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2.1. The pre-war per capita food intake of these countries was as follows:

<u>Country</u>	Calories per day <u>1/</u>	Kg. per year		
		Fats	Meat	Sugar
Austria	2850	20	50.0	24
Belgium	2800	27	41.0	26
France	2800	21	41.0	22
Italy	2500	15	19.0	7
Netherlands	2800	32	38.0	34
Poland	2550	9	22	12

1/ Without beverages

2.2. In general, and at least for present purposes, adequate rehabilitation goals for 1947/48 are taken as no less than 1946/47 but at least 90 percent of pre-war caloric intakes; 75 percent of pre-war fats and meat consumption; and 70 percent of pre-war sugar consumption.

2.3. Future indigenous availability is estimated for metropolitan areas, excluding colonial availability.

2.4. Indigenous availability for much of the rural population (except for sugar) is always generally satisfactory. Particularly under unstable economic and political conditions, urban populations suffer not only from short supplies in general, but badly controlled and distributed supplies. No explicit statistical allowance is here made for these problems, but since self-supplier consumption is probably pre-war (or even above pre-war), national average goals must be set somewhat above the minimum standards of 2.2.

2.5. Import requirements for the remaining European countries are estimated as follows:

(In 1,000 tons and \$1,000,000)

Country	GRAIN		FATS AND OILS		MEAT		SUGAR		TOTAL TONS
	Tons	Cost	Tons	Cost	Tons	Cost	Tons	Cost	
Austria	700	\$ 70.0	65	\$ 39.0	150	\$ 135.0	100	\$ 10.0	1,015
Belgium	1,200	120.0	100	60.0	100	90.0	-	-	1,400
China	1,000	110.0	-	-	-	-	-	-	1,000
Czechoslovakia	-	-	-	-	-	-	-	-	-
France	1,500	150.0	340	204.0	50	45.0	-	-	1,890
Hungary	-	-	-	-	-	-	18	3.6	18
Italy	1,400	140.0	65	39.0	40	36.0	-	-	1,505
Iran	-	-	-	-	-	-	90	18.0	90
Netherlands	1,200	120.0	150	90.0	40	36.0	-	-	1,390
N.E.I.	300	33.0	-	-	-	-	-	-	300
Poland	-	-	60	36.0	20	18.0	-	-	80
	7,300	743.0	780	468.0	400	360.0	208	31.6	8,688

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(In 1,000 tons and \$1,000,000)

FATS AND OILS		MEAT		SUGAR		TOTALS	
Tons	Cost	Tons	Cost	Tons	Cost	Tons	Cost
65	\$ 39.0	150	\$ 135.0	100	\$ 10.0	1,015	\$ 254.0
100	60.0	100	90.0	-	-	1,400	270.0
-	-	-	-	-	-	1,000	110.0
-	-	-	-	-	-	-	-
340	204.0	50	45.0	-	-	1,890	399.0
-	-	-	-	18	3.6	18	3.6
65	39.0	40	36.0	-	-	1,505	215.0
-	-	-	-	90	18.0	90	18.0
150	90.0	40	36.0	-	-	1,390	246.0
-	-	-	-	-	-	300	33.0
60	36.0	20	18.0	-	-	80	54.0
780	468.0	400	360.0	208	31.6	8,688	1602.6

Annex to Appendix "C"

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	Grains	Meat	Fats	Sugar
	(Metric tons)			
Austria	700,000	150,000	65,000	100,000
Belgium	1,200,000	100,000	100,000	None
France	1,500,000	50,000	340,000	None
Italy	1,400,000	40,000	65,000	None
Netherlands	1,200,000	40,000	150,000	None <u>1/</u>
Poland	None	20,000	60,000	None

1/ Slightly less than 70 percent basis but assumed reasonably certain small deficit will be made up from Java.

3.0. China is assumed to have a maximum absorption capacity of about 1,000,000 tons of grain. She is unlikely to obtain more than 300,000 to 400,000 tons in rice, the preferred cereal in her major deficit areas. The total cost might be about \$110,000,000.

4.0. The Netherlands Indies will probably require some food imports, the quantity depending greatly upon conditions in Java during the next few months, say, 300,000 tons (rice preferred) at about \$33,000,000.

5.0. The summary of needs and costs follows:

(See table on page 3)

6.0. The real core of the financing problem will be the need for hard currencies. In view of the prevalence of barter arrangements for some of these countries, attention should be directed to the fact that all except Austria and Italy will either expect certain requirements to be met substantially from their colonial sources or will actually be net exporters of some food staples: Belgium, sugar and oilseeds from Congo; China, soybean export; Czechoslovakia, potato and sugar export; France, sugar, grain, and oilseeds from colonies; Hungary, grain export; Iran, grain export; Netherlands--N.E.I., trade in copra and sugar; Poland, grain and sugar export.

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7.0. Given availability of means of payment of the magnitude indicated, supplies should be available to meet all these requirements without undue difficulty, except for grains. To the extent that funds are not available for more expensive foods demand for grains is thereby further increased.

7.1. Breadgrains: World export supplies may be of the order of 27-29 million tons and requirements about 33-35 million, not too different from the position this year. Aside from the countries here considered, most world demand will have pretty solid financial backing; e.g., British Commonwealth, Latin America, Bizonal Germany supplies, and India. The greatest additional source of pressure now foreseen will be from the increased (and intensified) demand from France, Netherlands, and Belgium because of the recent killing winter frost and poor resowing weather. However, their demand will probably be met to the detriment of other rehabilitation needs of these countries because of its basic economic and political significance, and for Belgium and Netherlands may be met in preference to requirements of needier areas because the former are commercially attractive markets for the future. Estimated average cost, \$90 per ton.

From the point of view of the internal financial problems of the United States and some of the countries here considered (as well as that of Greece), the grain supply problem may be greatly eased if we can control (or purchase) the sizable Turkish grain surpluses. These may run around 1,500,000 tons. Poor and inaccessible storage, and poor transportation now prevent taking this supply fully into account. If it would be desirable for other reasons to remedy these transportation failings, the Turkish grain would go far toward solving presently foreseen difficulties.

7.2. Fats and oils: Although fats and oils will continue to be very short, a moderate improvement in the world export supply should be expected above this year's level, 3,300,000 tons,

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which this year permitted the provision of 994,000 tons for the countries named, much of it from the colonial production of Netherlands, France, and Belgium. The necessary swaps, or cross-allocations of other required fats and oils should be practicable. Estimated average cost, \$600 per ton.

7.3. Meats: There should be no supply difficulty in providing these export requirements on the scale suggested. Several of the countries will probably draw substantial quantities from the Argentine through the British bulk purchase and the remainder could be provided from this country simply by removing export controls. If the restrictive policy of the Department of Agriculture were changed, the United States alone could practicably supply 700,000 to 800,000 tons of meat next year, less than 10 percent of its supply, enough of an increase over present export rates to take care of all the calculated needs of these countries. Estimated average cost, \$900 per ton from the United States.

7.4. Pulses are not separately taken into account. In general, the countries here considered can expect to get something like 75 percent of their pre-war pulse consumption, particularly if world meat exports can be increased. If, however, for supply or financial reasons there are continued strenuous efforts to substitute pulses as a vegetable protein for meat, considerable difficulty will be encountered. As indicated, financial needs would be decreased by this substitution, pulses from the United States averaging about \$300 per ton.

7.5. Sugar: The small quantities of sugar needed could be easily supplied. Estimated average cost, \$200 per ton.

8.0. Relation to IEFC and export policy: Such export goals as the above for these countries can properly and perhaps preferably be best achieved within the framework of our present policy of working out equitable allocations through IEFC. To the extent that changes in our program for these countries may have to be made, they would involve compromise with the needs of other areas for which we have great concern, e.g. Brazil, Germany, India, and

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and other areas whose control over supplies we cannot ignore, e.g. the United Kingdom. Since, as observed, almost all these latter countries themselves control significant export supplies needed directly or indirectly for our programs, we must cooperate with them anyway, and the IEFC suggests itself as a convenient instrument to work out whatever pattern we might desire. Commercial policy considerations do dictate the abandonment of IEFC as soon as the period of shortage is no longer serious, but our view of the seriousness of the supply position of various countries may in turn be influenced by a variety of considerations.

8.1. Note that there has never been an IEFC allocation of breadgrains, the most critical item, hence there are not likely to be any formal limitations arising on this score. However, our grain programming has been based on the closest IEFC consultation and recommendation. It is probably in connection particularly with breadgrain requirements, such as that for Italy and particularly if it may have to be raised, that we would encounter the heaviest opposition from all large importers, such as France, the United Kingdom and India.

9.0. If sufficient dollar funds can be provided, no U.S. legislation would be required to implement this program, beyond continuation of transportation controls to enable and to channel heavy grain movements. For tighter and more flexible programs, and particularly in order to hold down prices, the general allocation powers of the Second War Powers Act (now entitled First Decontrol Act) must be continued in at least their present form. Domestic controls in the form of War Food Orders under this enabling act would be less important than import control necessary to prevent private importers in this country from bulling the market for oilseeds, and sugar and sugar products. At the same time continuation of export controls will be needed to channel supplies to proper countries and to cut down undesired foreign demand in this market. Government procurement should be continued, possibly even reinstated for some products if suggested by the behavior

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of markets. Where the Department of Agriculture (Commodity Credit Corporation) is squeamish about the proper use of its discretionary authority in procuring, specific legislation would be required, particularly to authorize stockpiling against general foreign needs.

CONFIDENTIALAPPENDIX "D"SECTION VCOAL

Europe is the critical coal deficiency area. Table 7 indicates that Europe, of all continental areas, accounts for practically the total world coal import requirement. In 1947 the total world net import requirement is estimated at 71,000,000, all but 3 million tons of which is for Europe. (See Table 7, attached).

European Coal Shortage.

A country breakdown of the European net import requirement for 1947 is shown in Table 1. Only Poland, Turkey, Czechoslovakia, Hungary, and Germany have exportable coal in 1947.¹ The other European countries, except for a few self-sufficient ones, are dependent upon imports. In 1947, the total net import requirement of these importing countries is estimated at 91,000,000 tons. (See Tables 1 and 2). Those European countries which have an exportable surplus of coal in 1947 will be able to supply only about 23 million tons or about 28% of the import requirement. (See Tables 1 and 3, attached). The European importing countries therefore will be dependent upon overseas imports to fill the residual shortage of 68 million tons.

The only other exportable supplies of coal Europe can tap in 1947 are in South Africa and in the U.S.A. The first can supply about 2.0 to 2.5 million tons to Europe (including bunkers for British Commonwealth shipping) and the U.S.A. about 29.5 million tons, or a total of 32 million tons. (See Table 4, attached). The European coal deficit countries will therefore be short at least 36 million tons in 1947 or short, under most optimistic assumptions, of 10% of estimated requirements. Since the attainment of the posited export availabilities from Poland, Germany, and the U.S.A. are dependent upon the most optimistic combination of circumstances, there is an equal

^{1/} The U.K., if anything, has a net import requirement. Germany has an exportable supply, despite an internal shortage, by virtue of export set-asides.

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probability that they will not be attained. Poland may have the coal but possibly not the transport. Germany will be able to export 11.5 million tons this year only if the present level of production in the British zone, which is the principal exporting zone, increases by at least 10-15% and if the inland water transportation system is put to greater use. The U.S.A. will be able to export 29.5 million tons to Europe in 1947 only if shipping is adequate to that volume and if the legislative authority to allocate export coal and to coordinate the various aspects of the program, inland and water transport and port facilities is extended.

Aside from imports, the ability of the European coal deficit countries to satisfy their estimated total requirement of 383 million tons depends upon the level of their internal coal production. Table 2 shows that the U.K., France, Belgium, and the Netherlands produce substantial quantities of coal. In 1946, they produced 266 million tons. It is estimated that they will produce 290 million tons in 1947. This estimate is a projection of their current rates of production. All these countries except the U.K. are now close to or ahead of their 1935-38 level of coal production. Several unfavorable factors likely to affect their current rate of output are: the loss of PW's in Belgium, France, and the Netherlands, the adoption of a five day week in the British mines,¹ and a shortage of mining equipment. The supply-requirements position presented may therefore for these reasons also prove to be worse than presented in Table 4.

Coal Deficit Areas Other than Europe. (See Table 7, attached)

Other areas of the world dependent on overseas imports in 1947 are Argentina, Brazil, Chile, and a number of other South American countries; Indo-China, China, the Philippines, the Malay States, Southern Korea, and possibly the Netherlands East

¹ Although this because of the high rate of absenteeism may simply reduce the number of scheduled days to be worked rather than the actual man-days worked.

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Indies in the Far East; and Angola and the Belgian Congo in Africa.² South America in 1946 imported about 2.5 million tons from all sources (mostly from the U.S.A. and South Africa) and is not likely to require greater net quantities in 1947. Far Eastern areas in 1946 imported (on a net basis) only about 200,000 tons and in 1947 may require between 500,000 and 1,000,000 tons. The aggregate net requirement of these areas in 1947 is unlikely to exceed 3.0 to 3.5 million tons.

As for the areas under military control, Japan, prior to the war, produced about 48,000,000 tons of coal and imported substantial quantities from China. In 1946 Japan produced 20,000,000 tons of coal and exported minor quantities to Southern Korea and Hong Kong. Japanese annual requirements are probably in the neighborhood of 30,000,000 tons. The 1947 output is not likely to exceed 27,000,000, of which possibly one million will be exported to Southern Korea and other areas.

The Military Government in Korea recently reported an annual requirement of about 1.9 million tons. Japan is meeting a small part of this need and some of it is being met from local production of low-grade fuels. Prior to the war, northern Korea supplied southern Korea's coal requirements.

World Coal Supply-Requirements Position for 1948.

The world supply-requirements position for 1948 has not been presented in the tabular appendix because of the difficulties attending any attempt to give a quantitative presentation. The European coal requirements position in 1948, as compared with the forecast for 1947, depends upon the extent to which it satisfies its requirements in 1947. If Europe meets only 90% of its 1947 requirements, and it may fall short by even a greater percentage, it will probably be unable to consume much more than the quantity required in 1947. For the reason that it probably will have been retarded in economic recovery by at least one year, the consumption target for 1947 will simply

^{2/} Despite the coal requirements of Angola, Belgian Congo, and West Africa, Africa has a net export surplus of coal owing to South Africa's exportable surplus. Import requirements for areas in n. Africa are included in those for Europe.

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become the target for 1948. Of course, if it meets its 1947 requirements, which is unlikely, it will be in position to absorb greater quantities of coal than those shown as required for 1947.

Europe's primary problem is not to conceive of ways of raising its coal requirements, but to increase availabilities from all sources and to budget available supply in accordance with priorities. Table 4 shows that Europe will be short at least 36 million of tons of coal in 1947. Her first problem is to close this gap and to obtain greater quantities of European export coal in order to reduce the drain upon dollar supplies entailed in importing U.S. coal. Europe's dollar costs for 29.5 million tons of U.S. coal will be approximately:¹

29.5 million tons	X \$8.25 per ton f.o.b. pier	- \$243,375,000
23.6 million tons ²	X \$11.75 per ton ocean freight	- <u>\$277,300,000</u>
		\$520,675,000.

For the time being, the U.K. is not likely to be a net exporter of coal. Europe's ability to obtain 91 million tons or 66 million tons additional coal from net exporting countries of Europe (in addition to 23 million tons likely to be so obtained in 1947) depends upon Germany's exporting at least 40 to 45 million tons and Poland's exporting the residual quantities, 50 to 45 million tons, or 26 to 21 million tons more than she currently exports.³

Both Germany and Poland have the physical resources to export these quantities of coal. Poland's ability to export such quantities of coal, or even of appreciably increasing her exports in 1948, depends on her getting a loan from the World Bank and mining equipment from both Germany and the U.S.A. Her production target for 1949 is 80,000,000 tons, for the attainment of which she has requested a loan of \$60,000,000. The extent to which Germany's exportable surplus can contribute to

^{1/} Data from ECO estimates.

^{2/} 80% of coal carried in U.S. ships. 80% of 29.5 = 23.6.

^{3/} The U.S.S.R. will by that time probably no longer require Polish coal.

