference or delay.

20. A chart and a Table of Organization indicating the functions and organization of a "Coordinating Administration for Production for U. S." proposed to administer the U.S.-Japanese economic program and a description of a Japanese counterpart agency are appended hereto as Tabs J and K.

21. A draft SCAP-FEC General Order establishing the proposed administration and prescribing its functions is appended hereto as Tab L.

22. A coordinating administration should be established immediately under the aegis of SCAP for the following reasons:

a. The volume and nature of procurements presently undertaken by military agencies in Japan are of sufficient importance to the Japanese economy and the U.S. to demand coordination.

b. Existing staff organizations with personnel familiar with Japanese facilities, techniques and procedures are especially qualified to institute necessary regulatory systems and to execute assigned responsibilities.

c. The relationship which now exists between SCAP and the JG

would facilitate development of practical relationships with a Japanese counterpart coordinating agency already proposed by the Prime Minister.

d. The administration should be organized so that it could be placed under the aegis of a designated agency of the U.S. Government after the peace treaty to continue operations without interruption.

23. The designation of an agency to assume responsibility for the proposed administration after the peace treaty is a matter for determination by the U.S. government, and therefore the Department of the Army should be requested to seek the views of the U.S. government in this regard. The ultimate type of organization to be formed would be directly related to the latter decision and formal reorganization should be coordinated with Washington.

CONCLUSIONS

24. That implementation of a U.S.-Japanese Economic Cooperation Program using Japanese industrial potential in support of U.S. forces and U.S. economic-military projects in the Far East would be mutually advantageous to the U.S. and Japan and that industrial mobilization in Japan has been decided upon as an asset to the U.S.

25. That the total expenditures under such programs will be of sufficient volume to require the establishment of a central U.S. administration in Japan to assist in coordination of local production efforts in order to maximize returns to U1S. procuring agencies and to minimize disruptions to the Japanese economy.

26. That such administration could improve the efficiency and economy of procurement by U.S. agencies in Japan without interfering with

contracting functions which are executed directly between the procuring agencies and private suppliers.

27. That the administration should be established immediately under the aegis of SCAP to permit most effective use of existing organizations and trained personnel.

28. That G-4 should be directed to prepare plans for reorganization of existing military procurement agencies which would enable them to execute long range programs of the U.S. in Japan on a permanent basis.

29. That the Department of the Army should be requested to seek the views of the U.S. government regarding designation of an agency thereof to continue operation of the coordinating administration in the post treaty period.

RECOMMENDATIONS

30. That the attached draft SCAP-FEC General Order which designates the Chief, Economic and Scientific Section, as staff authority responsible to activate the proposed administration under the aegis of SCAP be approved. (Tab L).

31. That a TO for the proposed administration be approved. (Tab K).

32. That G-4 be directed to prepare plans for reorganization of existing military procurement agencies. (Tab M).

33. That a letter be dispatched to the Secretary of the Army requesting views of the U.S. government regarding continuation of the administration into the post treaty period. (Incl 1).

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

GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS

The Honorable Frank Pace
Secretary of the Army
Department of Army
Washington 25, D. C.

My dear Mr. Secretary:

JCS 1380/108 transmitted a copy of the memorandum which the Secretary of Defense forwarded on 28 March 1951 to the Secretaries of the Army, Navy and Air Force and Chairman of the Munitions Board concerning utilization of Japan as a supplemental source of supply for U.S. military requirements in another world conflict.

In consonance with the concept outlined in the above memorandum there has been established here an organization to coordinate procurement activities of U.S. agencies in Japan and to achieve such industrial mobilization planning as may be required by appropriate agencies of the U. S. government. The nature of this coordinating organization and its functions are indicated in Inclosure 1.

Concomitant with the above action, the preparation of studies was directed to determine the desirability and feasibility of reorganizing the procurement sections of the separate services here to permit:

a. Assignment of trained and permanent personnel adequate to execute expanded prodUrement functions in the post treaty period.

b. Uninterrupted operation in the event of contraction of U. S. forces or of relief of major commands from procurement supply

responsibilities in order to permit more effective discharge of their assigned defense missions.

c. Operations under direction of major supply departments of the U. S. Department of Defense if and when required.

During the period of the Occupation, the coordinated organization will operate under the aegis of the Supreme Commander for the Allied Powers. However, subsequent to the Occupation a determination is required as to the adaptability of such organization for integration into post treaty plans of the United States for economic cooperation, industrial mobilization and overall military and non-military procurement.

It is considered that the subject organization could serve as a useful and effective instrument in the implementation of future U. S. military and economic programs in Japan. It is, therefore, requested that the Department of Army elicit views of interested government agencies and advise this headquarters concerning the desirability of maintaining the Organization in Japan in the post treaty period to include an indication of the appropriate agency or agencies of our government under which it would operate. There are inclosed for your additional information and review copies of memorandum and a staff study on this general subject which were prepared locally.

Cordially,

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Coordination of United States Procurement Under
United States/Japan Economic Cooperation Program

15 September 1951

GS C-4

1 1. Reference is made to the letter from the Prime Minister to the Supreme Commander dated 1 August 1951, and particularly to paragraph 3 thereof which suggests establishment of an Economic Cooperation Commission in the Japanese Government and provides that the members of such Commission be selected from private business. The letter also states that these individuals may retain their connection with private business "so long as it does no harm."

2. Government Section objects to such a permissive clause since past experience has shown that this inevitably leads to corruption and scandal, which in this case might involve the United States.

3. A previous incident of this kind concerned the Arms Disposal Commission which was created to dispose of the war materials held by the Japanese army and navy and which had been returned by the Occupation Forces on the basis of the SCAP memorandum to the Japanese Government on September 24, 1945. Its mission was to dismantle, transport, keep custody and dispose of the war materials on behalf of the Japanese Government. The materials were to be released for relief of the badly depleted civilian economy and the sales proceeds to go to the national treasury. A total of 72 officers of five Japanese companies which illegally disposed of the materials handled by the Committee were indicted along with the Chairman of the Committee who connived with them in this illegality.

4. Recent Japanese legislation under the influence of SCAP advice contains prohibitions against dual office holding or business connections of Government officials. The National Public Service Law prohibits such a connection except where approved under the rules of the Authority. The Japanese Monopoly Corporation Law and the Japanese National Railway Law both contain stronger prohibitions which allow no exception and prevent the connection of officers or directors of these corporations with firms which sell materials to the Government.

5. Government Section, therefore, believes that if the proposal of the Prime Minister is adopted that measures should be taken to prohibit Japanese officials connected with such Commission from continuing any connection with private enterprise.

-F.R.-

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

MEMORANDUM

SUBJECT: Agency to Coordinate United States Procurement and Cooperative Industrial Mobilization Activities in Japan

1. The discussion herewith treats with the problem of the creation by the Occupation of an agency to coordinate current U.S. military and non-military procurement in Japan with a view to extending the functions of this organization in appropriate form and under proper U.S. departmental aegis into the post treaty era in connection with prospective procurement and correlated U.S.-Japan industrial mobilization relationships.

