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this policy decision states that the peace-time needs of the Japanese people should be defined as substantially the standard of living prevailing in Japan during the period 1930-1934. Data for this period would be used to estimate Japanese peaceful needs in 1950, due allowance being made for technological developments, balance of payments, and employment.

These policy decisions are two very small parts of what must be a fairly extensive programme for the economic demilitarization of Japan.

12. The Far Eastern Commission has under consideration two further papers which would go a long way toward completing the economic demilitarization programme:

- (1) Reduction of Japanese Industrial War Potential. (Latest version, F.E.C. 084/19; minor amendments are now being considered in the Steering Committee; copy attached).

This paper specifies the action to be taken with respect to various categories of industry which are deemed to constitute the Japanese industrial war potential. For industrial facilities in these categories in excess of Japanese peace-time requirements the paper would require either destruction or removal as reparations. The paper would also establish for the period of the occupation a ban on primary war industries and limits for the production capacity of certain war-supporting industries.

- (2) Reparations Removals of Industrial Facilities and Merchant Shipping from Japan. (F.E.C. 218; this paper was submitted by the United States delegation in April but so far has only been discussed in subcommittee. FEC 218/1, an explanatory paper and C2-242, the subcommittee's report are also attached). This paper is intended to be the final reparations removal programme and includes precise definitions of the peace-time requirements of Japan in terms of actual production capacities in the industries to be affected.

13. Even the approval of these papers the initial economic demilitarization programme cannot be completed until reparations removals have been carried out and some disposition is ordered for production facilities in war-supporting industries which are in excess of peace-time requirements, but which are not actually removed as reparations. The reparations removal programme cannot be accomplished until some agreement is reached on the division of reparations shares. Progress towards the solution of this problem has been painfully slow and at the moment it would appear that final settlement will be attained only at the peace conference.