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closing the gap depends upon the relation of German industrial production to German coal production established by the Council of Foreign Ministers. It is extremely important to emphasize recovery of German coal production.

U.S.A. Contribution to Coal Deficit Areas.

In 1945 the U.S. exported 5.3 million tons of coal to Africa, the Far East, South America, and Europe, of which 3.5 million tons were shipped to Europe. In 1946, the U.S.A. exported about 20 million tons to these areas, including 17.8 million tons to Europe and U.K. overseas bunkers. In 1946, the quantity might have been in excess of 20 million had not maritime and coal strikes interfered with exports. About 33 million tons will be exported to all destinations in 1947, including 29.5 to Europe, assuming the most favorable combination of circumstances. Table 5 indicates U.S. exports to Europe (except U.K. bunkers), by countries, in the fourth quarter of 1945, in 1946, and in the first quarter of 1947. It indicates that for the European Coal Organization deficit countries, U.S. supplied in 1946 14% of total availability and almost 44% of net imports. Under the most favorable conditions for 1947, the U.S. is likely to contribute almost 10% of total 1947 supply of these countries and about 50% of their total imports. This indicates that the U.S. contributes a significant and substantial proportion of European coal supply. It also will contribute about one-third of total Latin American coal supply.

In 1947 the U.S. is likely to export to areas other than Europe about 3.5 million tons, of which 2 1/2 million will be destined for South America, minor quantities to Angola and Belgian Congo, and about one million tons to other destinations, mostly in the Far East, namely, French Indo-China, China, the Malay Peninsula, the Netherlands East Indies, and the Philippines. It is not believed that the U.S. will be required to supply any coal to either southern Korea or Japan as long as southern Korea is considered a Japanese obligation by the Military Government and as long as it is decided that Japan is to meet her own requirements from internal production, U.S. coal destined for

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the Far East is loaded at West Coast ports, from which overseas coal is severely limited in capacity owing to a dearth of coal available to West Coast ports. Coal loaded at Atlantic ports for the Far East would have to be at the expense of European claimants.

U.S. Policy and Commitments.

It is the policy of the U.S. to maximize the export of coal to Europe and other destinations and to distribute such coal as equitably as possible.

The European Coal Organization,¹ which is an intergovernmental advisory body of which the U.S. is a member, prepares recommendations on the distribution of export availabilities from all member sources and Germany in accordance with the supply requirements position of each claimant country. Although this Government maintains the right to allocate coal independently on the basis of its own decisions, it is the policy of this Government to follow the recommendations of the ECO in so far as they appear to be equitable. To date, there has been only one case in which the U.S. has departed from a recommendation of the ECO.

U.S. Ability to Implement its Policies and Commitments.

On the U.S. side, U.S. coal export policy and allocations have been the responsibility of the U.S. Coal Operating Committee of the Combined Coal Committee. Effective April 1, 1947, U.S. coal export policy and allocations will be the responsibility of the U.S. Coal Export Committee, an inter-agency body consisting of the various agencies responsible for the several aspects of the coal program. In addition, the Coordinator for Emergency Export Programs, reporting directly to the President, is responsible for coordinating the transportation of coal and other export commodities for the purpose of facilitating the attainment of the highest possible rate of exports.

¹ Shortly to be integrated in the Economic Commission for Europe, recently established by ECOSOC.

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The ability of the U.S. to maintain a high rate of coal exports and to attain its coal export target of 3 to 3.5 million tons per month to Europe depends upon the availability of coal, of railroad facilities, of port capacity, of ocean shipping, and upon the existence of appropriate administrative machinery to allocate coal and to coordinate all the aspects of the program.

The following steps need to be taken if the U.S. is to continue to press for the attainment of a high rate of U.S. coal exports:

Shipping. Shipping has been and will continue to be a bottleneck. The higher the rate of coal exports and the higher the rate of exports of competing commodities, the shorter the supply of ships. The supply of shipping is dependent upon the authority of the U.S. Maritime Commission to charter ships, to use its funds to rehabilitate ships in lay-up for the purpose of placing them in operation, and to operate ships through agents for the purpose of maintaining a shipping pool to cover spot shortages of privately operated ships. The authority of the U.S. Maritime Commission to charter ships on all but a long-term basis expires at the end of 1947. Its authority to operate ships through agents and to use its funds to take ships out of lay-up expires June 30, 1947. Both of these pieces of legislation must be extended if the ability of this Government to continue exporting a sizeable volume of coal to Europe is to be retained.

Availability of Coal and Inland Transport. U.S. coal is likely to be available for export in sufficient quantities provided there are no strikes. If and when the industry returns to a five day week, coal supply is likely to become shorter,¹ though probably not to the point of interfering with exports. However, it may lead to greater competition for coal as between internal consumers and exporters, thereby forcing up the price of coal and encouraging domestic consumers to exert pressure for a limitation on export coal, either by quantity, quality, or

¹/ Provided the present rate of business activity is maintained.

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both. Railroad car supply is generally adequate if not comfortable, though competing seasonal demands may lead to temporary shortages. Port capacity is adequate though spot congestion will lead from time to time to temporary embargoes and to delay in issuing permits for the movement of coal into port.

Administrative Machinery. In view of this country's policy to distribute export coal equitably and to carry out its obligations to ECO, an allocation mechanism is essential as long as the foreign demand for U.S. coal exceeds U.S. export availability. The U.S. now allocates coal through a U.S. Coal Export Committee. The Committee's allocations are based on ECO recommendations in the case of Europe and on independent findings in the case of other destinations and are implemented by the licensing authority of the Office of International Trade, which issues licenses to claimant countries in accordance with the Committee's decisions. OIT operates under the authority of the Export Control Act, which expires June 30, 1947. The President has requested an extension. If this extension is not granted, the U.S. will be unable to distribute coal equitably or to discharge its obligations to ECO. Therefore, if this Act is not renewed, special legislative authority should be sought for coal to enable this country to discharge a policy vital to its foreign economic and political interests.

This Committee's activities are necessary not only for the purpose of allocating but also--and what may be more important--because its function is to maximize coal exports. The Committee's responsibilities go beyond the matter of distributing coal among claimants. It determines total export availability from East, Gulf and West coast ports; It advises ECO of total export availability to ECO countries, which then recommends a distribution pattern; it determines whether particular ports are over or under-programmed and modifies allocations accordingly; it issues allocations by ports to eliminate congestion. The Coordinator for Emergency Export Programs is responsible for breaking transportation bottlenecks affecting the exportation

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of coal and other vital commodities. His work and that of the Committee are complementary; he is, in fact, represented on the Committee. The Coordinator keeps a daily check on the port situation, receives each country's monthly loading schedule to eliminate conflicts, synchronizes one commodity export schedule with another, and determines the volume of shipping required. All these activities are indispensable. A number of the key personnel on this Committee are attached to agencies which expire as of June 30. They have unique experience, which should not be lost to the program. If an appropriation is not obtained to cover these activities, neither the present incumbents nor anyone else will be available to carry on this work. It is therefore recommended either that a special appropriation be sought for the next fiscal year to establish a Coal Export Committee independently or that the necessary personnel be provided for, attached to one or more of the permanent agencies of the Government. It is estimated that in either case from \$50,000 to \$100,000 will be required for this purpose.

CONFIDENTIALANNEX ITABLE 1

COAL SUPPLY-REQUIREMENTS POSITION OF EUROPEAN COUNTRIES, 1947
(Millions of Metric Tons)

	Estimated	Net Pit-head		Net Import	Net	Net
	Requirements	Production ²	Production ²	Requirement	Exportable	Available
	1947 ¹	1946	1947	1947 ³	Surplus	Supply
					1947	1946
<u>ECO Countries</u> ⁴						
Belgium	29.5	22.8	24.0	5.5	-	24.9
Denmark	6.4	-	-	6.4	-	3.8
France	73.0	47.2	53.0	20.0	-	57.3
FNA	2.4	0.4	0.4	2.0	-	1.4
Luxembourg	3.1	-	-	3.1	-	1.9
Netherlands	17.0	8.3	10.5	6.5	-	11.1
Norway	3.1	-	-	3.1	-	1.9
Greece	1.0	-	-	1.0	-	0.3
Italy	14.5	1.1	1.5	13.0	-	6.7
Finland	3.2	-	-	3.2	-	0.9
Portugal	1.8	0.4	0.5	1.3	-	1.0
Sweden	8.8	0.2	0.3	8.5	-	3.8
Switzerland	3.6	-	-	3.6	-	1.5
Poland	36.0	47.3	55.0	-	10.5 ⁵	36.0 ¹²
U.K.	208.0 ⁶	188.3	200.0	8.0	-	185.8 ¹³
Turkey	3.4	3.6	3.6	-	0.2	3.4
Czechoslovakia	27.5	25.6	28.0	-	0.5	25.3
Sub-total ECO	442.3	345.2	376.8	85.2	11.2	341.7
Austria	5.3	1.7	1.8	3.5	-	3.9
Hungary	2.9	3.0	3.1	-	.2	2.8
Yugoslavia	2.8	2.8	2.8	-	-	2.8
Ireland	2.0	-	-	2.0	-	1.3
Iceland	0.1 ⁸	-	-	0.1	-	0.9
<u>Germany, Total</u>	135.8 ⁸	121.2	149.3	-	11.5 ⁸	109.2 ¹⁴
French Zone	7/	8.0	10.3	7/	1.2 ⁹	
U.S.S.R. Zone	7/	38.8 ¹⁰	41.5	7/		
U.S.A. Zone	7/	3.3	3.5	7/		
British Zone	7/	71.1	94.0	7/		
GRAND TOTAL	591.2	473.9	533.8	90.8	22.9 ¹¹	487.9

1/ Requirements were estimated by adding estimated net pit-head production for 1947 to net import requirements for 1947 as estimated by ECO. The requirements, as shown, therefore include, in the case of producing countries, coal consumed in colliery production.

2/ Production as shown covers both hard and brown coal, the latter reduced to hard coal equivalents by appropriate ratios.

3/ This covers in the case of such countries as Belgium, France and the Netherlands net import requirements after deducting, in so far as possible, coal interchanged among themselves and exported to other countries, such as Italy, according to the terms of special agreements.

4/ Although the U.S.A. is excluded from the Table, it is a member country. The member countries are: Belgium, Czechoslovakia, Denmark, France, Greece, Luxembourg, the Netherlands, Norway, Poland, Turkey, and U.K. Affiliated countries are: Finland, Italy, Portugal, Switzerland, and Sweden.

Sources: ECO publications; ACC, Germany, U.S. Missions abroad, Foreign Government sources and NGCC.

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- 5/ Excludes approximately 8 million tons destined to U.S.S.R. in 1947. This assumes that Poland in 1947 is obligated to the U.S.S.R. for $6\frac{1}{2}$ million tons of coal on her 1947 commitment plus about $1\frac{1}{2}$ million tons of deferred 1946 shipments. Also excludes 500,000 tons of Polish coal to U.S.S.R. zone.
- 6/ This assumes that U.K. will wish to add about 4 million tons to inventories before winter 1947. Her present inventory is down to two weeks' supply of coal at present rates of consumption. Also included are about 2.5 million tons supplied by U.S. for overseas bunkers, plus 1.5 million tons supplied by South Africa to British bunkers, both of which are properly a U.K. requirement. The U.S. is currently supplying about 2.4 million tons of the 2.5 required by U.K. for overseas bunkers. The U.K. will therefore have to reduce her rate of consumption in 1947, raise her coal production target, or else import substantial quantities of coal.
- 7/ Data omitted.
- 8/ Subject to decision of CFM at Moscow. Net exportable surplus shown is after deduction of 500,000 tons imported by U.S.S.R. zone from Poland. It includes Saar net exports to France and 2.5 million tons to Austria.
- 9/ To ECO countries, mostly to France. 2.8 million tons exported to U.S. zone offsets receipt equivalent tonnage Ruhr coal.
- 10/ Hard coal output was 2.5 million tons, remainder brown coal at 1/3 ratio to hard coal.
- 11/ To this should be added 8.5 million tons of Polish coal to U.S.S.R. and U.S.S.R. zone in order to balance the net difference between columns 4 and 5 with the net difference of columns 1 and 3.
- 12/ The reported internal consumption of 36 million tons appears to be too high and probably is partly explainable by inefficient colliery use and losses to the black market. 1947 consumption has, therefore, been estimated at the same level, despite the higher level of industrial production, on the ground of more efficient use.
- 13/ After deducting exports of 2.5 million tons to foreign countries.
- 14/ After deducting 12.0 tons of exports from all zones.

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EUROPEAN COAL IMPORTING COUNTRIES:
 TOTAL REQUIREMENTS, PRODUCTION AND
 IMPORT REQUIREMENTS, 1947
 (Millions of Metric Tons)

<u>Country</u>	<u>Requirement</u>	<u>Net Pit-head Output</u>	<u>Import Requirement</u>
<u>ECO Countries</u>			
Belgium	29.5	24.0	5.5
Denmark	6.4	-	6.4
France	73.0	53.0	20.0
FNA	2.4	0.4	2.0
Luxembourg	3.1	-	3.1
Netherlands	17.0	10.5	6.5
Norway	3.1	-	3.1
Greece	1.0	-	1.0
Italy	14.5	1.5	13.0
Finland	3.2	-	3.2
Portugal	1.8	0.5	1.3
Sweden	8.8	0.3	8.5
Switzerland	3.6	-	3.6
U.K.	208.0	200.0	8.0
Sub-total ECO	375.4	290.2	85.2
<u>Others</u>			
Austria	5.3	1.8	3.5
Ireland	2.0	-	2.0
Iceland	0.1	-	0.1
Sub-total	7.4	1.8	5.6
GRAND TOTAL	382.8	292.0	90.8

Source: Derived from Table 1.

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CONFIDENTIALTABLE 3EUROPEAN COAL EXPORTING COUNTRIES:
NET EXPORTABLE SURPLUS IN 1947

<u>Country</u>	<u>Estimated</u> <u>Requirements</u>	<u>Est. Net</u> <u>Pit-head</u> <u>Production</u>	<u>Net Exportable</u> <u>Surplus</u> ^{1/}
Turkey	3.4	3.6	0.2
Poland	36.0	55.0	10.5 ^{2/}
Czechoslovakia	27.5	28.0	0.5
Germany	135.8	149.3	11.5
Hungary	2.9	3.1	0.2
TOTAL	205.6	239.0	22.9

(Millions of Metric Tons)

^{1/} To the West only.^{2/} Excludes 8.5 million tons estimated exports to U.S.S.R. and U.S.S.R. Zone of Germany.

Source: Derived from Table 1.

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CONFIDENTIALTABLE 4ESTIMATED COAL SUPPLY-REQUIREMENTS POSITION OF
EUROPEAN COAL DEFICIT COUNTRIES, 1947

	<u>Millions of</u> <u>Metric Tons</u>
<u>Coal Deficit Countries</u>	
Total Requirements	382.8
Total Production	292.0
Deficit for Import	90.8
<u>Estimated Imports</u>	
From European Countries	22.9
From South Africa	2.0
From U.S.A.	29.5 ^{1/}
TOTAL	54.4
<u>Total Probable Supply</u>	
From Production	292.0
From Imports	54.4
TOTAL	346.4
Total Requirements	
Less Total Supply	36.4
Total Probable Supply as Per Cent of Requirements	90%

^{1/} Includes 2.5 million tons to U.K. bunkers.