2. Present procurement in Japan for the United States may be classified as follows:

a. Korean War special demand requirements.

b. Normal Occupation needs for which dollars are appropriated and other procurement demand goods and services for which yen are expended without repayment.

c. Limited U. S. stockpile purchases through GSA.

d. Equipment for the National Police Reserve; actually a domestic responsibility but accomplished under plans and programs of FEC.

3. Important additional procurement required in the immediate future may be classified as follows:

a. Implementation of Washington approved United States-Japan Economic Cooperation plans.

b. Participation in MDAP and/or Economic Aid programs of the United States in Asia.

c. Development of a Japanese Industrial Mobilization program to supplement U. S. total mobilization planning.

4. The preparation of plans for the integration of the Japanese industrial economy with that of the United States in case of all-out mobilization to meet a World War situation is of primary consequence to the United States and the many facets of this problem should not be ignored until a crisis has arrived. The utilization of Japan as a supplementary source of supply for U.S. and Allied military requirements was directed by the Secretary of Defense in a Memorandum to the Secretaries of the three United States Military Departments and the Chairman of the U.S.

Munitions Board on March 28, 1951 as shown in Appendix A. In this directive the Secretary stated that the utilization of the Japanese available industrial potential would:

a. Give the U.S. a logistics advantage in supplying U.S. and Allied Forces in the Pacific area.

b. Result in a reduction in U. S. dollar aid to Japan.

c. Conserve U. S. resources.

5. In April 1951, a SCAP Mission visited Washington to discuss the implementation of the foregoing directive of the Secretary of Defense with the proper United States agencies. Included in the series of actions recommended as a result of these conferences was the "establishment of an organization for coordinating procurement planning and programming activities of all U.S. Government agencies." The establishment of such an instrumentality under the Occupation presents no problem of serious proportions since basic coordinating and programming functions are being performed at present largely within the Economic and Scientific Section. The preeminent immediate requirement is to segregate specific responsibilities now being exercised into a form acceptable of adoption in whole or in part as a permanent agency upon termination of the Occupation, in order that continuity of procedures now being developed in the procurement and industrial mobilization fields may be assured. This requires coordination immediately with Washington to achieve general acceptance in principle; adaption to similar U. S. coordinating methods which may be under consideration for other areas; designation of the U. S. departmental agency under which the proposed organization will function subsequent to a peace settlement; preparation of appropriate tables of organization and allocation of necessary budgeted funds.

6. Concomitant with the establishment of a coordinating body it would appear appropriate to consider an approach to the standardization of the various U.S. military and departmental groups charged with physical procurement in Japan. There exist at present agencies of the Army, Navy, Air Force, Economic Cooperative Administration, General Services Administration, United Nations Korean Rehabilitation Administration etc. The services procurement agencies presently are integral organizations of the military commands while the civilian procurement offices operate in accordance with procedures laid down by the head offices in Washington. Procurement groups from all of the aforementioned departments and services will be required in Japan regardless of the military situation and basic functions should be prescribed for these procurement groups to permit their operating uniformly with their present military commands as at present and through the latter with the United States global programs in the future.

7. The concept is this.

a. The normal military force procurement is a command action to provide for the command needs not supplies by the military services. When the Korean War broke out the military command procurement services

correctly assumed responsibility for certain civilian relief measures in the Korean Theatre since it was not possible to separate the area into combat and non-combat zones. Civilian rehabilitation agencies are temporarily semi-active. Since the major portion of the procurement was of "emergency" character no special attention was given to minimizing the inflationary effects of this type of purchasing. No procurement was undertaken for U. S. international industrial cooperation programs.

b. With the termination of hostilities in Korea, should such eventuate in the near future, redeployment of the services forces would return military and civilian procurement to normal channels and it would be logical to assume that FEAF - FEC - COMNAVFE supply organizations would be contracted.

c. With the ratification of the peace treaty it is to be assumed that the Occupation authority over the civil economy will be relinquished and the remaining military forces will be charged with defense missions only.

d. However, the US-Japan economic-cooperation program, the U.S. MDAP operations in Asia and the US-Japan industrial mobilization planning all will be in a state of rapid acceleration. The economic cooperation program calls for Japanese contribution of manufactured or semi processed materials to the U. S. military defense program in terms of exports. MDAP procurement requires the purchase of manufactured goods under military specifications which may be supervised only by military agencies.

e. Since the three programs mentioned in sub-paragraph d are international in scope it is to be assumed that controls will be maintained from the United States. Thus, instead of the military establishments in Japan procuring FOR these programs as would be the case under present emergency conditions, the military in Japan will be procuring FROM the programs on a participation basis.

f. In consequence the services procurement agencies in Japan should be organized under proper tables of organization and with over all functions to serve the overall United States interests. It is to be expected that they would function through the military commands so long as the latter remain in Japan but it must be considered that these bodies would be required even if all the military commands were removed from Japan. It is also logical to assume that military commanders charged with defense missions exclusively would not be burdened with major procurement responsibilities outside of direct command needs, nor would they seek such delegations of authority.

g. It is believed that serious thought should be given now to this problem and that immediate action should be undertaken to standardize procedures and to provide permanent staffs competent to perform the expanded duties to be required of services procurement groups.

8. Upon the termination of the Occupation, general responsibility for coordinating U.S. and Japanese political, economic and cultural interests will rest with the State Department. However, under the programs already approved by Washington involving industrial mobilization, it will be incumbent upon the United States to maintain military and non-military specialist agencies in Japan which will operate in direct technical channels in the United States through diplomatic communication facilities when and if military communications are removed.

9. The coordinating and planning group should be qualified to perform functions including but not limited to the following:

a. The projection, with the Japanese Government, of the development of Asiatic sources of strategic resources.

b. Preparation of confidential estimates of domestic and industrial expansion or cut-back according to schedule.

c. Cooperative planning to prevent domestic inflation.

d. Preparation of overall studies of the Japanese industrial capacity and manpower potential at regular intervals in order to establish levels for consolidated United States requirements.

e. Maintenance of records of the U.S. demands for purposes of presenting the overall U.S. requirement to the Japanese.

f. Coordination of procurement activities of the Army, Air Force, Navy, ECA, GSA, UNKRA, and other U.S. agencies in Japan.

g. Circulation of information to U. S. procurement agencies concerning CMP and other U.S. procedures for allocation of critical materials and consolidation of demands of all U.S. procurement agencies in Japan for such materials for U.S. programming purposes. (The recent schooling under ESS accomplished by specialists from the Munitions Board and Department of Army, Washington, should be continued in order to keep the various groups properly informed on progressively changing procedures for stating requirements and demands from U.S. sources).

h. Development, with the Japanese Government, of complete programs for industrial mobilization in Japan to accommodate the objective of integrating the Japanese capacity into the U.S. plan.

i. Verification of the use by Japan of allocated strategic materials to insure their end use for the purpose indicated and to prevent the stockpiling of short supply items for non-essential uses.

j. Liaison between the Japanese and U.S. agencies in the procurement of special equipment, tools and patent rights to improve the capabilities of the Japanese industry to produce end products to satisfactory specifications.

k. Preparation of studies and statistical data for use by private

and government financing agencies providing credit to Japan in support of U.S. programs, and long range development projects.

l. Transmission of information to the Japanese Government concerning checks, detailed reports and other documentary evidence required in support of requests for short-supply or strategic materials both for military and non-military production.

m. Liaison with the Japanese Government on statistical information for use by International Commodity Committees.

n. Assistance to Japan in arranging adequate shipping to carry raw materials and finished products where the domestic shipping available is unable to meet the requirements.

o. Maintenance of continuous analysés of economic progress in Japan and methods adopted by Japan to stabilize its economy and to adjust prices to acceptable world standards.

