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Dept. of State
By NLI: *H*, NARS Date *2-1-75*

DEPARTMENT OF STATE
THE COUNSELOR

MEMORANDUM

August 30, 1948

To: The Secretary

From: Charles E. Bohlen

Subject: Status of Moscow Discussions as of Today.

During the last week discussions continued at Moscow revolving essentially around the basic point of the rights of the three Western powers in the city of Berlin. On Monday night, August 23, this basic point of principle did not fully come to a head since Stalin himself produced a draft communique and a draft directive to the Military Governors which represented a considerable Soviet concession to our point of view.

At the next meeting with Molotov on Friday, August 27, the principle of four-power control over the circulation and use of the Soviet mark in Berlin was made plainer. The three Western powers, therefore, have accepted the proposed directive to the Military Governors, but are today telling Molotov of their intention to issue a statement for publication at the time of final agreement to the effect that the agreement concerning the lifting of the blockade and currency in Berlin is without prejudice to their rights, duties, and obligations as occupying powers in the city of Berlin. It has already been made clear to Molotov that there is no agreement pending the report from the Military Governors on the working out of arrangements to deal with the currency question in Berlin. Thus while it is impossible to state finally until we have had the report of today's meeting, it appears probable that:

1. A Draft Directive will be sent to the Military Governors in Berlin to work out the practical arrangements for the introduction of the Soviet mark in the city under four-power control.

2. A short interim announcement will be issued probably tomorrow morning merely stating that in the course of the Moscow discussions it has been necessary to refer to the Military Governors in Berlin certain technical matters and that the discussions in Berlin have not yet been concluded.

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It is by no means certain, however, that the Military Governors will be able to work these out and the whole matter may deadlock in Berlin in which case it will be referred back to Moscow and any final breakdown would occur there on a matter of principle, i.e., our rights in Berlin rather than on a technicality between the four Military Governors.

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(This Communique will not be subject to final approval until the Military Governors have reported back. It is, therefore, only tentative.)

I. TEXT OF COMMUNIQUE

"The Governments of France, the UK, USA and USSR have agreed that following measures under (A) and (B) shall be put into effect simultaneously, and have approved detailed arrangements for their implementation jointly worked out by the four military governors.

(A) The restrictions which have recently been imposed on communications, transport and commerce between Berlin and the Western zones and between the various zones of Germany shall be lifted, and freedom of communications, transport and commerce shall be maintained.

(B) The German mark of the Soviet zone shall be accepted, on the basis agreed between the four military governors, as the sole currency for Berlin and the Western mark "B" shall be simultaneously withdrawn from circulation in Berlin.

The four governments have also agreed that in addition to meetings of the four military governors, meetings among representatives of the four governments in the form of the Council of Foreign Ministers or other conferences of representatives of the four powers shall be held in the near future to discuss:

(1) Any outstanding questions regarding Berlin, and (2) any other outstanding problems affecting Germany as a whole."

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II. TEXT OF DIRECTIVE

"The Governments of France, the UK, US and USSR have decided that, subject to agreement being reached among the four military governors in Berlin for their practical implementation, the following steps shall be taken simultaneously:

(A) Restrictions on communications, transport and commerce between Berlin and the Western zones and to and from the Soviet zone of Germany which have recently been imposed shall be lifted;

(B) The German mark of the Soviet zone shall be introduced as the sole currency for Berlin, and the Western mark B shall be withdrawn from circulation in Berlin.

In connection with the above you are instructed to consult together with your colleagues so as to make, in the shortest time possible, the detailed arrangements necessary for the implementation of these decisions, and to inform your government not later than September 4 of the results of your discussions, including the exact date on which the measures under (A) and (B) above can be brought into effect. The four military governors will work out arrangements involved in the introduction of the German mark of the Soviet zone in Berlin.

The arrangements relating to the currency changeover and to the continued provision and use in Berlin of the German mark of the Soviet zone shall ensure:

(A) No discrimination or action against holders of Western marks B in connection with the exchange of those Western marks issued in Berlin. These shall be accepted for exchange for German marks of the Soviet zone at the rate of one for one;

(B) Equal treatment as to currency and provision of fully accessible banking and credit facilities throughout all sectors of Berlin. The four military governors are charged with providing adequate safeguards to prevent the use in Berlin of the German mark of the Soviet zone from leading to disorganizing currency circulation or disrupting the stability of currency in the Soviet zone;

(C) A satisfactory basis for trade between Berlin and third countries and the Western zones of Germany. Modification of this agreed basis to be made only by agreement among the four military governors;

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(D) The provision of sufficient currency for budgetary purposes and for occupation costs, reduced to the greatest extent possible, and also the balancing of the Berlin budget.

The regulation of currency circulation in Berlin is to be undertaken by the German bank of emission of the Soviet zone through the medium of the credit establishments operating at present in Berlin.

A financial commission of representatives of the four military governors shall be set up to control the practical implementation of the financial arrangements indicated above, involved in the introduction and continued circulation of a single currency in Berlin."

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III

At the time of final agreement the three Western powers will communicate in writing the following reservation of their rights which will be submitted in identical written communications to the Soviet Government and will be made public:

"The arrangements agreed to by the Western powers lifting the restrictions on communications in Berlin and dealing with the currency question are without prejudice to their rights, duties, and obligations as occupying powers in Berlin."

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