Source: Derived from preceding Tables

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TABLE 5

SELECTED EUROPEAN COAL DEFICIT COUNTRIES:
 TOTAL NET IMPORTS AND IMPORTS FROM U.S.A.
 FOURTH QUARTER 1945 TO FIRST QUARTER 1947
 INCLUSIVE
 (Millions of Metric Tons)

	<u>Net</u> <u>Pit-head</u> <u>Production</u>	<u>Total</u> <u>Net</u> <u>Imports</u>	<u>Net</u> <u>Available</u> <u>Supply</u>	<u>Imports</u> <u>From</u> <u>U.S.A.</u>	<u>Imports from</u> <u>U. S. A.</u> <u>Net</u> <u>Available</u> <u>Supply</u> <u>%</u>	<u>As % of</u> <u>Total</u> <u>Net</u> <u>Imports</u> <u>%</u>
<u>France</u>						
1945, 4th Q.	10.4	2.3	12.7	1.0	7.9	43.5
1946	47.2	10.1	57.3	5.2	9.1	51.5
1947, 1st Q.	13.0	2.5	15.5	1.8	11.6	72.0
<u>Belgium</u>						
1945, 4th Q.	5.2	1.0	6.2	0.4	6.5	40.0
1946	22.8	2.1	24.9	1.4	5.6	66.7
1947, 1st Q.	6.0	.7	6.7	0.7	10.4	100.
<u>Netherlands</u>						
1945, 4th Q.	1.7	0.6	2.3	0.2	8.7	33.3
1946	8.3	2.8	11.1	1.5	13.5	53.6
1947, 1st Q.	2.4	0.9	3.3	0.6	18.2	66.6
<u>Italy</u>						
1945, 4th Q.	0.3	1.1	1.4	0.9	6.4	81.8
1946	1.1	5.6	6.7	4.6	74.2	82.1
1947, 1st Q.	0.3	2.2	2.5	1.5	60.0	68.2
<u>FNA</u>						
1945, 4th Q.	0.1	0.3	0.4	0.2	50.0	66.7
1946	0.4	1.0	1.4	0.6	42.9	60.0
1947, 1st Q.	0.1	0.2	0.3	0.2	66.7	100.
<u>Sweden</u>						
1945, 4th Q.	0.06	0.3	0.4	0.2	50.0	66.7
1946	0.24	3.6	3.8	1.0	26.3	27.8
1947, 1st Q.	0.06	1.1	1.2	0.3	25.0	27.3
<u>Switzerland</u>						
1945, 4th Q.	-	0.2	0.2	0.1	50.0	50.0
1946	-	1.5	1.5	0.3	20.0	20.0
1947, 1st Q.	-	0.4	0.4	0.1	25.0	25.0
<u>Norway</u>						
1945, 4th Q.	-	0.4	0.4	0.2	50.0	50.0
1946	-	1.9	1.9	0.8	42.1	42.1
1947, 1st Q.	-	0.5	0.5	0.3	60.0	60.0

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	<u>Net</u> <u>Pit-head</u> <u>Production</u>	<u>Total</u> <u>Net</u> <u>Imports</u>	<u>Net</u> <u>Available</u> <u>Supply</u>	<u>Imports</u> <u>From</u> <u>U.S.A.</u>	<u>Imports from</u> <u>U. S. A.</u> <u>Net Available</u> <u>Supply</u> <u>%</u>	<u>As % of</u> <u>Total</u> <u>Net Imports</u> <u>%</u>
<u>Luxembourg</u>						
1945, 4th Q.	-	0.4	0.4	-	-	-
1946	-	1.9	1.9	-	-	-
1947, 1st Q.	-	0.5	0.5	-	-	-
<u>Portugal</u>						
1945, 4th Q.	0.1	0.2	0.3	0.1	33.3	50.0
1946	0.4	0.6	1.0	0.4	40.0	60.0
1947, 1st Q.	0.1	0.2	0.3	0.2	66.7	100.0
<u>Denmark</u>						
1945, 4th Q.	-	0.8	0.8	0.2	25.0	25.0
1946	-	3.8	3.8	0.9	23.7	23.7
1947, 1st Q.	-	0.9	0.9	0.5	55.6	55.6
<u>Finland</u>						
1945, 4th Q.	-	0.1	0.1	-	-	-
1946	-	0.9	0.9	0.2	22.2	22.2
1947, 1st Q.	-	0.2	0.2	0.1	50.0	50.0
<u>Eire</u>						
1945, 4th Q.	-	0.25 ^{1/}	0.25 ^{1/}	-	-	-
1946	-	1.3 ^{1/}	1.3	-	-	-
1947, 1st Q.	-	0.1 ^{1/}	0.1 ^{1/}	0.03	30.0	30.0
<u>Iceland</u>						
1945, 4th Q.	-	0.02 ^{1/}	0.02 ^{1/}	-	-	-
1946	-	0.1	0.1	-	-	-
1947, 1st Q.	-	0.05 ^{1/}	0.05 ^{1/}	0.04	80.0	80.0
<u>Greece</u>						
1945, 4th Q.	-	NA	NA	NA	NA	NA
1946	-	0.3	0.3	0.08	26.7	26.7
1947, 1st Q.	-	0.05 ^{1/}	0.05 ^{1/}	3/	-	-
<u>Total European ECO Deficit Countries^{2/}</u>						
1945, 4th Q.	17.9	7.9	25.8	3.4 ^{4/}	13.2	43.0
1946	80.5	39.1	119.6	17.1 ^{4/}	14.3	43.7
1947, 1st Q.	22.0	10.6	32.6	6.2 ^{4/}	19.9	61.3

^{1/} Estimated.

^{2/} Excludes U.K. requirements for overseas bunkers. With the exception of Luxembourg, covers only those European countries which import coal from U.S.A.

^{3/} Greece has not been lifting her U.S. allocation owing to shortage of dollars. She had been allocated 51,000 tons of coal from the U.S.

^{4/} This comprises all the coal the U.S.A. exported to Europe for internal consumption in those periods.

Sources: ECO, Combined Coal Committee, and U.S. Coal Operating Committee.

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TABLE 6
NET EXPORTABLE SURPLUS OF COAL FROM CONTINENTAL EXPORTING AREAS,
1946-1947
(Millions of Metric Tons)

<u>Africa</u> ^{1/}	<u>Production</u>	<u>Net Exportable Surplus</u>
1946	28.5	2.5
1947	32.7	3.5
 <u>North America</u>		
1946	557.0	20.0
1947	592.0 ^{2/}	33.0
 TOTAL		
1946	585.5	22.5
1947	624.7	36.5

^{1/} FNA, which is carried as a European country for this purpose, is excluded.

^{2/} Includes 575 million tons of coal from the U.S.A. The present rate of production is about 600,000,000 metric tons per year. The estimate for the U.S.A. assumes that about 10% of production will be lost during the second half of 1947 because of the possibility of a change to a five day week.

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NET COAL IMPORT REQUIREMENTS OF CONTINENTAL IMPORT AREAS,
1946-1947
(Millions of Metric Tons)

<u>Latin America</u>	<u>Production</u>	<u>Net Import Requirement</u>
1946	3.5	2.5
1947	3.8	2.5
<u>Far East</u>		
1946	62.6	0.2
1947	75.8	1.0 ^{1/}
<u>Europe</u> ^{2/}		
1946	487.9	19.8
1947	533.8	67.9
TOTAL		
1946	554.0	22.5
1947	613.4	71.4

^{1/} Mostly for British Malaya, Hong Kong, French Indo-China, China, Philippines, and Netherlands East Indies. These import requirements may be lower to the extent that they are met from Japanese production.

^{2/} U.S.S.R. excluded. For all practical purposes the U.S.S.R. may be considered self-sufficient in coal. She is unlikely to have any import requirements upon the rest of the world, aside from those upon Poland which are tied to special agreements. Poland's export commitments to the U.S.S.R. have been deducted from her exportable surplus.

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U.S. COAL EXPORTS TO LATIN AMERICA, AFRICA AND FAR EAST
1946
(Millions of Metric Tons)

<u>Latin America</u>	
Argentina	0.4
Brazil	1.0
Uruguay	0.1
Others ^{1/}	<u>0.3</u>
TOTAL	1.8
<u>Africa</u>	
West Africa	0.04
Egypt ^{2/}	0.08
Other	<u> </u> ^{3/}
TOTAL	0.12
<u>Far East</u>	
China	0.08
New Zealand	0.03
South East Asia ^{4/}	<u>0.10</u>
TOTAL	0.21
<u>Other Destinations</u> ^{5/}	.05
TOTAL	2.2

- ^{1/} Covers minor quantity of sea-borne shipments to Mexico.
^{2/} For bunkers and railways.
^{3/} Negligible.
^{4/} Covers French Indo-China, British Malaya, and Hong Kong.
^{5/} Covers Madeira and Verde Islands.

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CONFIDENTIALAPPENDIX "E"SECTION VITRANSPORTATION AND INDUSTRIAL EQUIPMENT

Adequate rehabilitation of economic activity, particularly in Europe, requires in addition to necessary supplies of food and fuel, two principal things:

1. The less important is restoration or replacement of certain key types of industrial equipment.
2. By far the more important is provision of an effectively operating transport system.

It is not possible to describe either of these two requirements in strictly quantitative terms because the necessary statistical data are not available. It is, however, possible to arrive at a number of significant conclusions on the basis of the information which is at hand and to indicate several key points requiring action.

A. Transportation

It must be emphasized that the transportation system of Europe is a single network. It cannot be examined and described on a country by country basis but must be assessed on a continental basis. It must further be emphasized that rivers, canals and other such waterways constitute just as important a part of the transportation network of Europe as do the railways. The two, therefore, must be thought of together and must be regarded on a continental basis. It would be meaningless to approach the matter otherwise.

At the close of the war, as a result of the combined effects of German occupation practices, bombing activities and in some quarters ground warfare, the European transportation system was completely disrupted. Canals had been flooded or obstructed, bridges had been destroyed, rail beds and terminal facilities had been uprooted, and rolling stock and motive power had been

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drastically reduced. It has been estimated by ECITO that the European railways, as compared with prewar, were, with respect to wagon population only 30% effective, with respect to locomotive power 50% effective, and with respect to stocks of repair parts and the like only 30% effective. Comparable figures applicable to water transportation are not at hand but it is safe to say that the position was much the same.

Rehabilitation, although far from complete, far even from having achieved the essential minimum, has, nevertheless, gone a substantial distance. Some ports have been well enough cleared of wreckage, and port facilities sufficiently rebuilt to provide reasonable access to the seas. Waterways have been pretty well cleared of obstructions. Most bridges have been rebuilt, at least with temporary structures. Road beds and rail yards have been brought back to usefulness. The difficulties that remain are not primarily difficulties of physical obstruction. They are in the main difficulties of:

1. Organization and administration,
2. Rolling stock and locomotive power, and
3. Fuel.

These difficulties, however, are so serious as to require the promptest possible remedy. Until there is a remedy virtually no part of the economic organization of Europe can function effectively.

Substantial quantities of rolling stock and locomotives have been purchased or placed on order in the United States by the European countries. Among the bigger procurements have been the following:

France has placed orders for 36,000 freight wagons, most of which already have been delivered and the last of which will be delivered by the middle of the summer of 1947.

Belgium has purchased about 100 locomotives in the United States as well as some in Canada.

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Poland is expected, during 1947, to be purchasing 125 locomotives and 5000 freight wagons.

In addition to these principal purchases in the United States are some small purchases by other European countries. There have been also large purchases out of United States army surplus in Europe by France and Belgium and effort is now being made by Hungary to arrange such purchase.

It is hard to tell from available information to what extent future European requirements will have to be met from the United States. It is known that Poland may be placing further orders and it is not unreasonable to believe that some of the other countries may be doing likewise, although we have no knowledge of that at the present time. It is known also that purchases of locomotives and freight wagons are being made in Canada not only by the United Kingdom and the USSR but also among other countries by Belgium, The Netherlands, France, Czechoslovakia, Poland and Italy. The quantities are not known. It appears likely also that other known continental sources, as for example, the United Kingdom, are being drawn upon.

On the other hand there have been definite indications of a recovery of railroad production facilities on the Continent.

Belgium has sold some locomotives to the Belgium Congo.

The Netherlands is expected to be building its own locomotives and possibly wagons fairly soon.

Czechoslovakia is attempting to find export markets for locomotives and other railway equipment.

On balance the position would appear to be about as follows:

(a) Rolling stock and locomotives will remain seriously below prewar levels and probably below desirable levels in Europe for at least another year or more.

(b) It is doubtful that large scale orders will be placed in the United States during the next year or two.

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(c) Continental production, though not at all large quantity production, stands to increase.

New equipment is no more important than repair and maintenance of existing equipment. Both wagons and locomotives are still being withdrawn from service throughout Europe at an alarming rate. It is said that in the United States Zone in Germany alone, wagons are being withdrawn at the rate of 1000 a week and that in the last three months 600 locomotives have come out of service. Such figures, though perhaps extreme, are nevertheless indicative. It appears a matter of highest importance to rehabilitate at once railroad repair shops throughout Europe. Further study of the problem is needed. Further study is likely to show that rehabilitation of repair and servicing facilities in Germany is especially important since in the past German facilities were so heavily relied upon.

The problem of fuel for the railroads stems, of course, from the shortage of coal. Although coal supplies at the present time are not always the limiting factor they are nevertheless potentially a limiting factor of very considerable importance. There is reason to believe that in Italy, for example, traffic is now restricted by inadequate coal supplies and this condition could readily spread either if coal supplies decline or if railway coal requirements increased very far beyond present levels. Coal problems, however, are being separately reported. In the present connection it must suffice to suggest that investigation should be directed toward possible substitution of oil for coal and of diesel engine power in place of steam engine power on the railroads.

There are, then a number of important problems of physical supply. These problems require immediate and energetic action. There is no evidence, however, to suggest that these particular problems would have any very important bearing upon questions of finance or questions of legislation.

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Railroad equipment purchases would be a comparatively small element in connection with any discussions of possible loans as well as in connection with balance of payment problems. They are almost exclusively physical problems. As such, however, they are important.

It was stated above that problems of organization and administration rank with physical problems among those of primary importance in European transportation. It was emphasized also that waterways constitute an integral part of the European transportation network.

It should be remembered that Germany holds a central position in European transportation. A glance at the map is enough to show that free movement of freight from other countries through Germany is absolutely essential. At the present time such movement is seriously impeded. Removal of the impediment is a prime requisite of rehabilitation.

One obstacle to free movement through Germany arises from the fact that rail shipments through the Soviet Zone have been more than ordinarily risky. For this reason shippers seek to avoid routing through the Soviet Zone and this has the effect of placing an undue burden upon other routes and of reducing the total movement. Although this particular impediment comes from conditions beyond our immediate control, it may not be beyond our negotiating power. If possible, the necessary steps should be taken to correct conditions.

A second difficulty is the requirement of our occupation authorities that freight charges through the American Zone be paid in dollars.

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In another part of the Continent traffic on the Danube is impeded. Although there appear to be a number of different reasons for the impediment the principal reason seems to be the riskiness of shipping through Soviet controlled territory. A shipper who routes his freight through the Soviet Zone of Germany cannot assume that his cargo, when once it has entered that Zone, will ever come out again. This problem also is one, the solution of which, must depend upon negotiating. It is important that such negotiations be pursued.

B. Industrial Equipment

We have available no systematic statistical data or other information relating to deficiencies of industrial equipment in any of the European countries. From such information as is at hand it appears that equipment problems are important in the following sectors:

- (a) Coal mining
- (b) Maintenance, repair and construction of locomotives and railway rolling stock.
- (c) Seaport facilities for loading and handling freight.

These problems depend upon several principal factors among which are:

1. Shortage of labor.
2. Shortage of steel resulting from the shortage of coal.
3. Removal, as a source of supply, of former German industries.

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Shortage of labor is so chronic and so widespread throughout Europe and the various problems directly relating to it are so intricate that no useful comments could be made in a brief space. It must be enough to remark that one factor, though only one, appearing in the shortage of labor, is the level of feeding and to point out that a second important factor in the matter is the great distortion in the distribution of labor.

The problem of steel, as indicated, stems largely from the shortage of coal. There are, however, other factors having to do with manufacturing capacity. France, Belgium, Poland, and even the Netherlands are planning for and have already achieved to some extent, substantial increases in steel making capacity. These expansion programs when completed will offset a part, if not the whole, of the loss in Germany steel making capacity. However, until the planned expansions actually have been completed, and this will take certainly several years, the continent will continue to be hard pressed for steel largely by virtue of the removal of German supplies. The need for steel for essential reconstruction purposes is, of course, immediate. The effect of the absence of normal German supplies, therefore, is to impede essential reconstruction.