10. It is requested that the attached staff study (Appendix B) be approved which recommends that:

a. ESS be charged with responsibility for establishing immediately under SCAP control an organization capable of exercising specified functions with existing personnel and adaptable to transfer to another U. S. control in the post treaty period.

b. G-4 be directed to study the possibility of standardizing the operational procedures and organizations of military service procurement agencies.

c. A letter be dispatched to the Department of Army proposing the foregoing plan in compliance with the directive of the Secretary of Defense for coordination with concerned U.S. departments as to adaptability for integration into post treaty plans of the U.S. for economic cooperation, industrial mobilization and overall military and non-military procurement.

11. It is germane to the problem to note that:

a. The proposals herewith are consistent with the projected activities of the Defense Materials Procurement Agency of the Office of Defense Mobilizations.

b. The Japanese Government proposes the creation of an appropriate agency to deal with a U.S. Government organization in standardizing Japanese-United States procurement in the post peace treaty period but beginning immediately to function through Occupation auspices. (Appendix C).

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

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THE SECRETARY OF DEFENSE
WASHINGTON

March 28, 1951

MEMORANDUM FOR THE SECRETARY OF THE ARMY
THE SECRETARY OF THE NAVY
THE SECRETARY OF THE AIR FORCE
THE CHAIRMAN, MUNITIONS BOARD

SUBJECT: Japan as a Source for Supply of U. S. Military Requirements

1. The Munitions Board has informed me that it recently considered the utilization of Japan as a source for U. S. current and wartime requirements for (1) the acquisition of supplies and equipment for use of U. S. forces, particularly in the Pacific area and (2) in support of proposed U. S. military assistance programs in Southeast Asia.

2. It was the conclusion of the Board also that it would be in the best interests of the U. S. to initiate industrial mobilization planning in Japan with a view to utilization of Japan as a supplemental source of supply for U. S. military requirements in another world conflict. Such utilization would (a) give the U. S. a logistics advantage in supplying U. S. and allied forces in the Pacific area, (b) result in a reduction in U. S. dollar aid to Japan, and (c) conserve U. S. resources.

3. In recommending that planning be initiated for utilization of Japanese industry, the Board recognized the availability of extensive war production facilities and the existence of a large force of skilled labor in Japan.

4. The Munitions Board believes that the success of any planning and program is contingent upon the placing of educational orders in Japanese industry.

5. In view of the foregoing, it is requested that the three Military Departments

a. Increase purchases of military equipment and supplies in Japan to the extent practicable for use of U. S. forces, particularly in the Pacific area.

b. Survey Japanese industrial capabilities further in collaboration with the Munitions Board, with a view to (1) maximum practicable utilization as a source for equipment for U. S. forces

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and for military assistance programs in Southeast Asia, and (2) full utilization of Japanese industry in event of another world conflict.

6. It is requested that the Department of the Army request the Supreme Commander for the Allied Powers to initiate an industrial mobilization planning program in Japan, which program will be worked out in collaboration with the Munitions Board and the Military Departments.

s/ G. C. MARSHALL

Copies furnished:
Under Secretary of the Army
Assistant Secretary of the Navy
Assistant Secretary of the Air Force

COMPLETE STAFF STUDY IS ATTACHED AT THE

BACK OF APPENDIX C

THE PRIME MINISTER'S OFFICE
TOKIO

August 1, 1951

Dear General,

Japan will be glad to do her part in supplying special demand goods needed for the execution of the American defense program and also to cooperate in the economic development of Southeast Asia. In this connection the Japanese government contemplates the establishment of an administrative agency along the following lines.

1. An Economic Cooperation Commission (tentative name) will be set up within the Japanese government.

2. Functions:

   (1) Assist and coordinate Japanese firms in receiving U.S. government orders for special demand goods.

   (2) Supervise and expedite the production of special demand goods; and take charge of financing and materials allocation.

   (3) Compile all demands for world short materials (OIT and IMC materials) needed in the production of special demands goods; and exercise control over those materials against their misuse or diversion into improper channels.

   (4) Take charge of all affairs relating to cooperation in the economic development of Southeast Asia.

3. Operation:

   (1) The Commission will perform its duties in close cooperation and collaboration with other related agencies of the governments.

   (2) The Commission will be composed of 3 to 5 members to be selected from among men of experience and knowledge in private circles. They may be permitted to hold concurrently private business positions so long as it does no harm.

4. U.S. authorities are requested to communicate first to this Commission all orders for special demand goods.

I hope my government's plan as outline above, will receive your early and favorable consideration.

Yours sincerely,

/s/

Shigeru Yoshida

Maj. General W. F. Marquat
Economic and Scientific Section
GHQ
TOKYO

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G. Checknote from ESS to Chief of Staff, subj: Emergency Procurement Activities within FEC

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J. Charts of "CAPUS"

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Secret

STAFF REPORT

MBIIP DATE 3 May 1951

SUBJECT: Japan as a Source for Supply of U. S. Military Requirements

BY THE VICE CHAIRMAN FOR INTERNATIONAL PROGRAMS

1. Discussions relative to implementation of the Secretary of Defense directive of 26 March 1951, subject as above, were held 17 - 26 April 1951. Participants in the discussions included representatives of a SCAP mission, the three Military Departments, and the Munitions Board.

2. Subjects included in the discussions were (a) procurement, (b) survey of industrial capacity, (c) raw materials, (d) shipping, (e) industrial mobilization planning, (f) priorities, and (g) procurement organization. As a result of the discussions the following recommendations were drafted and approved by the participants:

a. The Joint Chiefs of Staff be requested to provide guidance on the extent to which Japan's industrial potential may be available to the U. S. in the event of general war.

b. The three Military Departments be requested to (1) study the SCAP reports on "Japan's Industrial Potential" and "Recommended Military Procurement" and (2) determine and recommend categories of military equipment and supplies which Japanese industry is best suited to produce, and which may be desired to augment U. S. procurement programs.

c. Recommendations be made to appropriate agencies to modify restrictions on Japan's production of military equipment for export to areas other than Korea, thereby permitting greater Japanese production in support of U. S. forces in the Far East areas and in support of U. S. military assistance programs.

d. Recommendations be made for the establishment of an organization in Japan for coordinating procurement planning and programming activities of all U. S. Government Agencies.

e. The Director of the Office of Defense Mobilization be requested to designate the Department of Defense as claimant for all Japanese requirements.

f. Appropriate U. S. agencies be requested to consider Japan's urgent need for additional shipping.

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g. Recommendations be made to appropriate U. S. agencies relative to the development of sources of raw materials in Southeast Asia.

h. The Munitions Board staff report to the Munitions Board on the results of the discussions with the SCAP Mission.

3. Action is being taken by the Munitions Board staff to implement the above recommendations.

4. Recommended Action: Note and furnish adverse comment, if any, at the next Board meeting.

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GENERAL HEADQUARTERS, FAR EAST COMMAND
ADJUTANT GENERAL'S OFFICE
RADIO BRANCH

INCOMING MESSAGE

TLD/eft

PRIORITY

19 Jul 51

FROM : DEPTAR (SAOOA) WASH DC

TO : SCAP TOKYO JAPAN

NR : DA 96619

1. Secy of Defense has rec fol ltr dtd 25 Jan from Director of Office of Defense Mobilization:

"Dear Gen Marshall:

"At the meeting of the mobilization executives staff Monday Jun 11, the question of increasing aluminum production in Japan and possibly greater use of fabricated aluminum for defense rqmts in Japan raised. The matter had been presented by mbrs of your staff, with appropriate documentation to mbrs of my staff. It had, also, been discussed, I understand, at earlier meetings of the Foreign Supplies and Requirements Committee on the initiative of the Dept of the Army.

"I have just rec from the Asst Secy of the Army, Mister Johnson, proposals which I understand have the support of the Defense Dept for consideration of a more adequate use of the Japanese economy as a whole in the mobilization effort. This raises the problem of a better organization of the entire economy of the Pacific countries in their cooperation for mutual contributions to strengthening the Pacific area. I hope to have some proposals to make to you along this line at a very early date.

"Meantime, however, I should like to concentrate attention on the possibility of increased purchases of military equipment and supplies in Japan, in conformity with your memorandum to the Secretaries of the Army, Navy, and Air Force, and the Chairman of the Munitions Board of Mar 28, 1951. In that connection, I would

(over)

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PRIORITY

FROM : DEPTAR NR : DA 96619 19 JUL 51 CONT'D

like to urge that the Dept of Defense initiate with all practicable speed (A) the increase of the production of aluminum in Japan to its maximum practicable extent and (B) the maximum use of Japanese fabrication capacity for defense supplies to avoid the use of shipping, and in particular, to process and fabricate aluminum for defense use.

"It is my understanding from figures submitted to my office that aluminum is now being produced at the rate of about 25,000 metric tons, with the prospect of 40,000 metric tons being reached, under present planning on an annual basis, this year. The figures submitted to me also indicate by appropriate measures, which would not require supplies in any large quantity from the United States, the Japanese production of aluminum could be stepped up to a rate of 115,000 metric tons a year if shipping and other facilities were made available. I would urge the utmost speed in this effort because of the extreme shortage of aluminum in the United States, which is currently affecting very adversely our whole economy, including the defense effort. I believe you are familiar with the shortages which will face us over the next 6 months or year that are extremely serious.

"To whatever degree the Dept of Defense can relieve its demands for aluminum from the United States economy over that period, the whole defense program here will be very greatly facilitated. I am aware that the emphasis on aluminum is not completely in line with the rest of your plans for the Japanese economy and that it may be a more expensive procurement problem, even though the saving of shipping space and freight rates will be considerable.

"May I ask, nevertheless, that you take every measure that seems to you advisable to expedite the production of aluminum in Japan, as outlined above, and the fabrication of as much of the Dept of Defense's requirements for fuel tanks for airplanes and similar needs as can be carried on with the utmost possible speed. Any aluminum from Japan that could be stockpiled would be helpful. The over-all picture of the defense program, in my judgment, demands this special emphasis on Japanese aluminum production and use. I am convinced that its total economic effects will be most beneficial for our entire program, including stabilization.

"I should appreciate your views and a schedule as to what you think the relief may be in terms of decreased requirements for the Dept of Defense on US aluminum supply on a projection of 6 months,

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PRIORITY

FROM : DEPTAR NR : DA 96619 19 JUL 51 CONT'D

12 months, and 18 months.

"Sincerely,

"Charles E. Wilson"

2. Ltr from Asst Secy of Army, to which ref is made above, transmitted formally to ODM a copy of SCAP publication "Japan's Industrial Potential" dtd 20 Feb 51. Discussions to which ref is made primarily those between interested US agencies and mbrs of SCAP Industrial Mobilization Mission headed by Gen Marquat which visited Wash in Apr and May.

3. Despite capacity production in the US and large scale expansion of production facilities, aluminum continues in critically short supply. Because aluminum is element essential in forging str of free world, it is imperative that world wide production resources be utilized to maximum extent. Desire urge, therefore, that all practical steps be taken to expand production in Japan by effecting fullest possible utilization of extensive production capacity noted as aval in SCAP rept on Japan's industrial potential. Despite recognized difficulties, believed here that program to expand aluminum production in Japan would be of such importance as to warrant special emphasis comparable to that of programs of previous yrs which succeeded so admirably in increasing Japanese coal and fertilizer production.

4. EPS prepared make spot stockpile purchases of aluminum in Japan pending expanded production in United States provided price comparable to United States price. Mun Bd advises it is prepared issue directive to the armed services rqst that to maximum extent possible they utilize Japan as a source of supply for fabricated aluminum products. Effective implementation such directive will require that proc ofls here be furnished comprehensive data concerning actual and potential Japanese production of powder, wire, cable, tubing, rod, bar, sheet aluminum, and extrusions of hard alloys. In order facilitate such planning and to reply to specific

(over)

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PRIORITY

FROM : DEPTAR NR : DA 96619 19 JUL 51 CONT'D

rqst in last para ODM ltr, would be necessary rec best estimate current Japanese aluminum production broken down as to above categories together with best aval estimate as to increases in total production and in above categories which would be possible at end of 6, 12, and 18 months.

5. In your discretion such of above as is necessary may be declassified for discussion with Japanese. This connection believe it will be desirable point out to Japanese that this would be first principal example of United States - Japanese economic cooperation cited as long range objective in GHQ SCAP press release dtd 16 May 51.

6. Appreciate at your earliest convenience your views on above matter, significance of which for free world mobilization effort is deemed of compelling importance.

NO SIG

ACTION : ECON & SCI

INFORMATION : CHIEF OF STAFF, G-3, G-4, AG, DIPLOMATIC

86376 PRIORITY TOO : 181806Z
MCN : 59620

TAB D

FY 51 PROCUREMENTS OF THE MILITARY ESTABLISHMENT

EXCLUSIVE OF TON

1. CONTRACTS (millions of US dollars)

GROUND (JLC)	. . . . . $ 583
AIR (FEAMCOM)	. . . . . $ 45
NAVY (COMNAVFE)	. . . . . $ 14
	$ 642

2. OPERATIONS

A. Japan Logistical Command (JLC)

(1) The total of $583 millions reflects approximately $408 millions of supplies and $75 millions of services.