Although before the war American steel was not regularly sold in any quantity in most parts of Europe, demands upon the United States from Europe are now very heavy. The Dutch, for example, estimate that for the year 1947, after allowances for maximum purchases from all other sources, there will remain a net requirement of 450,000 tons of steel to be obtained only in the United States. The French and Belgians also wish to

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obtain steel here though not in such large quantities. Italian requirements appear not to have been carefully compiled as yet but there are indications that the requirements would include quantities for purchase in the United States as high as a quarter of a million tons. Meanwhile such countries as Norway and Sweden in Europe and the various Latin American countries are buying exceedingly heavily in the United States. The total of export demands, therefore, upon this country has reached entirely unprecedented levels. In spite of the very great expansion of American steel capacity, an expansion which has carried our total capacity to more than 90 million tons a year, it simply is not possible to satisfy even the major part of export demands. There is some reason to anticipate a certain amount of relief during 1947 from the present acute pressure upon steel but it would not be realistic to hope that such relief could be great enough to assure ready availability of American steel to all foreign priorities. Our mills prefer Latin American and other such markets where the long range market looks good. They do not wish particularly to cater to European demands. Unless, therefore, steps are taken to channel our steel export, European countries will not satisfy their requirements through purchases here. It is doubtful, as a matter of fact, that channeling could be successful without the imposition of restrictions upon the use of steel in the United States and it is clearly too late to consider such restrictive measures.

European steel requirement, therefore, should be met by increased European production. The only immediate prospect for this increased production is increase in the German output. Output in other European countries is limited primarily by limitation of capacity. Coal shortage, to be sure, reinforces that limitation, and at times, in some places, causes further restriction. The important factor, however, is limitation of steel making capacity itself. German output, on the other hand, is limited not so much by physical capacity but rather by

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administrative decision. An increase in the permissible output in Germany could bring an effective actual increase of output within a comparatively short time. This kind of measure would bring relief from steel shortage throughout Europe exactly in proportion to the increase in permitted German tonnage.

The bulk of equipment manufactured on the Continent use to be in Germany. Manufacture in other countries was increased before the war and can be expected to increase still further in the future. There are no figures to tell whether the production of industrial equipment generally in any of the European nations has recovered to prewar quantities. When present plans are completed production capacity in Germany will be greater than prewar. Available data do not permit of any calculations as to the position of Europe as a whole, inclusive of Germany, as compared with prewar. Prewar, however, Germany was the big producer. One is inclined to doubt, therefore, that expansion elsewhere could make up the difference caused by reduced German output.

Certainly for the immediate future there will continue to be very heavy demands upon the United States. These demands will continue to include all types of equipment. Important constituents in the total, however, will be mining machinery, railway equipment, and other heavy industrial equipment.

Among the factors relevant here as to which an optimistic view may be taken is the capacity of our industry to meet the demands upon it. There are already some evidences of a slackening of domestic demands in this sector of our economy. The slackening will presumably continue and the space for foreign demands, therefore, will increase. Among the factors about which there may be pessimism is the factor of finance. If one may pass a rough guess upon the experience of the past year, plus a few fragments of concrete data relating to particular increases, it appears that the aggregate demand for equipment of all the listed countries upon the United States could well be

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\$500,000,000. The figure is a plain guess. It could be as much as 50% wrong. The sure thing is that the aggregate demands will be big and will be a real factor in finance. Aside from the United Kingdom, large pieces of the total demand originate in France, The Netherlands, and Belgium. One hesitates to hazard figures, however, for particular countries. The bearing of all this upon dollar exchange requirements is obvious enough.

A particular word is wanted concerning mining machinery because it bears so directly upon the basic coal position.

Prior to the war, the United Kingdom, Germany, and the United States were the principal world suppliers of mining machinery. At present the United States and, potentially, Germany are the only countries which are in a position to export substantial quantities of mining machinery. It seems obvious that Germany should as rapidly as possible be put in a position to supply her own mining machinery requirements and to export considerable quantities of mining machinery to other European countries, particularly Poland, in accordance with the principle of satisfying first the needs of the mining areas which are most productive.

Both the United Kingdom and Poland are faced with the need of mechanizing their coal mining industries. If the United Kingdom is to embark on a rapid mechanization program, she will be unable to supply her own needs and will require from the United States large quantities of mining supplies.

Hitherto, the United States Government has emphasized the exportation of coal. The exportation of mining equipment, generators, transportation equipment, and so forth, which are indispensable for the purpose of maintaining and raising the level of European coal output, is equally important. The need to export these products to Europe occurs at a time when the Government is losing its priority powers and its

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administrative machinery for expediting exports. On top of this, this Government is assuming huge commitments to supply Greece, Turkey, Italy, Austria, and other countries with basic commodities and machinery.

Turning back now to the position on industrial equipment as a whole, it must be remarked that exports from the United States will not necessarily be moved merely because the money is there to finance them. Shipping capacity, railway capacity, and port facilities create very many problems. It may well prove necessary to establish machinery of control including organizing the necessary operating personnel to schedule deliveries. Otherwise one cannot be confident that more important things will take precedence over less important things and one cannot be at all confident that the needs of the more critical countries will compete successfully with the demands of less critical countries. The question raised in this regard is not one that can be answered by reference to the particular categories of export under consideration here. It is a question that can be answered only upon consideration of all categories of exportation. The question is important, indeed vital; it cannot be set aside.

The specific suggestions to be made, then, with respect to industrial equipment are these:

1. Increase in the level of German steel output.
2. Increase in the German output of equipment.
3. Consideration in connection with any loan transactions of the needs of equipment.

A further suggestion advanced with the greatest possible emphasis relates to possible need for controls. It is essential that information relating to all parts of United States exports be assembled and examined to determine what controls are required to assure overall effectiveness. Among the specific points to be assessed are:

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1. Possible need of shipping controls.
2. Possible need of internal transportation controls.
3. Need for establishment of priorities both with respect to end use and with respect to destination of shipments and the necessary administrative personnel and machinery.

CONFIDENTIALAPPENDIX "F"SECTION VIIOCEAN SHIPPING

- I. Potential physical capacity for the oversea transport of increased United States exports (as part of a program of economic assistance to foreign countries) exists in substantial volume in the laid-up vessels of the United States Government-owned reserve fleets.
1. As of recent date the total number of vessels in the Maritime Commission's reserve fleet approximated 1,400 (a reduction from the December 1946 peak of 1,742 resulting from withdrawals from reserve for sale and charter). However, many of the laid-up vessels are considered too old or damaged to be considered available for operation. It is estimated that the reserve fleets include:
 - a. About 500 Liberty cargo vessels which could be brought into service within a reasonable time subject to substantial expenditure for repair (estimates run from \$75,000 per vessel upwards).
 - b. About 400 other vessels, converted from cargo vessels to special types for military uses (repair ships, attack cargo vessels, etc.) which could be reconverted for operation as cargo vessels subject to somewhat larger expenditure and requiring a longer period of time.
 - c. About 200 large ocean going tankers of T2 type (about 16,400 dead-weight tons and about 135,000 barrel capacity).
 2. The foregoing does not include the 100 Liberty vessels recently ordered withdrawn from reserve for operation (in two batches of fifty each). As of February 28, 1947 there were something over 2,000 United States flag cargo vessels and more than 500 United States flag tankers in operation (i.e. exclusive of vessels in the reserve fleets

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and not including the above-mentioned 100 cargo vessels recently ordered withdrawn from reserve fleets). Since these were carrying somewhere between two-thirds and three-fourths of our trade, it is evident that the vessels still in reserve which could be brought into operation constitute a substantial reserve capacity for the oversea transport of expanded exports.

5. For the immediate future, owing to seasonal conditions, the capacity for expanded carriage is even greater.

Termination of severe winter weather conditions permits more speedy operations; this in effect expands the available capacity of the tonnage in operation. Estimates of shorter turnaround suggest that this may amount to the equivalent of several hundred additional vessels. The belief has been expressed in some quarters that owing to this factor, tonnage in operation, including that currently being withdrawn from reserve, will prove excessive to summer-time requirements and result in downward pressure on rates. Since however this factor is seasonal and will disappear when bad weather returns, its temporary effects must be recognized: if a temporary seasonal easing of tonnage scarcity is allowed to affect longer range planning to meet transport requirements, the risk is incurred of not having sufficient tonnage available, or arrangements established to make it available, precisely at the time when it becomes needed.

II. Assurance of availability of reserve fleet tonnage for expanded export requirements presents problems of legal, fiscal, and administrative order.

1. The bulk of the tonnage available, including most of that in operation and practically all of that in reserve, is owned by the United States Government. Consequently it does not respond to shipping market factors as would be the case if it were privately owned.

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- a. As of February 28, of approximately 3,300 ocean-going cargo vessels under United States registry, only 456 were privately-owned; the remainder, including 1,270 in the reserve fleet, 1,132 under charter to private operators, and 461 under Government operation (by General Agency Agreement with private operators) were all Maritime Commission owned.
 - b. Of 524 tankers in operation under United States registry on February 28, 294 were privately owned and 230 were in Government operation under General Agency Agreement; 259 others were in the Government-owned reserve fleets; no Government-owned tankers were under charter, as the Merchant Ship Sales Act of 1946 does not permit any charter of Government-owned war-built tankers. This is one of the significant factors in the current serious shortage of tankers in operation.
2. In view of the preponderance of Government ownership in the United States merchant fleet at the present time, actual availability of vessels depends upon administrative decisions within the limitations of existing law and available finances. Response to freight market factors or to the broad interests and purposes of United States policy is significantly conditioned by these circumstances.
- a. Decision as to response to freight market factors, whether involving withdrawal of ships from lay-up, Government operation, charter to private operation, or sale of vessels to citizens or foreigners, lies almost exclusively with the Maritime Commission.
 - b. The fundamental duty and objective of the Maritime Commission is to promote United States flag operations, particularly in international shipping competition. Principles, precedents and other elements of opinion governing its actions have largely been formulated in the more normal circumstances of pre-war years.
 - c. Present conditions are radically different: they are

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- characterized by United States Government ownership of a preponderant segment of the world's merchant tonnage, and by a national program of support for relief, rehabilitation and reconstruction abroad.
- d. Shipping operations under United States registry are characterized by extremely high costs in international trade competition; since the Maritime Commission's basic objective is the promotion of profitable United States flag operations in foreign trade, the Commission's general attitude toward freight rates tends significantly to favor high rates and large earnings (with substantial recapture for the United States Treasury, where Government owned vessels are involved). The Commission can hardly therefore be expected to favor bringing ships under its control into operation if such action, in its opinion, might prove "destructive to the rate structure".
3. The Maritime Commission's views governing its decisions are generally based on relatively narrow considerations reflecting the position of the shipping industry alone, rather than the general position and national interests of the United States.
- a. Thus, despite the serious deficiency of tankers in operation to meet world petroleum transport requirements, despite the extension from February 28 to June 30 of the Commission's authority to operate tankers, despite the urgent demand from foreign countries for increased United States tanker services in the face of the very high time and voyage charter costs (approximately \$100,000 per month per tanker), and despite the large number of available tankers in lay-up, the Commission has not seen fit to break out adequate tankers from reserve to meet these requirements.

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- b. Nor has it shown particular activity on its own account to seek the agreement of the military authorities to release of additional tankers for sale to foreign applicants as permitted by the law, as an alternative method of meeting foreign requirements.
- c. Reasons for this, as outlined informally by a principal operating official of the Commission, are substantially as follows: that to break out tankers from reserve (which would take some expenditure and considerable time) would not be "prudent business practice" as imposed upon the ~~Maritime~~ Maritime Commission by the Merchant Marine Act of 1936, since under existing legislation operation of such tankers would have to cease by June 30 and an operating period of only eight weeks could be counted on; it is not the Maritime Commission's responsibility of its own accord to seek extension of its operating authority but rather the responsibilities of agencies more directly concerned in the petroleum problem; likewise with respect to release of tankers for sale to foreign applicants, it is the responsibility of other agencies to press the military authorities to approve such sale.

Note: The foregoing sub-paragraph merely outlines the informal views expressed by a single responsible official on the Commission's staff. It is significant however as indicating the general background.

Although control of the Government-owned tonnage is placed by law in the hands of the Maritime Commission, the broader interests of the United States in the current situation are not generally acknowledged to be of direct concern to that agency, except in so far as they are considered to bear directly upon the policy of supporting United States shipping operations, for the "promotion of the national defense and the foreign commerce of the United States" as conceived of in the shipping policy and philosophy developed in normal times.

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4. This administrative inclination is supported by the fact that it is generally in line with the literal and logical intent of pertinent legislation; and also in line with the current policy of curtailing and terminating Government shipping operations. The last-mentioned consideration is the essential reason for the early expiration of certain legal authorizations upon which, under present circumstances, the utilization of much of the Government-owned shipping tonnage depends.

Specifically:

- a. The authority to operate Government-owned shipping for Maritime Commission account (under General Agency Agreement with private operators) is due to expire June 30. This is actually a fiscal authority; after that date, unless new legislation extends the authority, the Commission will not be authorized to use receipts from current operations to pay operating expenses but will have to turn all revenues into the Treasury.
- b. Current expenditures for bringing laid-up ships into operation are understood to be met out of operating revenues, which will no longer be authorized after June 30 unless extending legislation is enacted. There is difference of opinion as to whether this would result in lack of funds and prevent further withdrawal of vessels from lay-up after that date.
- c. Authority to conclude charters of Government-owned war-built cargo vessels to citizens (charter of tankers is not authorized) expires December 31. It is generally understood that charters concluded before that date may run until their termination. However charters are presently terminable on fifteen days notice. It is at least open to question to what extent operators of the Government-owned cargo vessels now under charter (approximating at this date some 1,400) will be willing to take the risk of a long-term

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charter. This question seems likely to be brought to issue at an early date: the Maritime Commission has proposed a new charter plan which will substitute a minimum year's term and thirty days termination thereafter (coupled with an increase in charter rate and a decrease in recapture of profits), to become effective April 30.

- d. Authority to sell war-built vessels terminates December 31. The majority of pending applications are from foreign applicants (an obvious consequence of the distortion of the international distribution of merchant tonnage as a result of the war, coupled with the fact that citizens are privileged to charter Government-owned tonnage). The slow tempo of sales has in recent months been further slowed down by the preference granted citizen applicants for charter over foreign applicants for purchase: for the most part, vessels which foreign applicants desire to purchase are not available for sale to them because they are on charter to citizens. If the present situation were to continue to the end of 1947 without legislative or administrative change, it is not unlikely that a considerable bloc of tonnage might gradually be withdrawn from operation due to lapse of authority to charter or to operate for Government account 1/2 and to termination of existing charters, coincidentally with lapse of authority to sell.
5. Preparations are now being made in the Maritime Commission to propose legislation which it is understood will provide general extension of the Commission's authority to operate for Government account, to charter to citizens, and to sell vessels, beyond the present expiration dates. If the Congress grants these extensions - as will probably be the case in view of the clearly serious consequences of failure to do so - the present situation will not

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terminate in the disastrously chaotic conditions which would otherwise be likely to eventuate.

III. In conclusion it appears likely, subject to the early enactment of legislation extending existing authority to the Maritime Commission, that the present situation will continue for some time to come, during which the use of Government-owned tonnage, only moderately reduced in bulk through the process of sales to citizens and foreign purchasers, will continue to be more or less available, at very high operating costs requiring payment in dollars, to meet the essential sea transport requirements of the United States program, subject to the continued exercise of persuasion and pressure upon the Maritime Commission by the agencies responsible for national interests of the United States which are beyond the official ken of the Commission.

1/ Actually there is authority for Government operation in the Merchant Marine Act of 1936 but there is very little reason to believe that the Commission would be willing to exercise this authority in view of the subsequent provisions of the Ship Sales Act of 1946.

CONFIDENTIALAPPENDIX "G"SECTION VIIIREGIONAL INTERDEPENDENCE AND TRADE

So far, this paper has dealt with United States commitments for economic assistance to other countries and the resources, financial and physical, available to meet these commitments. The provision of such aid to the critical countries must have the highest priority in order to prevent further deterioration in their political and economic position. But the United States cannot continue indefinitely to shore up single-handed the world economy, or even any substantial segment of it. We must always keep in mind that our fundamental objective is a revival of mutually self-supporting production and trade on a regional and world basis. Reintegration of the critical countries into this trading system will strengthen their economies and gradually permit the relaxation of the strain now largely concentrated on the United States.