(2) JLC has nine branches throughout Japan and has three (3) contracting officers authorized to execute contracts. Total: Three (3)

(3) During FY51, JLC, executed 18,400 yen contracts and 11,000 dollar contracts.

B. Far East Air Material Command (FEAMCOM)

(1) The total of $45 millions reflects approximately $22 millions of supplies and services and $23 millions of construction.

(2) FEAMCOM has one (1) Air Division Officer (314th - Nagoya), seven (7) base commanders, and three (3) contracting officers in FEAMCOM authorized to execute contracts. Total: Eleven (11)

C. Commander Naval Forces Far East (COMNAVFE)

(1) The total of $14 millions reflects approximately $12.5 of supplies and services and $1.5 of construction.

(2) COMNAVFE has (1) COMNAVFE Supply Officer, two (2) officers of Fleet Activities Yokosuka and Sasebo, and three (3) officers of Yokosuka Communication Facilities, Yokosuka Naval Airbase, and Atsugi Air Naval Station authorized to execute contracts. Total: Six (6)

TAB E

FY 51 PROCUREMENTS OF U.S. GOVERNMENT AGENCIES

1. General Services Administration (GSA)

A. The GSA is an independent agency established by Congress to purchase, procure, and contract for other civilian agencies, viz,

Bureau of Federal Supply
Public Works Administration
Public Works Agency
Archives.

B. The GSA maintains a branch office in Tokyo and its procurement section is known as the Emergency Procurement Section. (EPS)

C. In Japan EPS procures strategic materials for the Federal Supply Service (FSS) an adjunct of Bureau of Federal Supply, and also purchases in Japan for ECA which currently maintains only a liaison office in Tokyo.

D. During FY51 EPS procured a small amount of strategic materials in Japan, however, monetary value of such procurement was not disclosed by the Chief, GSA. EPS procurements for ECA are shown hereafter.

2. Economic Cooperation Administration (ECA)

A. ECA Tokyo procured for the Korean civilian economy prior to assumption of that function by the U. S. Army. Currently ECA buys in Japan (thru GSA) for the Special Technical and Educational Missions (STEM) located in India, Philippines, Indochina, Burma, Formosa, and Thailand.

B. Volume of ECA procurements in FY 1951 was:

KOREAN Acct	$12.1	(million)
STEM Acct	$26.	(")
	$38.1	(million)

TAB F

POTENTIAL EXPENDITURES BY U. S. AGENCIES IN JAPAN DURING FY 52
(Millions U. S. Dollars)

1. **Army**

Partial "Pay-As-You-Go" for Japan	
Rycom, Marbo, Philcom	$160.6
(1) Korean Special Demand	$400.
Total	$560.6

2. **Air**

Construction	$26.5
Others	34.5
	$61.0

3. **Navy**

Construction	$ 1.5
Supply	9.7
	$11.2

4. **U. S. Civilian**

ECA (for STEM)	$13.0
(2) GSA (for FSS)	$ (?)
	$13.

5. **Others**

(3) Japanese Nat'l Police Reserve	$75.
(4) United Nations Korean Rehab. Adm. (UNKRA)	(?)
	$75

6. **Recapitulation**

Army	$560.6
Air	61.
Navy	11.2
U.S. Civilian	13.
Others	75.
(5) Total	$720.8

NOTES

(1) Korean Account expenditures premised on level of activity similar to that of FY 51.

(2) GSA estimate not available because of their security regulations.

(3) This estimate based on premise that at least 50% of the $150 million currently budgeted to procure heavy arms and ammunition for the JNPR will be expended in Japan during FY 52.

(4) No figures presently available on UNKRA expenditures in Japan.

(5) Total excludes minor U.S. agencies presently operating in Japan with separate funds, viz., MSTS and Red Cross.

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GENERAL HEADQUARTERS
FAR EAST COMMAND

CHECK SHEET WFM/bd

File No: 091(11 Jul 50)ESS Subject: Emergency Procurement Activities Within the Far East Command

From: ESS To: C/S Date: 11 Jul 1950

1 1. In order to assure the smooth flow of military and civilian supply to the United Nations military action in Korea it is of urgent importance that:

a. Total coordination of emergency procurement activities of the U. S. Armed Forces, other U. S. Aid (ECA) and participating UN agencies be effected and maintained.

b. Coordinated use of Japan as a primary source of supply for military and non-military operations in Korea and/or other Far East areas be employed to the fullest extent consistent with the maximum productive capacity of Japan and without prejudice to the American efforts to rehabilitate the Japanese domestic economy.

2. The development of requirements in Korea already has indicated the need for complete coordination of the respective efforts of the Eighth Army, ECA, Republic of Korea, Far East Air Forces, Navy and Allied Governments or Forces. In anticipation of the possible rapid development of military demands it is incumbent upon the headquarters to clarify and standardize procurement procedures. Such standardization of procedures is necessary to complement action by Washington to coordinate ECA and Armed Services emergency procurement relationships. It is contemplated that the procedures set up herein for the military emergency will continue through the Korean reconstruction period which will begin even before the termination of hostilities.

3. Assuming that the requirements for the Korean combat theatre will be of two distinct categories -- military and civilian -- and that they will be coordinated in Korea under procedures initiated by the Military commander and acceptable to the civil government as outlined by G-4, GHQ, the next step is to examine the sources of supply for the items required. Supply of goods and services will be made from:

a. Available military stockages under control of the Armed Services supply agencies.

b. ECA or other procurement already accomplished or under way.

c. Non-military stocks.

d. New production.

4. In the case of non-military stocks and new production requirements, to include services and facilities, the most accessible source would be

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1 (cont'd) from the civil economy of Japan. Traditionally the industrial and consumer requirements of Korea have been supplied by Japan. The great bulk of existing industrial and transportation plants and equipment is of Japanese origin. Japan, therefore, constitutes the natural and most economic source of supply. The very considerable idle industrial capacity attests to Japan's ability to mobilize a full production potential to satisfy Korean needs. An immediate assessment must be made as to the availabilities from Japan and procurement of the remainder of the needed items should be initiated promptly from U. S. or other sources. In the instances already accomplished such procurement has been made by withdrawal from available inventories or partially completed manufactures, such as in the case of the locomotives.

5. The future problem of contributing the major effort from Japan is complicated and far reaching. Some of the issues that will develop are:

a. Supervision to prevent United Nations procurement agencies from bidding against each other thus forcing prices in Japan higher than they should be, thereby increasing the cost of the military and civilian aid contribution.

b. Prevention of war profiteering activities which will likewise result in increased prices.

c. Expanding domestic facilities to speed up production of special types of items and increasing availability of indigenous services.

d. Yen financing of the rapid increase in volume of production and foreign exchange advances where required.

e. Production priorities as between the military and Japanese domestic requirements.

f. Adjustment of existing trade arrangements to provide sources of raw and semi-processed materials to speed up manufacture.

g. Instituting minimum controls to channel essential supplies to the emergency procurement.

h. Arranging rediscount procedures for private yen financing and coordinating payment guarantees in order to insure financial advances by private banking institutions. This is one of the most important aspects

1 (cont'd) of the overall problem.

i. Prevention of duplication of orders to manufacturer.

j. Surveillance to insure against overloading one supplier while not utilizing other available resources.

k. Checking inflationary tendencies in the Japanese economy which easily could quickly destroy the economic progress achieved under the United States nine-point stabilization program.

l. In case of a spread of the military emergency to other areas, the complete marshalling of Japanese economic potential without adverse effect upon the domestic economy in general.

6. It is definitely intended that the existing procurement agencies of the military services, ECA and other operating agencies of national or international character will be utilized to the fullest extent and will be authorized direct procurement as at present, subject only to the coordination which will make such direct procurement efficacious. Nothing in the current proposal will require any modifications, adjustment or cancellation of any existing procedures within the agencies concerned. There is likewise no effort being made to return to government procurement methods but it must be recognized that under emergency conditions government regulations may be a definite requirement.

7. The basic proposal herewith is:

a. Establishment of the Far East Command Emergency Requirements Allocations Group.

b. Establishment of the Emergency Procurement Expediting and Coordinating Committee for Japan.

c. Establishment of the Transportation Expediting Authority.

8. The functions and responsibilities of these agencies are indicated in Tabs A and B.

9. In the absence of such coordinating agencies, it is probable that serious practical obstacles to emergency procurement will arise

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CHECK SHEET

File No: 091(11 Jul 50)ESS Subject: Emergency Procurement Activities Within the Far East Command

From: ESS To: C/S Date: 11 July 1950

to delay deliveries of vital supplies. In case of prolonged military action ont'd) or recurrence of Communist aggression in other Far East areas it is apparent that an established and smooth functioning coordination agency will be a definite asset to this command.

10. It is recommended that:

a. The General Order proposed in Tab C, creating the Far East Command Emergency Requirements Allocation Group, the Emergency Procurement Expediting and Coordinating Committee for Japan and the Transportation Expediting Authority, be issued without delay.

b. The agencies thus created be directed to organize and begin functioning immediately.

c. All elements of the military command and all interested civilian agencies be notified of the procedures outlined and approved.

11. Concurrences:

G-4 _____
CTS _____
ECA _____
DS _____

3 Incls:
Tabs A, B, C, as indicated

- W. F. M. - - - - - - - - - - -

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GENERAL HEADQUARTERS
FAR EAST COMMAND

Lt Col Workizer 26-6413

CHECK SHEET

Subject: Emergency Procurement Activities Within the Far East Command

From: G-4 To: ESS Date: 18 Jul 1950

2 1. G-4 considers that existing procedures are adequate at this time.

2. G-4 feels that normal command and staff coordination and cooperation under existing procedures will meet requirements including civilian relief supplies in Korea.

3. Considering current and anticipated requirements, G-4 is not aware of any difficulties that are insurmountable with the means at hand.

4. G-4 in the light of the foregoing cannot concur in the proposal of ESS.

3 Incls
n/c

- G. L. E. - - - - - - - - - - - - -

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E X T R A C T

GENERAL HEADQUARTERS
FAR EAST COMMAND
APO 500

Circular)
No.... 5)

1 February 1951

PROCUREMENT WITH UNITED STATES APPROPRIATED FUNDS, TO INCLUDE GARIOA FUNDS

1. a. Rescission. Circular 47, General Headquarters, Far East Command, 1950.

b. References.

(1) Joint Procurement Regulations, 1 November 1947.

(2) Armed Services Procurement Regulations, 19 May 1948, as amended 1 June 1950.

(3) Army Regulations 72-5, 9 November 1949.

(4) Joint Army and Air Force Procurement Circulars.

(5) Current Procurement Directives, Department of the Army.

(6) Circular 14, General Headquarters, Supreme Commander for the Allied Powers, 1950 (applies only to United States Government agencies in Japan).

2. The provisions of the above listed references, as implemented by directives from this headquarters, apply to all procurement with United States appropriated funds, to include Government and Relief in Occupied Areas (GARIOA) funds, and will govern the commanders hereinafter designated, except when expressly not applicable.

3. The Commanding General, Japan Logistical Command, is:

a. Authorized and, except as hereinafter provided, designated as the sole agent to procure from sources within Japan for the requirements of United States Army forces (including the United States Civil Administration of the Ryukyu Islands, and Supreme Commander for the Allied Powers procurement with GARIOA funds for and within Japan) within the Far East Command.

b. Authorized and, except as hereinafter provided, designated as the sole agent to procure from sources outside Japan (excluding the continental United States, its territories and possession, Ryukyu Islands, and Korea) for the requirements of United States Army forces (including the

(Cir 5)

United States Civil Administration of the Ryukyu Islands, and Supreme Commander for the Allied Powers procurement with GARIOA funds for Japan) located in Japan, Ryukyu Islands, and Korea.

c. Authorized to execute contracts with foreign governments, including the Japanese Government, provided that such contracts do not imply or incur any obligation on the part of the United States Government not normally incident to the procurement of, and payment for, supplies, services, and facilities received. The authority contained in this paragraph does not include authorization for the execution of "after-the-fact" contracts, as such.

d. Authorized and directed to procure from sources within Japan, and outside Japan (excluding the continental United States, its territories and possession, Ryukyu Islands, and Korea) for the requirements of the United States Government agencies listed below, when so requested by the respective commanders, chiefs, or duly authorized representatives thereof:

(1) Naval Forces, Far East.

(2) Far East Air Forces.

(3) Military Air Transport Service.

(4) Military Sea Transportation Service.

(5) Economic Cooperation Administration.

(6) Federal Supply Service.

(7) Any other agency of, or for, the United States Government.

e. As an exception to paragraph 3a and b, the Commanding General, Ryukyus Command, and the District Engineer, Okinawa Engineer District, are authorized to solicit bids and estimates from, and to execute contracts with, sources within the Far East Command for construction and repair work in the Ryukyu Islands, and technical services in connection therewith. In addition, the District Engineer, Okinawa Engineer District, is authorized to procure supplies and materials from sources outside Japan required for the accomplishment of his assigned responsibilities.

* * * * * * * * * * * * * * * * *

BY COMMAND OF GENERAL MacARTHUR:

OFFICIAL:

K. B. BUSH
Brigadier General, USA
Adjutant General

DOYLE O. HICKEY
Major General, General Staff Corps
Acting Chief of Staff

2 THIS IS A TRUE COPY

Special Inspection of the Procurement
Section, Japan Logistical Command

Chief of Staff G-4 1 May 51
ESS

1. 1. The following recommendation was made in a report of the special inspection of the Procurement Section, Japan Logistical Command by representatives of the Inspector General of this General Headquarters:

"Consideration be given by General Headquarters as to the practicability of controlling unfair prices and the allocation of short supplies for purchases in Japan for the Korean war effort."

2. It is desired that G-4 and ESS in coordination with other interested staff agencies explore the matter further with the view of reaching a common understanding as to the best procedure to eliminate the present problems encountered in procurement activities.

3. It is further desired that this review include the possible assistance which could be furnished by this Headquarters to the Japan Logistical Command in supplementing their procedures to eliminate, in so far as possible, inadequate specifications, short delivery dates, and over-purchasing in connection with dollar purchases in Japan.