This principle needs attention urgently now as well as in the long-run. Our programs of economic assistance are being developed by selecting separate countries for special attention. It is important that these programs be carefully coordinated with each other as they are developed and implemented. Only by this coordination can the cost and duration of U.S. assistance be reduced to a minimum. To cite only one example of thousands, Greece needs structural steel to rebuild her bridges. If she can obtain this steel from Germany or France and pay for it with exports to those countries, she will not have to spend dollars for it and the burdens on U.S. taxpayers will be correspondingly reduced.

Techniques must be developed to exploit the possibilities of such mutual assistance to the full, reducing the aid which must be supplied by this country to the smallest possible residual amount.

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Furthermore, production and trade programs of critical countries must be coordinated with the economic programs of countries in which the U.S. has no special function of assistance. Such coordination can result in equally significant savings to the U.S.

In the critical conflict areas of the world, the following points deserve consideration:

I. Europe

1. Special emphasis must be given to the revival of German production and trade in order to speed up general European recovery. Germany was the pivot of pre-war intra-European trade. She was a major trading partner of such critical countries as Greece, Italy, Austria, and Hungary. The current low level of German production and trade is acting as a brake on the recovery of these countries and of Europe generally. Many European plants are badly in need of replacement parts for their German-produced machines and of new German equipment. A program to increase European sources of raw materials for German industry is essential to reduce occupation costs. These objectives cannot be accomplished unless U.S. economic policy in Germany is closely coordinated with U.S. economic objectives in other European countries.

2. Because of the great economic interdependence of all European Countries, recovery must be continent-wide including the Soviet satellites. France cannot recover without some Polish coal. Germany cannot revive without some Balkan grain. Priority in U.S. economic assistance will, of course, be given to democratically oriented countries. Trade between these countries and Soviet satellites, however, should be encouraged. Furthermore, where the secondary advantage to Western Europe can be clearly demonstrated and the aid and comfort to Communist-dominated governments can be minimized, it may be desirable to give some of these countries financial and commodity assistance.

CONFIDENTIALII. The Far East

1. Conditions must be established which will permit the revival of production and export of the vital materials of Manchuria. Such a development is an essential condition of mutually self-supporting revival of Chinese, Japanese and Korean industry.

2. There must be prompt recovery of production and export in the NEI. The copra, sugar, rubber and other vital commodities which can be produced in volume in these islands are essential to the recovery of the Far East and the world.

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STATE-WAR-NAVY COORDINATING COMMITTEEMEMORANDUM FOR INFORMATION NO. 78APPRECIATION OF FORESEEABLE FOREIGN NEEDS FOR U. S.
MILITARY ASSISTANCE THROUGH FISCAL YEAR 1948Note by the Secretaries

The enclosure, a report by the Rearmament Subcommittee to the Special Ad Hoc Committee, is circulated for the information of the State-War-Navy Coordinating Committee.

H. W. MOSELEY

W. A. SCHULGEN .

V. L. LOWRANCE

Secretariat

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21 April 1947

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MILITARY ASSISTANCE THROUGH FISCAL YEAR 1948INDEX

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E N C L O S U R E

APPRECIATION OF FORESEEABLE FOREIGN NEEDS FOR U.S. MILITARY ASSISTANCE THROUGH FISCAL YEAR 1948

Report by the
State-War-Navy Coordinating Subcommittee for Rearmament

Reference: Request dated 20 March 1947
by the SWNCC Special ad hoc
Committee (Pursuant to SWN-5231)

THE PROBLEM

1. To furnish to the SWNCC Special ad hoc Committee an appreciation of foreign needs for U.S. assistance which are strictly military and possible ways and means to meet these needs to include the following:

a. World-wide survey of aid and assistance now contemplated.

b. A comprehensive estimate as to the extent of likely further needs for assistance through the fiscal year 1948, and the anticipated duration of programs of aid.

c. An over-all estimate of ways and means to meet these needs, insofar as such estimate is practicable.

Note: For purposes of this report, "military assistance" is construed as including:

(1) Training of foreign nationals, whether in the U.S. or abroad.

(2) Transfer of munitions. (Munitions are construed as meaning military and naval items of all kinds, including arms, ammunition, and implements of war, and all other equipment and supplies required by armed forces.)

FACTS BEARING ON THE PROBLEM

2. See Appendix "A".

DISCUSSION

3. See Appendix "B".

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4. Note: This report has been prepared by the SWNC Rearmament Subcommittee under a pressure of time which has not permitted Departmental clearance and approval of its contents. The data herein have been compiled from many sources but is considered to be the best available under the circumstances. The dollar figures used are not derived from the same sources or based upon the same premises. They are not intended to convey an accurate picture of original or present costs. They are submitted as some indication of what is involved.

CONCLUSIONS

5. In the interest of international peace and security, every nation has a legitimate requirement for moderate, suitably trained and equipped military forces which will:

a. Enable it to maintain internal order in the reasonable and legitimate exercise of constituted authority, or

b. Enable it to provide for and to exercise its right of self-defense against armed attack, a right recognized in Article 51 of the Charter of the United Nations, or

c. Assist it to discharge its international responsibilities for:

(1) Furnishing contingents to the Security Council pursuant to Article 43 of the Charter of the United Nations,

(2) Carrying out military occupation in enemy or ex-enemy territory, and

(3) Participating in regional arrangements or agencies for collective self-defense pursuant to Articles 51 and 52 of the Charter of the United Nations.

6. The United States can contribute to the peace and stability of the world and thus to its own security by judicious

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military collaboration, by standardization of munitions, and by the provision, through sale or otherwise, of military supplies and equipment to selected foreign nations in order to improve their military posture, to orient their military forces toward those of the United States, and to cause them to look to the United States rather than to another nation for the essential items which they cannot provide for their indigenous resources.

7. The programs described in Appendix "A" were planned because it was considered that they contribute to the security of the United States and to the peace and stability of the world. It is therefore important that these programs in whole or as modified be implemented promptly and vigorously.

8. The programs described in Appendix "A" may be expected to continue through Fiscal Year 1948, both as to (1) the need or requirement and (2) physical implementation.

9. Under present conditions, the known initial requirements of foreign nations for US military assistance now planned by the Executive Department of the Government will not be met.

10. In many cases, initial requirements constitute the least important part of a program, the major problem being to provide for subsequent requirements for replacements, spare parts, and maintenance.

11. In the case of foreign nations which are economically unable to support their minimum requirements for a military establishment, consideration should be given to the advisability of providing financial assistance for this purpose.

12. The foregoing considerations (paragraphs 5-11, inclusive) should be brought to the attention of the public and of Congress in such a way as to enable formulation of an informed, intelligent, and receptive United States and world public opinion on this subject.

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13. An agreed course of action with respect to all enabling legislation prepared or pending (paragraph 4g, Appendix "A") should be determined promptly; and in addition legislation should be enacted by which the President will be authorized to implement US military assistance to foreign nations under appropriate conditions.

14. A comprehensive policy covering US military assistance to foreign nations, to include priorities, must be formulated for the guidance of functional SWNC Subcommittee (Rearmament, Training of Foreign Nationals, Military Information Control, etc.). This policy must be maintained up to date at all times. The SWNCC Special ad hoc Committee or equivalent high level permanent SWNCC Committee should be charged with this function.

15. The following studies should be undertaken on a continuing basis and kept up to date, in the light of this report, with respect to plans for long range programs of US military assistance to foreign nations (see paragraph 5 a (2), Appendix "B"):

a. The capability of recipient nations to sustain the foreign exchange costs of planned US military assistance.

b. The capability of US industry to provide such assistance in addition to meeting the normal peacetime requirements of U.S. armed forces.

16. A copy of this report should be forwarded to the Departments of State, War, and Navy with the request that it be checked for completeness and accuracy and returned with their comments to SWNCC by 1 June 1947.

RECOMMENDATIONS

17. It is recommended that:

a. The foregoing conclusions be noted.

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b. A copy of this report be referred to the SWNC Subcommittee for Foreign Policy Information for implementation of paragraph 12 above.

c. The SWNCC be apprised of the need for early action to determine an agreed course of action with respect to legislation providing for military assistance to nations of the Western Hemisphere and to China (paragraphs 4 g (2) and (3), Appendix "A").

d. The Secretary of State be requested, in coordination with the Secretaries of War and Navy, to prepare suitable legislation along the general lines indicated in Appendix "C" of this report.

e. The SWNCC Special ad hoc Committee undertake appropriate action in connection with paragraphs 14 and 15 above.

f. The SWNCC Secretariat be requested to take the necessary action in connection with paragraph 16 above.

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a. Munitions. U.S. commitments which involve or may involve transfer of munitions exist in the case of the following nations:

	<u>See Annex</u>
(1) <u>The Far East.</u>	
(a) The Philippines (SWNCC 276 series)	"A"
(b) China (SWNCC 83 series)	"B"
(2) <u>The Western Hemisphere.</u> (SWNCC 4 and 276 series)	
(a) Canada	"C"
(b) Latin-American Republics	"D"
(3) <u>Europe</u>	
(a) Italy (SWNCC 320/5 and /6)	"E"
(4) <u>The Near and Middle East.</u>	
(a) Greece	"F"
(b) Turkey	"G"
(c) Iran	"H"

b. Training. In addition to the transfer of munitions listed above, there are actual or probable U.S. commitments to provide training assistance to many foreign nations. (The U.S. is now engaged in training the nationals of 18 foreign nations. See SWNCC 137 Series.)

2. Estimated foreign requirements for U.S. assistance.

Attached as Annexes "A" to "H" to this appendix are statements which summarize, to the extent known, for each of the nations listed in paragraph 1 above, the following information.

- a. General nature and extent of assistance planned.
- b. Type and size of the armed forces of the nation involved.
- c. Estimated scope of planned U.S. assistance.
- d. Availability of munitions to implement the planned assistance.
- e. Degree of U.S. commitment, and status of action as of date of this report.

3. Availability of U.S. munitions to meet foreign requirements.a. General

- (1) The following factors limit the availability of U.S.

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APPENDIX "A"

munitions for foreign nations:

- (a) Lack of legislative authority (see paragraph 4).
 - (b) Lack of funds to procure new equipment or to rehabilitate, maintain and repair material on hand.
 - (c) Difficulties of procurement due to the present U.S. industrial situation. (Reconversion of U.S. industry from war production to a peace-time basis means that:
 - (i) It is no longer possible for the military to obtain the necessary priorities for materials and services;
 - (ii) unless the orders for munitions are of sufficient magnitude and duration to be more financially attractive than the civilian trade, well-established U.S. manufacturers will not undertake them;
 - (iii) U.S. manufacturers with a sizeable civilian market will take a military contract only when they are certain that it will in no way interfere with their normal trade;
 - (iv) much of the industrial equipment required is no longer available.)
 - (d) Unbalance of equipment and component parts remaining on hand (for example, artillery without prime movers, weapons without ammunition, ammunition without weapons)
 - (e) Deterioration of stocks in storage.
 - (f) Disposition of munitions by diversion to other purposes, demilitarization, scrapping, or sale.
 - (g) Inaccessible location and lack of transportation.
- (2) The effect of many of the foregoing factors is accentuated by the passage of time; therefore, the penalty of indecision in employment of available munitions is reduction of this principal means of implementing U.S. assistance to foreign nations.
- (3) Given a high enough priority by reason of an emergency, almost any reasonable foreign program (and certainly such small programs as the Iranian, Greek and Italian can be

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fulfilled to a substantial degree from available munitions, such as munitions intended for civilian components of U.S. forces or for other foreign commitments. No program can be met in toto because of shortages in certain critical fields which are now so acute as to require current procurement to meet active U.S. requirements. These fields include most motor transportation (especially replacements and spare parts); and most types of storage batteries and radio communication equipment. The shortages of various types of items and of funds for rehabilitation and maintenance make it difficult to undertake balanced programs of assistance to fill requests in the accepted military sense. However, impressive quantities of miscellaneous items (certain weapons, including some small arms, ammunition, class "x" blankets, and others) can be made available for transfer where considerations of gesture (psychological) rather than military effectiveness are paramount.

b. Replacements, spare parts, and maintenance material. No adequate arrangement exists by means of which it would be possible to insure the manufacture, procurement, and availability for transfer to foreign nations of a continuing supply of replacement and spare parts and maintenance material, without which equipment and supplies initially transferred soon become worthless.

c. Summary. Annex "1" indicates the extent to which available War and Navy Department stocks will meet requirements. The following statements are pertinent:

- (1) Surplus stocks already declared to War Assets Administration are not taken into account, because their involved and fluid status makes it impracticable to secure meaningful estimates regarding them. Any uncommitted munitions declared to FLC or WAA will of course increase the total available for foreign assistance.

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(2) The Navy Department now has on hand, in various states of repair, sufficient vessels and craft to meet substantially its known commitments and does not anticipate development of additional major requirements for assistance to foreign nations. However, requests for maintenance and equipment items will have to be filled by procurement.

4. Legal basis for implementation of military assistance to foreign nations.

a. Lend-Lease. During World War II, transfers to foreign nations of military supplies and equipment of U.S. origin amounting to some twenty billion dollars in value were effected under the provisions of the Lend-Lease Act. However, except for an agreement between the United States and the Republic of China signed on 28 June 1946 pursuant to Section 3 (c) of the Lend-Lease Act (which agreement authorized extension of Lend-Lease to the Chinese Government for certain specified purposes) and for a similar agreement with Guatemala, no further transfers can be effected under Lend-Lease; and the Surplus Property Act is now substantially the sole legal basis under which transfers of military supplies to foreign countries in general can be accomplished.

b. Surplus or damaged property.

(1) Under the Surplus Property Act, military supplies and equipment of U.S. origin amounting to some nine billion dollars in value have been transferred to foreign governments. Authority to effect transfers under the Surplus Property Act will expire 31 December 1949 (three years

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after termination of hostilities). The provisions of this Act (for example, the "Veterans' Set-Aside List") render it unsuitable as a legal basis for implementing military assistance to foreign nations.

- (2) Statutes also exist which permit the President to authorize the sale of any military stores deemed damaged or unsuitable for the public service.

c. Coast defense and antiaircraft materiel to other American Republics. An Act of 15 June 1940 authorizes the President in his discretion to authorize the Secretary of War to manufacture in factories and arsenals under his jurisdiction, or otherwise procure, coast-defense and antiaircraft materiel, including ammunition therefor, on behalf of any American republic; to sell such materiel and ammunition to any such republic; to repair it; and to communicate plans, specifications, or information concerning such materiel under certain stated conditions. As applied to the Navy Department, this law permits transfer of a wider category of munitions and services to American Republics. All transfers under this law are subject to (1) specific authorization by the President, (2) immediate notification to the Secretary of State, Chairman of the National Munitions Control Board, and (3) cash reimbursement. This reimbursement is deposited to the credit of the Treasury Department, Miscellaneous Receipts, and is not available for expenditure by the War and Navy Departments.

d. Military assistance to the Philippines. Public Law 454, approved 26 June 1946, authorizes U.S. military assistance to the Philippines to include the transfer of arms, ammunition, and implements of war, within the limits of appropriations made specifically for that purpose or to the extent of availability of items which are surplus to the needs of the U.S. Government, provided that such transfer is consistent with military and naval requirements of the United States and with the national interest. This authorization covers a period of five years from 4 July 1946.

e. Naval assistance to China. Public Law 512 of 16 July 1946 authorizes the President to provide to the Republic of China such naval services, training, plans, and technical advice as he may deem proper, and to transfer to

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APPENDIX "A"

the Republic of China certain excess naval vessels and craft, floating drydocks, and materiel for operation and maintenance.

f. Prohibition against transfer of governmentally owned munitions to foreign governments, other than as indicated above. Subparagraphs 4. a - e are believed to cover all existing legal authority under which significant transfers may be effected. Pursuant to Article IV, Section 3, clause 2 of the Constitution, Congress has the power to dispose of and make all needful rules and regulations respecting property belonging to the United States. This has been construed to mean that the power conferred upon Congress by the Constitution to dispose of public property is exclusive and that property of the United States may not be sold or otherwise disposed of without the authority of Congress (Van Brocklin v. Tennessee, 117 US 151, 163; United States v. San Francisco, 310 US 16, 29; Royal Indemnity Co. v. United States, 313 US 289, 294).

g. Prepared or pending legislation. Legislation has been prepared which, if submitted to the Congress and enacted, would authorize additional transfers of arms, ammunition, and implements of war to foreign governments as follows:

- (1) Naval ordnance material. A bill to authorize the sale, loan, exchange, or gift of U.S. naval ordnance material to foreign governments (HR 1357) (80th Congress).
- (2) China. A bill to provide military advice and assistance to the Republic of China (HR 6795) (79th Congress).
- (3) Western Hemisphere. The Inter American Military Cooperation Bill (HR 6326) (79th Congress).
- (4) Greece and Turkey. HR 2616, now pending (80th Congress).
- (5) Training of foreign nationals. (Appendix C, SWNCC 137/3)
- (6) The "Missions" Bill.

h. Summary. The restrictions inherent in the legislative aspects of military assistance have the following decisive impact upon substantial transfers to foreign nations of US governmentally owned munitions:

- (1) Except for Surplus Property, and in the case of the Philippine Republic, China (within certain limitations), Guatemala, and other Latin American Republics (within certain limitations), there is not only no legal authority, but

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there is a legal bar to transfer of governmentally owned munitions to foreign nations even when the recipient nation is willing to pay.