Copy for:
IG

- D.O.H. - - - - - - - - - - - - - - -

INDEX

NO. 1 - Statement of Missions - Coordinating Authority for Production for U.S.

NO. 2 - Table of Organization, both Current and Projected

NO. 3 - Statement of Mission and Functions for Procurement Policy Division

NO. 4 - Statement of Mission and Functions for Materials and Facilities Division

NO. 5 - Statement of Mission and Functions for Programming Division

COORDINATING AUTHORITY FOR PRODUCTION FOR U.S.

MISSION:

The Coordinating Authority for Production for U.S. is established to prescribe policies to be followed by U.S. agencies in Japan in the utilization of Japanese industrial facilities for the production of essential goods and services required by the U.S. Government to coordinate implementation of those policies by U.S. Government agencies and to assist the Japanese Government in establishing appropriate counterpart agencies designed to cooperate with the U.S. coordinating authority.

PROPOSED TABLE OF ORGANIZATION

PART I. If ESS, in addition to its current responsibilities, is to assume the function of coordinating U.S. Procurement in Japan, the personnel currently assigned could perform the majority of the added functions. However, a few procurement specialists should be integrated into ESS at the top advisory levels along the following lines:

1. Deputy Chief - Business Consultant (Supervisory), GS-16
2. Technical Advisor (Industrial Facilities) to Director, Production and Utilities, GS-15
3. Technical Advisor (Financial Economist - Fiscal Policy) to Director, Finance, GS-15
4. Technical Advisor (Programming) to Director, Economics and Planning, GS-15
5. Technical Advisor (Procurement Procedures) to Director, Trade and Services, GS-15

PART II. Upon the abolishment of ESS, after the effective date of the peace treaty, it is recommended that the following table of organization be adopted for the post occupation Coordinating Authority for Production for U.S.

TOP MANAGEMENT STAFF:

CHIEF

1 Military	Major General
1 U.S. Civilian	Administrative

DEPUTY CHIEF

1 Civilian - Business Economist (Supervisory)	GS-16
1 U.S. Civilian	Administrative

EXECUTIVE

1 Military	Colonel
1 U.S. Civilian	Administrative

OFFICE
ADMINISTRATION AND MANAGEMENT DIRECTOR

1 U.S. Civilian - Management Advisor (Supervisory)	GS-14
1 U.S. Civilian - Organization and Methods Exam.	GS-13
1 Military - Administrative	Major
1 Military - Administrative	Captain
4 U.S. Civilians	Administrative
6 Japanese Nationals	Administrative

OFFICE
DIRECTOR, PROGRAM PLANNING

1 U.S. Civilian - International Economics (General Supervisory)	GS-16
1 U.S. Civilian	Administrative

OFFICE
DIRECTOR, INDUSTRIAL PRODUCTION

1 U.S. Civilian - Business Economist (Supervisory)	GS-16
1 U.S. Civilian	Administrative

OFFICE
DIRECTOR, PROCUREMENT POLICY

1 U.S. Civilian - Procurement Policy Specialist (Supervisory)	GS-16
1 U.S. Civilian	Administrative

OPERATING DIVISIONS:

PROGRAMMING DIVISION

1 U.S. Civilian - Business Economist (Programming)	GS-15
1 Business Economist (Policy Planning)	GS-14
1 Analytical Statistician	GS-14
1 International Trade Economist	GS-14
1 Business Economist (Production Programs)	GS-14
1 Statistician (Industrial)	GS-14
1 Financial Economist	GS-13
1 International Trade Economist	GS-13
1 Statistician (Production)	GS-13
1 Business Economist (Production Programs)	GS-13
1 Industrial Engineer	GS-13
2 Commodity-Industry Economist	GS-12
4 U.S. Civilians	Administrative
30 Japanese Nationals	Technical and Administrative

MATERIALS & FACILITIES DIVISION

1 U.S. Civilian - Industrial Engineer	GS-15
1 Commodity Industry Economist (Raw Materials)	GS-14
1 Chemical Engineer	GS-13
1 Industrial Engineer (Production & Construction)	GS-14
1 Electrical Engineer	GS-13
1 Industrial Engineer (Heavy Industries)	GS-13
1 Industrial Engineer (Light Industries)	GS-13
1 Industrial Engineer (Misc Industries)	GS-12

	Administrative
2 U.S. Civilians	Technical
10 Japanese Nationals	

PROCUREMENT POLICY DIVISION

1 U.S. Civilian - Procurement Specialist (Policy Planning)	GS-15
1 Price Economist	GS-14
1 Financial Economist (Fiscal Policy)	GS-14
1 International Economist (Commercial Policy)	GS-13
1 Distribution Specialist	GS-13
1 Commercial Specialist	GS-12
2 U.S. Civilians	Administrative
8 Japanese Nationals	Technical

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TABLE OF ORGANIZATION

Tech - Technical Personnel
Adm - Administrative Personnel

COORDINATING AUTHORITY FOR PRODUCTION FOR U.S.

ORGANIZATIONAL SEGMENT	MILITARY		CIVILIAN - DAC		CIVILIAN - JN		TOTALS		TOTAL PERSONNEL
	Tech	Admin	Tech	Admin	Tech	Admin	Tech	Admin	
MANAGEMENT STAFF	2	2	6	10	0	6	8	18	26
PROGRAMMING DIVISION	0	0	13	4	20	10	33	14	47
MATERIALS AND FACILITIES DIVISION	0	0	8	2	8	2	16	4	20
PROCUREMENT POLICY DIVISION	0	0	6	2	7	1	13	3	16
TOTALS	2	2	33	18	35	19	70	39	109

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PROCUREMENT POLICY DIVISION

(FOREIGN TRADE AND FINANCE DIVISION)

Mission:

Recommend policies to be used by the U.S. agencies in Japan in connection with the overall procurement procedures to include such matters as uniform contractural practices, pricing standards, maintenance of cost analysis and other activities related to direct procurement.

Functions:

1. To assist the Japanese Government in establishing local policies and regulations similar to U.S. legal requirements to assure uninterrupted procurement in Japan.

2. Establish among U.S. agencies uniform standards governing contract fulfillment, performance, payment (loans and advances, etc.,) and related matters.

3. Exercise policy surveillance over U.S. agencies to assure compliance with applicable U.S. and Japanese laws and regulations.

4. Advise and assist the Japanese Government in establishing price programs affecting U.S. procurement to insure that the Japanese prices are competitive with world market prices.

5. Prescribe uniform price schedules to be followed by U.S. procurement agencies in order to insure against competitive bidding among the various procurement agencies.

6. Advise the Japanese Government concerning national budget and fiscal policies in so far as they pertain to the furtherance of

U. S. programs in Japan and the Far East.

7. To administer in behalf of the U.S. Government, the U.S. Aid Counterpart Fund or such other funds as may be established under economic assistance programs.

8. To counsel the Japanese Government concerning the advisability and techniques of providing capital and/or operating financing for privateplants undertaking expansion programs to meet U.S. procurement orders and provide information to U.S. Government and private financing agencies concerning credit to Japan in support of U.S. programs and longrange development projects.

MATERIALS AND FACILITIES DIVISION

(INDUSTRY DIVISION)

Mission:

Recommend policies to be used by the U.S. agencies in Japan in connection with use of Japan's industrial facilities as they relate to the overall U.S. procurement program, to include such matters as determining effects of U.S. demands upon the Japanese economy, industrial mobilization plans, production and distribution controls, and production priorities and related matters.

Functions:

1. Evaluate effects of overall demand of U.S. programs upon the local economy as a means of determining the capability of the Japanese industrial potential to meet production requirements for U.S. programs and arrange for provision of technical skills and equipment to develop specified areas of production as required.

2. Assist the Japanese Government in the institution of regulatory systems necessary: (1) obtain priority assistance from the U.S.; (2) production scheduling; (3) establish quality standards; (4) distribution controls; and such other measures required to facilitate performance under U.S. contracts.

3. Verification of the use by Japan of allocated strategic materials to insure their end use for the purpose indicated and to prevent the stockpiling of short supply items for non-essential uses.

4. To assist the Japanese Government in establishing procedures for surveillance and inspection of Japanese plants engaged in products for U.S. programs to assure compliance with performance standards.

5. Advise the Japanese Government concerning allocation of production facilities among the various U.S. procurement agencies as required.

6. Advise and assist the Japanese Government concerning the development of industrial mobilization plans.

7. Coordinate activities of U.S. procurement agencies related to the Controlled Materials Plan (CMP).

8. To survey overall increases in military production in Japan and to recommend cutbacks in U.S. programs as may be necessary to prevent a regeneration of any undesirable war potentialials.

9. Assist the Japanese Government in development of requirements and justifications for materials in world short supply.

10. Determine material priorities among U.S. procurement agencies as required.

SECRET

PROGRAMMING DIVISION

(PROGRAMS AND STATISTICS DIVISION)

Mission:

Recommend policies regarding the collection of industrial statistics (capacity, stockpiles, etc.,) necessary to current and projected procurement planning and to achieve maximum implementation of overall U. S. procurement program objectives in Japan.

Functions:

1. Advise and assist the Japanese Government in the development and establishment of trade controls consonant with safeguards exercised by the nations of the Free World.

2. Establish programs designed to assure maximum cooperation between the U.S. and Japanese Government in the development of Southeast Asia sources of critical raw materials to permit maximum implementation of the overall U. S. program in Japan.

3. Maintain current statistics and analyses on Japanese industrial capacity, manpower potential, trade, balance of international payments, etc., as required by U.S. agencies; provide a continuing analysis of Japan's overall economic condition as it relates to the overall procurement program.

4. Provide assistance to the Japanese Government in the overall integration of U.S. procurement requirements with domestic and trade requirements to assure the development of a sound balanced production program.

5. Establish policies for maintenance of cost analyses of U.S. contracts, Japanese corporate accounts and expenditures by various U.S. technical services, Government purchasing agencies, and others, as may be required by the controlling authorities in Washington, D.C.

SECRET

GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS
AND
FAR EAST COMMAND

GENERAL ORDERS)
:
NO. _____)

SECTION

ESTABLISHMENT OF COORDINATING AUTHORITY FOR PROCUREMENT .. I

ANNOUNCEMENT OF STAFF II

I. ESTABLISHMENT OF COORDINATING AUTHORITY FOR PROCUREMENT. There is established herewith within General Headquarters, Supreme Commander for the Allied Powers and Far East Command, a Coordinating Authority for Production for U.S. with the following general statement of functions:

a. Prescribe uniform policies for and coordinate procurement activities of U.S. military and nonmilitary agencies in Japan so as to effect maximum returns with minimum disruptions to the local economy.

b. Prepare plans and programs and maintain statistical records as directed and required to implement the U.S.-Japan Economic Cooperation Program.

c. Effect liaison with Japanese Government agencies charged with coordination and implementation of the U.S.-Japan Economic Cooperation Program.

II. ANNOUNCEMENT OF STAFF. Major General WILLIAM F. MARQUAT, 06533, US., is announced as Chief, Coordinating Authority for Procurement for U.S., General Headquarters, Supreme Commander for the Allied Powers and Far East Command in addition to his current assignment as Chief, Economic and Scientific Section, General Headquarters, Supreme Commander for the Allied Powers. The functions indicated in Section I above will be integrated

into the Economic and Scientific Section and performed by personnel assigned to the current operating divisions thereof as deemed appropriate to assure the successful accomplishment of the mission.

BY COMMAND OF GENERAL RIDGWAY:

DOYLE O. HICKEY
Lieutenant General, General Staff Corps
Chief of Staff

OFFICIAL:

K. B. BUSH
Major General, USA
Adjutant General

CHECK SHEET

Note No. 1 (contd) From: C/S To: G-4

hostilities in Korea, it may be reasonably anticipated that military forces in Japan will be charged primarily with defense missions and their supply organizations be contracted.

6. However, it may be expected that activities under the U.S. economic cooperative program will accelerate in the post treaty period, particularly with regard to procurement for MDAP (viz: Supply of JNPR), requirements of U.S. forces in and out of Japan and mobilization planning.

7. In view of the foregoing it is desired that G-4 prepare a staff study on the feasability and plans for organizing procurement agencies within the military enclave in Japan to ensure that such agencies are:

a. Properly staffed with trained and permanent personnel to execute expanded procurement functions in the post treaty period.

b. Prepared to continue uninterrupted operations in the event of contraction of U.S. forces in Japan or of relief of major commands from procurement supply responsibilities in order to permit more effective discharge of their assigned defense mission,

c. Capable of operations under direction of major supply departments of the U.S. Department of Defense if and when required.

8. It is desired that the subject staff study be submitted to the Chief of Staff not later than _____.

- D. O. H. - - - - - - - - - - - - -

CHECK SHEET

Subject: Staff Study Concerning Organization of Procurement Agencies Within the Military Enclave

From: C/S To: G-4 Date:

1. References:

a. Report titled "Japan's Industrial Potential", dated 20 February 1951.

b. SCAP - FEC General Order _____, dated _____.

2. Reference 1 a, outlines the basis for a US-Japan Economic Cooperation Program which would involve the use of Japan's industrial potential in support of U.S. military forces in the Far East and abroad, MDAP and/or other economic programs of the U.S. and Asia and integration with total mobilization planning of the U.S.

3. Reference 1 b directs the Chief, ESS, to organize an administration to coordinate activities of U.S. agencies in Japan relating to procurement and total mobilization planning.

4. At present military procurement agencies operate directly under the separate major commands in Japan and are charged with rasponsibilities to procure for:

a. Normal needs of the Occupation in Japan using funds available under the "pay-as-you-go" policy.

b. Special needs of the Occupation forces in Japan using funds provided in the separate department appropriations.

c. Special demands of military forces in Korea.

d. Requirements of the Korean civilian economy.

5. With effecuation of a peace treaty and in event of termination of