- (2) There is no authority under which the War and Navy Departments can accept reimbursement for procurement, manufacture, rehabilitation, storage, or maintenance of munitions intended for transfer to a foreign nations. This means that the War and Navy Departments can implement U.S. military assistance to foreign nations only to the extent permitted by their rapidly dwindling excess stocks. (see Par. 3 above).

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ANNEX "A" TO APPENDIX "A"

U.S. MILITARY ASSISTANCE TO THE REPUBLIC OF THE PHILIPPINES

1. General nature and extent of assistance planned.

(Note: In the SWNCC 276 Series of approximately one year ago, a plan of U.S. military assistance to the Philippines was approved. Subsequently, SWNCC (SWNCC 340/1) has requested the JCS to confirm or reconsider their previous views on U.S. military assistance to the Philippines in the light of the President's decision to reduce U.S. forces in those islands. This Annex is based upon the current JCS papers on this subject, which are now under consideration. These are substantially in accord with the views previously approved by SWNCC.)

The military assistance planned includes maintenance in the Philippines of a military advisory group, transfer of munitions for a Philippine military establishment, facilitating Philippine procurement of a war reserve of U.S. manufactured equipment and supplies, and training of key personnel of the Philippine armed services.

2. Extent of logistical assistance and size of armed forces involved.

The JCS have recommended the following program of logistical assistance:

a. Army. Furnishing at no cost to the Philippine Government the initial equipment for a Philippine Army ground and service force of approximately 33,000 men. [Initially this force would consist predominantly of the Philippine Military Police Command (22,000), to be reduced progressively as law and order are restored to a peacetime strength of six to eight thousand. Concurrently with this reduction of the Military Police Command the small Philippine Regular Army (approximately 12,000) will be used to train approximately 12,000 men (one Philippine division) per year. A Philippine ROTC is also contemplated.]

b. Navy and Air Force. Furnishing at no cost to the Philippine Republic initial equipment and technical supplies for training, operations and maintenance over a three to five year period for the proposed Philippine Air Force and Philippine Naval Patrol.

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- (1) The Philippine Naval Patrol with a strength of approximately 1800 will consist of an appropriate number of minor patrol type craft for Coast Guard, hydrographic and custom duties, and minor amphibious craft for inter-island operations.
- (2) The Philippine Air Force will consist of one composite group (2 fighter sqs, one troop carrier sq, one liaison and training sq) with strength of approximately 2,000.

3. Estimated scope of planned U.S. assistance. The cost of U. S. assistance, in addition to the program outlined in paragraph 2 above, so far as additional appropriations are concerned, will depend upon the extent (degree unknown) to which the Philippine Republic can support its own armed forces, and the amount (unknown) which will be required if the U.S. is to supplement the expenditures of the Philippine Government. During Fiscal Year 1947, \$19,750,000 was authorized by Congress to be expended from appropriated War Department funds to supply the Philippine Army with such quantities of food, fuel, clothing, training ammunition and training aids, as was necessary to keep the Philippine Army in effective being. It later developed that the Philippine Army budget authorized expenditure of approximately \$12,000,000 of Philippine funds for the same purpose, thereby decreasing the amount of money required from U.S. sources. It is not known at this time the exact amount of U.S. funds which will be expended by 30 June 1947, but it is estimated to be in the neighborhood of \$8,000,000. If the same support, over and above that proposed by the JCS, were furnished during Fiscal Year 1948, the cost to the U.S. would be substantially greater because of higher procurement cost. The cost to the United States would be dependent, of course, on the amount of money which the Philippine budget allocates for this purpose. No plan has been established which considers out-of-pocket War Department expenses for the training of Philippine military personnel at U.S. military schools.

4. Availability of munitions to implement the planned assistance. An estimated 85% of the army ground and air force munitions required for Philippine assistance under the above program are (a) already in possession

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of the Philippine armed force on a custodial basis, or (b) already included in the theater commander's disposition level for this purpose, or (c) available from known surpluses. Approximately 90% of the naval vessels and equipment planned for Philippine naval units are available from surplus and have been earmarked for transfer to the Philippines.

5. Degree of U.S. commitment and status of action as of the date of this report.

a. The Philippine Military Assistance Agreement has just been signed. This provides for U.S. military assistance to the Philippines for a period of five years from 4 July 1946, unless previously terminated or extended. The agreement is in general terms and does not include commitments for specific quantities of munitions, such quantities being left for determination by later agreements. The general extent of transfers contemplated, however, is understood by both Governments. It is assumed that the Governments will proceed at once to the completion of detailed arrangements for transfer of specific quantities of munitions.

b. To permit assistance beyond 30 June 1947, monies must be appropriate by Congress for that specific purpose. The presently curtailed War Department budget will not allow a diversion of War Department funds to assist the Philippine Republic. Further, it is doubtful if substantial appropriations can be expected from Congress to support the Philippine Army.

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ANNEX "B" TO APPENDIX "A"

U.S. MILITARY ASSISTANCE TO THE REPUBLIC OF CHINA

1. General nature and extent of assistance planned. Military assistance planned and approved for China consists of the transfer of munitions, provision of training in the United States, and the establishment of a Joint Military Advisory Group in China.

a. The Chinese Air Force 8-1/3 Group Program. Requirements for the establishment of a Chinese Air Force of sufficient size to enable that country to take its appropriate position among nations are covered by SWNCC 83/17.

b. The Chinese Training Program is being implemented under the U.S.-China Lend-Lease Agreement of 28 June 1946 which authorizes the training in the United States of Chinese personnel in air, ground, medical and other service schools until 31 December 1947.

c. The Chinese Occupation Program (to provide for Chinese participation in the occupation of Japan) exists under authority of the U.S.-China Lend-Lease Agreement of 28 June 1946, which extends Lend-Lease aid to China for this particular program until 30 June 1949. All supplies and equipment required by the Chinese Occupation Forces, which the Chinese can not obtain from Chinese sources, are to be supplied from United States sources on a reimbursable basis. The United States envisions only the supply of foodstuffs, POL items, and hospitalization.

d. The establishment of a Joint Military Advisory Group in China has been directed by the President. This group will consist of not to exceed 1,000 officers and enlisted personnel. The mission of the Group is "to assist and advise the Chinese Government in the development of a modern armed force for the maintenance of internal peace and security, for the establishment of adequate control over liberated areas in China, including Manchuria and Formosa, and the fulfillment of those obligations which may evolve upon China under the international agreements founded by the United Nations Organization".

e. Naval assistance. Under the provisions of Public Law 512 the President is authorized to transfer to the Republic of China certain excess naval vessels and craft not to exceed 271 in number. The President's author-

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ization to execute this program has not been received; however, under the authority of Extended Lend Lease an interim program has proceeded. The vessels and craft now on loan to China to date under this interim program will apply on the total of 271 stipulated in Public Law 512. Naval assistance planned for the Chinese Navy consists of 130 miscellaneous vessels consisting of 4 destroyer escorts together with mine vessels, small auxiliary, patrol and amphibious types. In addition to the foregoing material aid, the naval element of the Joint Military Advisory Group will consist of 100 officers and 200 men.

2. Type and size of Chinese armed forces involved.

a. The Chinese Air Force 8-1/3 Group Program includes the following units:

- 4 Fighter Groups (3 P-51 and 1 P-47) (Total including reserve 330 aircraft)
- 2 Troop Carrier Groups (1 C-46 and 1 C-47 to be converted to a C-46) (Total including reserve 106 aircraft)
- 1 B-25 Medium Bomber Group (total including reserve 53 aircraft)
- 1 B-24 Heavy Bomber Group (Total including reserve 53 aircraft)
- 1 F-5 Photo Reconnaissance Squadron (Total including reserve 20 aircraft)

These units are to be supported by appropriate service and depot groups and are to be organized and equipped in accordance with the War Department Tables of Organization and Equipment.

b. A total of 2,500 Chinese officers and enlisted men were to be trained at air installations; 766 are still in training. A total of 457 Chinese officers were to be trained in the ground, medical, and other service schools; 305 are in training.

c. One infantry division of 15,000 Chinese troops will comprise the occupation forces, (if and when established).

d. Naval assistance planned for the overall program now includes:

- 4 Destroyer Escorts
- 12 Mine vessels
- 7 Small auxiliary vessels
- 23 Patrol vessels
- 84 Amphibious types

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ANNEX "B" TO APPENDIX "A"

3. Estimated scope of planned U.S. assistance

a. Total procurement cost of supplies and equipment for the 8-1/3 Group Program is estimated to be \$141,200,000. The cost of the program is to be borne by China, based on contractual agreements with the Foreign Liquidation Commissioner.

b. The Chinese Training Program is to be carried out at no cost to the United States. The Republic of China has advanced a fund of \$10,000,000 for this purpose.

c. On the basis of original requirements the estimated annual cost of the Occupation (of Japan) Program is approximately \$20,000,000. The Chinese have been requested to arrange for the deposit of \$5,000,000 to be renewed quarterly to meet this expense.

d. An agreement to be negotiated with the Chinese Government which has been informally approved by the Chinese, provides for reimbursement by that Government of all operating expenses of the Joint Military Advisory Group except the standard pay and allowances of the personnel involved.

e. Based on estimated average costs, the vessels included in the presently planned program will involve a book value of \$106,851,900. Costs quoted herein do not take into account expenses incurred in the maintenance, refit and delivery of vessels now on hand awaiting transfer.

4. Availability of munitions to implement the planned assistance.

a. Chinese Air Force Program (3-1/3 Group) (Data as of September 1946)

(1) Approximately 21 percent of the munitions (required to implement this program) including approximately 80 percent of the aircraft, have already been transferred to the Chinese Government;

(2) Approximately 22.5 percent (\$31,775,000) of the munitions (including the remainder of the aircraft) have been reported as available in the Pacific area;

(3) Approximately 16 percent (\$22,000,000) of the munitions are available in the Zone of the Interior;

(4) Munitions are not available for the remaining 41 percent (\$57,425,000) of the program.

Availability of munitions indicated above has unquestionably been reduced by normal deterioration of equipment held in storage.

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ANNEX "B" TO APPENDIX "A"

b. Chinese Occupation Force in Japan. No estimate of supplies required is available for the Chinese Occupation Force. It is expected that requirements will be met from stocks available to CINCFE, and that requisitions for replacement will be made on the Zone of the Interior. In the event that procurement is necessary, funds will be available to the War Department.

c. Naval Assistance. Practically all vessels estimated to be required have become excess to needs of the Navy. Ninety-five vessels are now on loan to the Chinese Navy, which vessels will be recaptured and retransferred immediately under provisions of Public Law 512 when it is implemented.

5. Degree of U.S. commitment and status of action as of the date of this report.

a. Chinese Air Force 8-1/3 Group Program. To date approximately \$30,000,000 of items applicable to the Chinese Air Force 8-1/3 Group Program including approximately 440 aircraft have been transferred to the Republic of China from sources in China and the Pacific. The balance of the aircraft required for this Program, approximately 120, have been held in the Pacific Area. However, a recent increase in U.S. Air Force requirements for aircraft in the Far East Area has resulted in diversion of these aircraft to meet this U.S. requirement, thus eliminating this source of supply for the Chinese Program. Several months ago the transfer of military type items was suspended for an indefinite period of time. The War Department has since directed the Commander-in-Chief, Far East, to dispose otherwise of military type items which had been retained in the Far East Command for application to this program. The Commander-in-Chief, Far East Command is negotiating transfer of the balance of civilian type items available in the Pacific Area. Civilian type items, except aircraft and aircraft spare parts, applicable to this program are available to the Chinese Government from the proceeds of the China Bulk Sale.

b. The major portion of the Chinese ground training in the United States will be accomplished by June 1947, and the air training program will be completed by December 1947. To date approximately 50 percent of the \$10,000,000 advance fund (para 3 b above) has been expended.

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c. No action has been taken to date on supplies for the Chinese Occupation Forces, which forces have not arrived in Japan. The date of their arrival is uncertain.

d. Officers and men attached to the Staff of Commander Naval Forces Western Pacific are conducting training of Chinese nationals in the operation and maintenance of vessels, ninety-five of which are now on loan to the Chinese Republic.

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RESTRICTEDANNEX "C" TO APPENDIX "A"

1. General nature and extent of assistance planned. The 20th of November recommendation of the Permanent Joint Board of Defense, Canada-U.S., approved by the President on 4 February 1947, recommends the joint adoption, as far as practicable, of common designs and standards in arms, equipment, organization and training methods. In order to implement this recommendation partially, the United States at the request of the Canadian Government is endeavoring to make available surplus military type equipment in such quantities and at such prices as may be negotiated between the two Governments. The armed forces of the two countries by coordinate research, development, and ultimate adoption will endeavor to continue the principles laid down in the above mentioned recommendations. In these cases the cost of procurement of equipment if for Canada will be borne by the Canadian Government.

2. Type and size of armed forces involved. No definite arrangements for United States munitions have been proposed or established by Canada. However, Canada desires to utilize U.S. military equipment to the maximum extent possible. Individual requests submitted by Canada and approved by the military department as part of the Joint Canada-U.S. Defense Plan are considered by the U.S. Government.

3. Estimated scope of planned U.S. assistance. Canada will pay for any military equipment received. It is expected that Canada will wish to join the United States in the procurement of common items and munitions desired. However, in this respect unless enabling legislation is enacted it will be necessary for Canada to draw up the procurement contract and negotiate the contract with the American manufacturer concerned.

4. Availability of munitions to implement the planned assistance. Canada has submitted no list of equipment she desires in the future; therefore, the availability of military stocks to meet any requirements of the Canadian Armed Forces cannot be stated. Surplus stocks will be available to meet Canadian requirements to the extent of suitability and availability at the time Canadian requirements are made known. Delay in submission of Canadian requirements will reduce availability from surplus stocks.

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RESTRICTEDANNEX "C" TO APPENDIX "A"

5. Degree of United States commitment and status of action as of date of this report. It is estimated that Canada has obligated approximately \$4,000,000 of \$8,000,000 deposited by Canada in the United States Treasury for the purchase of surplus military equipment. It will be incumbent upon, and also advantageous to, the United States to make available the ^{surplus} equipment desired to the limit of Canadian funds when firm requirements are submitted.

6. Legal basis for implementation of military assistance to Canada. An agreement to furnish approximately seven million dollars of excess military property to the Dominion of Canada is contained in an exchange of notes between the Honorable Ray Atherton, the U.S. Ambassador to Canada, and the Secretary of State for External Affairs, Canada, dated 30 March 1946. This exchange of notes originally provided for a deposit of seven million. The additional sum of one million dollars was approved in a note from the Secretary of State to the Secretary of War dated 3 January 1947. Upon determination that the equipment desired by Canada is excess to the U.S. needs, it is declared surplus to the Department of State, OFLC, Field Commissioner for Military Programs, and sold to the Dominion of Canada through the Surplus Property Act of 1944, Public Law 457 - 78th Congress, Chapter 479 - 2d Session.

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TOP SECRETANNEX "D" TO APPENDIX "A"UNITED STATES MILITARY ASSISTANCE TO LATIN AMERICAN REPUBLICS

1. General nature and extent of assistance planned. United States military assistance proposed by the War and Navy Departments for the Latin-American Republics includes the establishment of United States military missions as requested by Latin-American Governments, the training of Latin-American personnel in United States Service Schools, and the transfer of United States munitions. This assistance is known by two names: (a) The Western Hemisphere Defense Program (an over-all plan - see para. 4a below); and (b) The Interim Allocation Program (a partial implementation of (a) - see para. 4b below).

2. Type and size of armed forces involved. Exploratory discussions concerning the type and size of Latin-American armed forces for which United States equipment will be furnished have been conducted informally between the United States and each of the Latin-American governments (except Argentina). These staff conversations provide a basis for considering military implementation of the Act of Chapultepec, which has been signed by each of the 21 American Republics and which establishes a system of cooperation to meet acts or threats of aggression by any nation within or without the Western Hemisphere, subject to the provisions of the United Nations Charter. The strength of Latin-American peacetime forces under the proposed plan will equal approximately the strength of their present armed forces, aggregating approximately 540,000 (See Tab "A").

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TOP SECRETANNEX "D" TO APPENDIX "A"3. Estimated scope of planned U.S. assistance.

a. The over-all total book value of munitions which may be required for the armed forces of the Latin-American Republics aggregates:

Army	\$877,000,000*
Army Air Forces	158,000,000*
Navy	<u>284,868,000</u>
Total:	\$1,319,868,000

*/Note: These figures should not be confused with present plans for the Western Hemisphere Defense Program, which envision much more limited objectives and total approximately (for Army and Air Forces \$500,000,000)

b. The cost of any equipment from non-excess stocks or procured specifically for transfer and the cost of maintenance after transfer must be borne by Latin-American Governments.

c. The annual estimated cost to the United States is as follows:

(1) For maintenance of military missions and commissions
(not including pay and allowances of U.S. personnel)

(a) Army and Army Air Forces	\$2,750,000	
(b) Navy	88,000	<u> </u>
Sub Total	\$2,838,000	

(2) For training of Latin-American personnel in U.S. schools.

(a) Army	500,000	
(b) Army Air Forces	3,800,000	
(c) Navy	1,301,000	<u> </u>
Sub Total	\$5,601,000	
Annual Total	\$8,439,000	

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TOP SECRETANNEX "D" TO APPENDIX "A"

d. In addition to the foregoing, there are the following estimated costs pending transfer:

(1) For storage and maintenance of material		
(a) Army	\$5,700,000	
(b) Army Air Forces	2,094,000	
(c) Navy	1,026,700	<u> </u>
	Sub Total	\$8,820,000
(2) For rehabilitation of material prior to transfer		
(a) Army	\$ 0	
(b) Army Air Forces	7,815,000	
(c) Navy	8,080,000	<u> </u>
	Sub Total	<u>\$15,895,000</u>
	TOTAL	<u><u>\$24,715,000</u></u>

NOTES:

1. Army Ground equipment considered serviceable as is.
2. Programs are not based upon complete U.S. Tables of Organization and Equipment.
3. Cost of rehabilitation is current estimate. This cost will increase by reason of accelerated deterioration of aircraft and ships with passage of time.
4. The storage and maintenance estimates cover the period of one year from date of this report. Details of implementation will of course have to be worked out with Latin-American governments after enabling legislation is passed, on a basis of one sovereign state dealing with another. Therefore all figures on maintenance and storage costs are rough estimates depending upon timing, and yearly costs may vary between wide limits and terminate any time 2 - 10 years hence.

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4. Availability of munitions to implement the planned assistance. Approximately eighty-five percent of the required military type equipment is being held for this program. Civilian type items as trucks, typewriters and clothing are not available and any which may be needed to supplement the program must be procured at the expense of the Latin-American Governments.

5. Degree of U.S. commitment and status of action as of date of this report.

a. The Western Hemisphere Defense Program provides for the following (See Tab "B"):

<u>Ground</u>	<u>Air</u>	<u>Navy</u>	<u>Aggregate Strength</u>
28 Divisions & supporting troops	1530 aircraft and spare parts	4 Light Cruisers	540,240
	31 base units	25 Destroyers escorts	
	34 Communications Grps (equip sets)	84 Patrol, amphibious and auxiliary types	

The United States does not consider that actual commitments have been made to furnish complete equipment for the above. However, as a result of the Bilateral Staff Conversations, some Latin-American Governments are of the opinion that the U.S. Government has an implied commitment, which as yet it has not fulfilled. Successful implementation of the Western Hemisphere Defense Program (excluding the Interim Allocation, see para. 5b below and Tab "C") is contingent upon enactment of appropriate legislation.

b. Interim Allocation of the Western Hemisphere Defense Program.

In absence of enabling legislation to implement the Western Hemisphere Defense Program, an Interim Allocation has been established and approved by the President, providing for the following (see Tab "C"):

<u>Ground</u>	<u>Air</u>	<u>Navy</u>
3 Divisions & supporting troops	576 aircraft and spare parts	84 Patrol, amphibious and auxiliary types.
	25 Base Units	
	25 Communications Groups (equipment sets)	

The sale of equipment is being consummated under the provisions of the Surplus Property Act. Details of munitions transferred are available in historical reports issued monthly by Office, Field Commissioner for Military Programs. (Not reproduced as a part of this report. Copies may be secured upon request to the SWNCC Secretariat.)

Annex "D" to Appendix "A"

TOP SECRETTAB "A" TO ANNEX "D" TO APPENDIX "A"PLANNED STRENGTH OF ARMED FORCES

<u>COUNTRY</u>	<u>GROUND</u>	<u>NAVY</u>	<u>AIR</u>	<u>TOTAL</u>
Bolivia	17,400		1,421	18,461
Brazil	178,338	32,000	21,391	231,729
Chile	30,105	9,494	3,163	42,762
Colombia	20,574		1,144	21,718
Costa Rica	472		None	472
Cuba	14,451	2,400	1,180	18,031
Dominican Republic	4,476	194	182	4,852
Ecuador	8,036	838	1,370	10,244
El Salvador	3,016		145	3,161
Guatemala	10,284		310	10,594
Haiti	3,792	115	110	4,017
Honduras	2,715		225	2,940
Mexico	58,911	7,765	4,149	70,825
Nicaragua	4,178	100	165	4,443
Panama	2,596		70	2,666
Paraguay	12,786	1,235	1,314	15,335
Peru	31,494	8,150	3,263	42,907
Uruguay	19,051	1,095	1,676	21,822
Venezuela	<u>10,648</u>	<u>1,169</u>	<u>1,444</u>	<u>13,261</u>
	432,963	64,555	42,722	540,240

Tab "A" to Annex "D" to Appendix "A"

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TAB "B" TO ANNEX "D" TO APPENDIX "A"

GENERAL BREAKDOWN OF WESTERN HEMISPHERE DEFENSE PROGRAM BY COUNTRY
(continued)

	<u>NOTE REFERENCE</u>
PERU: 2 Lt Inf Divs (-)	1
1 Mtn Div (-)	
2 Cav Div (-)	
1 Armed Div (-) Supporting troops	
URUGUAY: 1 Inf Div	
1 Cav Div Supporting troops	
VENEZUELA: 2 Lt Inf Divs	1
1 Cav Regt (-)	
1 Engr Bn Supporting troops	
ARGENTINA: Nothing	4

NOTES:

1. Has Ground and Air Missions
2. Has Ground and Air Commission
3. Has Ground Mission only
4. Has Air Mission only
5. Has Air Mission and Special Engineer Mission
6. Has Veterinarian Advisory Mission

Tab "B" to Annex "D" to Appendix "A"

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TOP SECRETTAB "B" TO ANNEX "D" TO APPENDIX "A"WESTERN HEMISPHERE DEFENSE PROGRAM

(NAVY)

Brazil	2 Light Cruisers 1 Destroyer Tender 1 Torpedo Boat Tender 1 Submarine Rescue Vessel
Chile	1 Light Cruiser 2 ACM 2 Attack Transports 3 Auxiliary Tugs 6 Patrol Vessels 3 Sub Chasers 6 Landing Craft Infantry 4 Landing Ships Medium
Colombia	1 Auxiliary Tanker 1 Auxiliary Tug 1 Patrol Frigate
Cuba	2 Rescue Tugs 4 Patrol Vessels 12 Sub Chasers
Ecuador	1 Auxiliary Tanker 1 Patrol Frigate
Mexico	1 Auxiliary Tanker 6 Patrol Vessels 2 Sub Chasers 2 Minesweepers 10 Landing Craft Infantry
Peru	1 Light Cruiser 2 Rescue Tugs 2 Patrol Frigates 2 Minesweepers 4 Landing Craft, Tank
Venezuela	1 Landing Ship, Tank

Twenty-five (25) Destroyer escorts are being held in deferred disposal status for possible transfer as substitutes for destroyer requirements. Firm allocations by countries not made pending further discussions.

Tab "B" to Annex "D" to Appendix "A"

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WESTERN HEMISPHERE DEFENSE PROGRAM (ARMY AIR FORCES)
EQUIPMENT BY COUNTRY AND TABLES OF ORGANIZATION AND EQUIPMENT

1 MARCH 1946

Country	Base Units	AF Hq	F. Gp	M.B.Gp Hq	F.Sq	B.Sq	H.B.Sq	Tr. Sq	Lia Sq	"A" Station	"C" Station
		1-	1-	1-	1-	1-	1-	1-	1-	1-627	1-627
		110	12	112	27	127	117	347	977		
*											
Bolivia	1	-	-	-	1	-	-	1	-	1	2
Brazil**	3	1	1	1	5	4	1	4	2	10	5
Chile	4	1	-	-	1	1	-	1	1	4	2
Colombia	2	1	-	-	1	1	-	1	-	2	3
Cuba	1	-	-	-	1	1	-	1	-	1	3
Dominican Republic	1	-	-	-	-	-	-	-	-	-	3
Ecuador	1	-	-	-	1	-	-	1	-	1	1
El Salvador	1	-	-	-	-	-	-	-	-	1	2
Guatemala	1	-	-	-	1	-	-	-	-	1	-
Haiti	1	-	-	-	-	-	-	1	-	1	-
Honduras	1	-	-	-	-	-	-	-	-	-	1
Mexico	3	1	-	1	-	-	-	-	-	-	1
Nicaragua	1	-	-	-	1	2	-	1	-	3	3
Panama	-	-	-	-	-	-	-	-	-	1	-
Paraguay	1	-	-	-	-	-	-	-	-	-	1
Peru	3	1	-	-	1	-	-	-	-	1	2
Uruguay	1	-	-	-	1	1	-	1	1	3	1
Venezuela	2	-	-	-	-	-	-	1	-	1	2
	<u>28</u>	<u>5</u>	<u>1</u>	<u>2</u>	<u>15</u>	<u>11</u>	<u>1</u>	<u>14</u>	<u>4</u>	<u>32</u>	<u>31</u>

One major Overhaul Depot to be set aside (to be located later). This Depot will be in accordance with Tech major overhaul of engines, instruments, and accessories. No 4th Echelon overhaul spares to be set aside.
 *113 Aircraft and equipment being held by Army Air Forces for possible additional commitments has been omitted.
 **In addition Brazil will receive 1 Hq, Aircraft Warning and Fighter, Control Unit, T/O 1-600 composed of the following: 4 AC, 1 AE, 1 CC, 2 CC, 1 CG, 1 CI, 2 CJ, 1 FB, 1 FH, 1 RB, 3 RD, 3 RE, 1 .B, 3 MC.

WESTERN HEMISPHERE DEFENSE PROGRAM (ARMY AIR FORCES)

STATEMENT BY COUNTRY AND TABLES OF ORGANIZATION AND EQUIPMENT

1 MARCH 1946

Sp Hq	F.Sq	B.Sq	H.B.Sq	Tr. Sq	Lia Sq	"A" Station	"C" Station	"D" Station	Communications Equipment Group
	1-	1-	1-	1-	1-	1-627	1-627	1-627	
	<u>27</u>	<u>127</u>	<u>117</u>	<u>347</u>	<u>977</u>				
1	-	-		1	-	1	2	2	1
5	4	1		4	2	10	5	5	5
1	1	-		1	1	4	2	3	4
1	1	-		1	-	2	3	4	2
1	1	-		1	-	1	3	5	1
-	-	-		-	-	-	1	1	1
1	-	-		1	-	1	2	2	1
-	-	-		-	-	1	-	-	1
1	-	-		1	-	1	-	3	1
-	-	-		-	-	-	1	1	1
-	-	-		-	-	-	1	2	1
1	2	-		1	-	3	3	3	3
-	-	-		-	-	1	-	2	1
-	-	-		-	-	-	1	-	-
1	-	-		-	-	1	2	2	1
1	1	-		1	1	3	1	3	3
-	-	-		1	-	1	2	2	1
1	1	-		1	-	2	2	2	2
<u>15</u>	<u>11</u>	<u>1</u>		<u>14</u>	<u>4</u>	<u>32</u>	<u>31</u>	<u>42</u>	<u>30</u>

Tab "B" to Annex "D"
to Appendix "A"

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be located later). This Depot will be in accordance with Tech Order 0030-105 series for accessories. No 4th Echelon overhaul spares to be set aside.

by Air Forces for possible additional commitments has been omitted from this table.

raft Warning and Fighter, Control Unit, T/O 1-600 composed of the following teams:
1 FB, 1 FH, 1 RB, 3 RD, 3 RE, 1 AB, 3 MC.

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TAB "C" TO ANNEX "D" TO APPENDIX "A"
WESTERN HEMISPHERE INTERIM ALLOCATION PROGRAM
 (NAVY)

Brazil	1 Destroyer Tender 1 Torpedo Boat Tender 1 Submarine Rescue Vessel
Chile	2 ACM 2 Attack Transports 3 Auxiliary Tugs 6 Patrol Vessels 3 Sub Chasers 6 Landing Craft Infantry 4 Landing Ships Medium
Colombia	1 Auxiliary Tanker 1 Auxiliary Tug 1 Patrol Frigate
Cuba	2 Rescue Tugs 4 Patrol Vessels 12 Sub Chasers
Ecuador	1 Auxiliary Tanker 1 Patrol Frigate
Mexico	1 Auxiliary Tanker 6 Patrol Vessels 2 Sub Chasers 2 Minesweepers 10 Landing Craft Infantry
Peru	2 Rescue Tugs 2 Patrol Frigates 2 Minesweepers 4 Landing Craft, Tank
Venezuela	1 Landing Ship, Tank

Tab "C" to Annex "D" to Appendix "A"

TOP SECRETINTERIM ALLOCATION BY COUNTRY

BOLIVIA: 1 Lt Inf Bn
AF - 1 Trans Sqn

BRAZIL: 1 Inf Div
1 Inf Co Rifle, Parachute
AF - 4 Med Bomb Sqs
1 Ftr Sqn
3 Trans Sqs

CHILE: 1 Inf Regt
1 FA Bn, 105 mm
AF - 1 Med Bomb Sqn
1 Ftr Sqn
1 Trans Sqn

COLOMBIA: 2 Inf Bns
2 FA Btrys, 105 mm
AF - 1 Med Bomb Sqn
1 Ftr Sqn
1 Trans Sqn

COSTA RICA: 1 Inf Co (less Weapons Plat)

CUBA: 1 Lt Inf Bn
1 Lt FA Btry, 75 mm
AF - 1 Med Bomb Sqn
1 Ftr Sqn
1 Trans Sqn

ECUADOR: 1 Inf Bn
1 FA Btry, 75 mm
AF - 1 Ftr Sqn
1 Trans Sqn

EL SALVADOR: 1 Inf Co
1 FA Btry, 75 mm

*GUATEMALA: 1 Lt Inf Bn
2 FA Btrys, 75 mm
1 FA Btry, 105 mm
AF - 1 Trans Sqn

MEXICO: 3 Cav Sqs (mecz)
2 FA Bns, 105 mm
1 Engr Co
AF - 1 Med Bomb Sqn
1 Ftr Sqn
1 Trans Sqn

PARAGUAY: 1 Lt Inf Bn

PERU: 1 Inf Regt
1 FA Bn, 105 mm
AF - 1 Med Bomb Sqn
1 Ftr Sqn
1 Trans Sqn

URUGUAY: 2 Inf Bns
2 FA Btrys, 105 mm
AF - 1 Trans Sqn

VENEZUELA: 1 Lt Inf Bn
1 FA Btry, 75 mm
AF - 1 Med Bomb Sqn
1 Ftr Sqn
1 Trans Sqn

*Transfers effected under Lend Lease Act

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ANNEX "E" TO APPENDIX "A"

U. S. MILITARY ASSISTANCE TO ITALY

1. General nature and extent of assistance planned.

Note: The information in this Annex has been developed from current JCS reports and studies which have been or are being coordinated with the State Department. The reference concerning Ground Forces is JLC 273/6 of 1 April 1947; the reference concerning Air Forces is JCS 1693/8 of 31 March 1947.

It is considered desirable in the U.S. national interest that the Italian armed forces be adequate to maintain internal order and the integrity of Italian borders. U.S. military assistance planned for Italy at this time includes only the surplus transfer of some/ army ground and air type munitions and consideration, on an Ad Hoc basis, of Italian requests for training assistance.

a. Army. Standardization of the Italian Army on British types for weapons and equipment including vehicles has been agreed, so far as British surpluses permit. U. S. surplus stocks in the theater may be required to supplement what the British are unable to make available. (see par 3 below).

b. Air Force. The U.S. will probably offer to make available for the Italian Air Force, from theater surplus, 50 P-51 aircraft and the specific-to-type aircraft maintenance equipment and spare parts for three years.

c. Navy. It is understood that Italy may require the transfer of sixteen (16) minesweepers and spare parts therefor.

2. Type and size of armed forces involved. The size of Italian armed forces is limited by various sections of the Treaty of Peace with Italy as follows:

a. Army. The Italian Army, including the frontier guards, is limited to a force of 185,000 plus 65,000 Carabinieri. Either force may vary by 10,000 providing the total number does not exceed 250,000.

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b. Air Force. The Air Force, including any naval arm, is limited to a force of 200 fighter and 150 transport, rescue, training and liaison aircraft. Personnel is limited to 25,000, which figure includes combat, service, and overhead personnel.

c. Navy. Strength of the Navy will be progressively reduced so that nine months after the Treaty goes into force a ceiling of 25,000 will have been reached.

3. Estimated scope of planned U.S. assistance.

a. Army.

(1) SACMED has advised the Combined Chiefs of Staff that he has endeavored to equip from British global surpluses in the Mediterranean Theater:

- (a) 5 Combat Divisions.
- (b) 10 Independent Brigades.
- (c) 3 Internal Security Brigades.

He indicated that when presently earmarked British global surplus stocks have been turned over to the Italians there will be a deficiency of the following items.

<u>ITEM</u>	<u>AMOUNT</u>
Rifles, .303	35,000
Light Machine Guns, Bren	2,300
17 Pdr. Anti-Tank Guns	25
25 Pdr. Guns	80
25 Pdr. Ammunition	400,000 rds.
300 Browning Ammunition	5,000,000 rds.

(2) In addition, SACMED indicated that in order to balance the equipment in possession of the Italian Army, the following minimum requirements exist:

<u>ITEM</u>	<u>AMOUNT</u>
Plats	400
17 Pdr. Anti-Tank Guns	40
25 Pdr. Guns	150
40mm Anti-Aircraft Guns	100

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<u>ITEM</u>	<u>AMOUNT</u>
3.7 Anti-Aircraft Guns	130
Medium Artillery (any type)	30
Self-Propelled Anti-Tank Artillery	24
Medium Tanks	56
Light Tanks	200
Tank Transporters	25
First and Second line am- munition for the above items	

- (3) A communication from the British Chiefs of Staff, dated 3 April 1947 (CCS 386/45) indicates that the deficiencies listed in subparagraph 3a(1) above may be considerably less than the actual existing deficiencies; and indicates further a British desire that the U.S. take over complete responsibility for supply of combat vehicles for the Italian Army. The tenor of this new communication is to suggest U.S. assumption of more extensive responsibility for the support of the Italian Army than was heretofore contemplated.
- (4) It is planned to authorize the transfer or retransfer at scrap prices of such of the above munitions or suitable substitutes therefor) as may be available from U.S. Army theater surplus or British lend-lease, providing such transfers do not interfere with the Greek program. Quantities and dollar values are not definitely known, but since (a) munitions to be furnished under this program are already in the theater and (b) any equipment not furnished would have to be demilitarized at additional expense, the transfer of this equipment to

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the Italians will actually result in saving the U.S. the expense of demilitarization.

b. Air Force. It is estimated that \$90,000 will be required to place the 50 P-51 aircraft and spares in operable condition. The Italian Government will be invited to discuss details of the plan for equipping and supplying the Italian Air Force, including finance, with British and U.S. authorities in Rome. With regard to U.S. Air Force equipment, the over-all cost will include a nominal price for aircraft, spares for three (3) years, and associated aircraft maintenance equipment, plus the actual costs incurred in placing the aircraft in operable condition and delivery thereof, and packing, crating, and transporting three (3) years' supply of spares and aircraft maintenance equipment. Due to deterioration in storage, if resolution of arrangements is delayed, an increase in cost of placing aircraft in operational standard will result.

c. Further requirements for rehabilitation, maintenance, and spare parts. Although the plans indicated above for Ground and Air Force equipment include to some degree provision of spare parts and maintenance, it should be noted that in view of the lack of an Italian munitions industry, the equipping of Italian armed forces with U.S.-type munitions necessarily establishes potential demands for additional transfers of U.S.-type munitions.

4. Availability of munitions to implement the planned assistance.

a. Army. At the present time the only equipment planned to be furnished the Italian Army is that which is excess to theater requirements, not included in current commitments for the Greek Program, not listed for return to the U.S., and is required to meet the deficiencies listed in par 3a(1) and (2) above.

b. Air Force. All U.S. Air Force equipment needed for the Italian Air Force under the present plan is available.

c. Navy. The required minesweepers are available.

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5. Degree of U.S. commitments and status of action as of the date of this report.

a. Army. To date no firm U.S. commitment has been made regarding the supply of military equipment to the Italian Army. However, the Joint Logistics Committee proposal now circulating, if approved, will constitute^a U.S. plan to supply certain items, if available from theater surplus, which are beyond British capabilities.

b. Air Force. Although the U.S. plans to offer to the Italian Government the air force type munitions indicated above, the official offer has not yet been made. Any definite commitments will be contingent upon an Italian request for assistance in equipping their Air Force.

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ANNEX "F" TO APPENDIX "A"

U. S. MILITARY ASSISTANCE TO GREECE

1. General nature and extent of assistance planned.

The U. S. military assistance planned for Greece includes the establishment and maintenance of some U. S. military personnel in Greece in an advisory capacity (organization to be determined); the transfer of munitions for the Greek military establishment; and the training of key personnel of the Greek Armed Forces.

Note: Information appearing in paragraphs 2 and 3 below is based largely upon British studies and estimates which in the absence of comparable U. S. studies and estimates have been taken as a starting point, pending investigation and check by U. S. agencies.

2. Type and size of armed forces involved.

a. Ground and Service forces and Gendarmerie (Constabulary). For purposes of restoring order, it is contemplated that the Army (present strength 103,000) will be increased to 115,000; that the Gendarmerie (present strength 26,000) will be increased to 30,000; and that Pioneer (labor) forces of 5,000 will be constituted. The total strength of these forces will be 150,000.

b. Navy. The Greek Navy, which is limited to small craft, will operate at its present strength of approximately 13,000.

c. Air Force. The Greek Air Force, consisting of one wing (British nomenclature, equivalent to one U. S. group) with a transport squadron, two fighter squadrons, and a reconnaissance squadron, numbers approximately 5,000.

3. Estimated scope of planned U. S. assistance. It is estimated that the total cost of U. S. military assistance to Greece through Fiscal Year 1948 will be approximately 150 million dollars, the entire amount to be borne by the U. S.

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SECRET4. Availability of munitions to implement the planned assistance.

a. By giving to Greece a priority above all other foreign nations, the civilian components of the U. S. Army, and the War Department reserve stocks, the majority of the most urgently needed items of the present known Greek requirements for military type items not available from the British sources can be provided. Most transportation items will have to be withdrawn from active U. S. Army stocks, and the mules will have to be procured. Such implementation of Greek assistance will reduce the availability of items for programs of lower priority, including those which will provide assistance to other nations, and can be undertaken only if legislation now before the Congress is passed.

b. It is understood that the British contemplate meeting, from British sources, the major requirements of the Greek Air Force for aircraft and supporting technical supplies. The U. S. is expected to provide maintenance supplies for U. S. aircraft now in use by the Greek Air Force - a few each of c-47 and AT-6 types. Certain supplies for C-47 aircraft are critically short and are presently being procured from the manufacturer. However, most of the aircraft supplies needed by the Greeks can be provided by shipment from the U. S. if Greece is given the priority stated in paragraph a above.

5. Degree of U. S. commitments and status of action as of the date of this report. All actions restricted to planning. No physical action has been undertaken other than the involvement of personnel in preliminary investigations. No specific commitment of munitions has been made, although the Executive branch of the U. S. government is on record as desiring (subject to Congressional approval) to render military assistance to Greece.

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ANNEX "G" TO APPENDIX "A"

U. S. MILITARY ASSISTANCE TO TURKEY

1. General nature and extent of assistance planned.

a. The nature and extent of U.S. military assistance contemplated for Turkey is not yet clearly defined. Maintenance of Turkish forces in a state of mobilization over a period of years is known to have been a heavy drain upon the economy of Turkey. The forces are equipped principally upon a German standard, and the bulk of their equipment is obsolete and worn. A list of munitions desired by the Turkish General Staff was transmitted informally to the War Department in October 1946 by Colonel Roberts (US Military Attache to Turkey); however, this list is not considered a suitable basis for planning for the following reasons:

- (1) Many of the items shown are not properly identified and require definition.
- (2) The list was drawn up with a view to possible combat operations in the near future, whereas such an assumption does not necessarily apply.
- (3) There has been no opportunity to analyze the list with a view to justifying the content thereof.
- (4) An approximate cost estimate of the list, exclusive of aircraft and naval requirements, exceeds \$910,000,000.
- (5) It has not been determined that the best way to render military assistance to Turkey is to provide munitions.

b. Other forms of military assistance to Turkey might include:

- (1) Improvement of communications (ports, airfields, railroads and highways, wire and radio).

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(2) Assistance in the establishment of munitions plants and in the procurement or development of raw materials for local production.

2. Type and size of armed forces involved.

a. Army and gendarmerie. The strength of the Turkish army is estimated at 580,000. It consists of a GHQ, three armies, 14 corps, and a total of 41 divisions (1 armored, 3 mounted, 3 cavalry and 34 infantry). There are also 7 fortress commands and 2 independent brigades. There are 80,000 frontier guards, customs guards and gendarmerie.

b. Navy. The Turkish Navy consists of:

1 Battle Cruiser (very old)		
2 Cruisers (completely obsolete)		
8 Destroyers)	
9 Submarines)	(The majority are comparatively modern,
14 Minesweepers)	but some units are at
22 Smaller craft)	least 15 years old).

The strength of the Navy is approximately 15,000.

c. Air Force. The Turkish Air Force consists of two air divisions with squadrons as follows: 12 Fighter, 12 Bomber, 6 Reconnaissance, 2 Torpedo Bomber, 1 Photo-Transport, and 1 Communications (misc). The strength of the Air Force is approximately 11,000. It is equipped for the most part with obsolete aircraft of British manufacture. However, the Turks are re-equipping their Air Force with approximately 400 British aircraft of later types (Mosquitos, Spitfires, and Beau-Fighters), 30 of which have already been delivered.

3. Estimated scope of planned U.S. assistance.

The Turkish economy is not considered capable of sustaining an appreciable part of the foreign exchange cost of its armed forces, although it can fully provide for their food, clothing, shelter, and minor items of equipment. The President of the United States has asked the Congress for \$150,000,000 with which to render assistance to Turkey.

TOP SECRET4. Availability of munitions to implement the planned assistance.

Since there will be only a very limited amount of surplus property available for military assistance to Turkey, it appears that, except for certain aircraft types which may soon become excess to theater requirements, any such assistance can be only at the expense of other foreign programs. Although an appreciable quantity of munitions could be made available for this purpose if Turkey were given an overriding priority, it is not possible to make definite statements concerning availability of munitions pending a more exact determination of needs and priority.

5. Degree of U.S. commitment and status of action as of the date of this report.

Legislation which would authorize assistance to Turkey is now before the Congress. The Executive branch of the government has publicly indicated its desire to undertake military assistance to Turkey, contingent upon approval by the Congress. No specific commitments have been made to any foreign government on this subject.

SECRETANNEX "H" TO APPENDIX "A"U. S. MILITARY ASSISTANCE TO IRAN1. General nature and extent of assistance planned.

U. S. military assistance to Iran includes (a) the maintenance of two missions (a military mission under General Grow and a constabulary mission under General Schwarzkopf), (b) the training of Iranian nationals, and (c) the transfer of munitions, which will probably include the following:

Light Tanks

Light Artillery

Fighter Planes

Transport Type Aircraft

Machine Guns and Small Arms

Ammunition and Small Bombs

Vehicles

Medical Supplies

Engineer and Communication Equipment

Clothing and Shoes

2. Type and size of armed forces involved. The

Iranian Army is an organization of 85,000. It consists of 11 infantry divisions, one cavalry division, and an independent brigade. The Gendarmerie has a strength of 25,000. The War Department has been informed that the Iranians are considering increasing the size of the Gendarmerie to 40,000.

3. Estimated scope of planned U. S. assistance. The policy established by the Secretaries of State, War and Navy provides that the U. S. will make available to Iran (1) non-combat materiel in reasonable quantities, and (2) non-aggression combat materiel within the limits of a credit of \$10,000,000 to be allocated to Iran for this purpose. ("Non-aggression combat materiel" excludes such items as medium tanks and bombers.) The \$10,000,000 credit instrument has not yet been signed. The Iranian Government has indicated a desire for further credit in order to purchase non-combat materiel. This matter will be the subject of further conversations between the two Governments.

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4. Availability of Munitions to Implement the Planned Assistance. The Iranian request, submitted in November 1946, for non-aggression combat items can be met substantially from War Department stocks, depending upon the relative priority accorded to this program.

5. Degree of U. S. commitment and status of action as of date of this report. The Iranian Government has been informed in general terms of the U. S. willingness to provide munitions substantially as requested by the Iranians in November 1946, to the extent of \$10,000,000. The official request of the Iranian Government for equipment desired has just been received, and is being studied by the War Department.

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ANNEX "I" TO APPENDIX "A"

SUMMARY: AVAILABILITY OF WAR AND NAVY DEPARTMENT
MUNITIONS TO PROVIDE ASSISTANCE NOW CONTEMPLATED
FOR FOREIGN NATIONS.

1. General. Both the War and Navy Departments have requirements for support of their active establishments, for civilian components, and for reserve stocks. Beyond this, there are certain stocks which have been earmarked for contemplated foreign programs (the Philippines, China, the Western Hemisphere), and there are small quantities of actual or expected surpluses not included in the foregoing. Availability of munitions is limited by the factors listed in paragraph 3, Appendix "A".

2. Specific application. Stocks now earmarked by the War and Navy Departments for contemplated foreign programs, plus the small quantities of actual or expected surpluses not included therein, will make it possible to meet proposed commitments approximately as follows:

- a. Philippine commitments can be met approximately 85%.
- b. Chinese commitments can be met approximately as follows.

(1) 8-1/3 Group Program: To date approximately \$30,000,000 of items applicable to the Chinese Air Force 8-1/3 Group Program, including approximately 440 aircraft, have been transferred to the Republic of China from sources in China and the Pacific. The balance of the aircraft required for this Program (approximately 120) have been held in the Pacific Area. However, a recent increase in U.S. Air Force requirements for aircraft in the Far East has resulted in diversion of these 120 aircraft to meet the U.S. requirement, thus eliminating this source of supply for the Chinese Program. The transfer of military type items has been suspended for an indefinite period of time. The Commander-in-Chief, Far

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