



DELEGATION OF THE UNITED STATES OF AMERICA

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etc
Mun Osners*



Council of Foreign Ministers
American Embassy, Moscow

April 18, 1947

Dear John, Covey (for their eyes only)

Bizonal Troubles - Since I am keeping no carbons, including none of this letter, I cannot be quite sure how fully I developed the present topic in my recent letters. General Draper has been handling the negotiations with General Robertson on the question alone. Yesterday, however, Ed Mason got in on it with Draper so that I am beginning to have a better picture of the issues and developments. I do not have copies of the papers for sending you, however, since Ed has only two papers in one copy each and needs them daily.

The primary issue turns out to be not exports but industrial planning. Clay apparently thought that detailed planning of the German economy by the bizonal agencies was contrary to US policy and impractical. The British, who as you recall had not allowed the Laender in their zone to establish ministries in transport, finance, communications, industry and foreign trade proposed to leave the Laender out of economic operations. It was this difference in view which precipitated the recent row.

The British now want a document signed by the two Secretaries of State which will constitute a new charter for the bizonal merger. I had a glance at the second British draft last evening. The first half of the document is devoted to principles of administration and foreign trade, the second to the establishment of a bizonal level of industry and the resumption of reparation deliveries, including those to the Soviet Union. (It is reported, however, that the performance of the Soviet Union on the Four-Power Treaty has weakened Bevin's resolve to deliver reparation equipment to it).

To take the second half first; there is little new in the present British ideas for establishing a level of industry for the bizonal area except the introduction of terminal dates for the completion of various operations - establishing the new level - July 1, I think. Listing the plants by August 15. Consideration will be given to the establishment of a reserve against the day when the Saar is transferred to France and against the contingency that the Soviet Union has removed more than the new level of industry on a German wide basis would permit from its zone. (You noticed, I hope, the irony to which I called attention in one of the memoranda of conversation to our change in position: we previously refused to move plants because of failure to achieve economic unity; now we want a reserve against the possibility that we obtain unity). The British draft contains provision for a bilateral announcement immediately after the close of the present session. Mr. Bevin has abandoned, however, his idea of trying once more in the CFM to get agreement on a new level of industry and will take no initiative in raising the problem.

From my point of view, the British position is OK, with the possible exception of the immediate announcement. General Draper, however, and I assume General Clay, would dislike a great deal of it. In a memorandum to

Ben Cohen which the General drafted for his signature and E.S. Mason. He specifically suggests the possibility of excluding the USSR from deliveries on the ground that they have taken more reparation from the Eastern Zone than they are entitled to. This means of course a complete change in the ground we are standing on. I regard it as undesirable. The change in ground, however is necessary if we want to deliver to the French. The problem will be settled here in Moscow by Bevin and Marshall.

The first part of the British draft covers a variety of topics most of which will be left for settlement by Clay and Robertson in Berlin. Bevin does want the Secretary's agreement here, however, to what I would consider to be an unworkable arrangement under which the planning of distribution of foods and raw materials in short supply, and of industrial production is handled centrally but the execution of the plans is handled on a Laender basis.

Ed Mason has just come down from the Secretary's morning staff meeting with the news that Draper, Cohen and Murphy all decried the proposed charter as a British attempt to railroad the Secretary into something. They held that no charter was necessary. Ed stated the opposite view and was a minority of one. Further discussion is proceeding among Draper, Mason and Murphy to which it is not convenient for me to be invited.

paragraph

One ~~xxxxxx~~ of the agreement in the first part calls for freedom of contract negotiation for exports by Germans with foreigners subject only (my italics) to the necessity for foreign exchange control. I have suggested to Ed that the State Department could agree to primarily but not to this backhanded way of abolishing cartel restrictions, safehaven, undesirable trade contacts, allocations of scarce materials needed for reconstruction, etc.

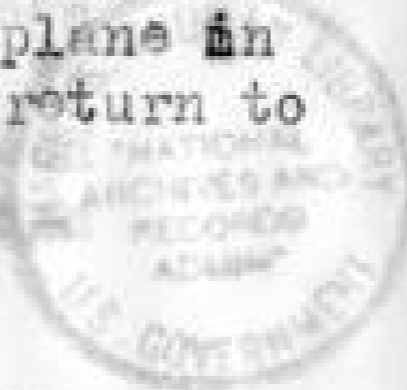
The paragraph on imports is o.k.. It calls for great care in importing raw materials needed for the reconstruction of the German economy and "boldness" in purchasing materials needed to expand exports.

The British view is that Bevin and the Secretary should agree on three or four main points here and now; that Marshall should stop off by plane in Berlin and work out the rest with Clay and Robertson (who plans to return to Berlin tomorrow), initial the document before he takes off.....

later

The foregoing was interrupted by alarms and excursions on the subjects of the coal agreement with the French, where changes of words, places for press release, times etc keep intervening, and for sitting in on the tail-end of the Robertson-Clay conversation with Murphy and Mason. Robertson read out the passage in Weir's telegram ~~xxxxxx~~ concerning his conversation with Clay which had so upset people in Moscow and London. It said that since we disagree so fundamentally politically, it might be desirable if we went out separate ways economically, dividing up our appropriations 60-40 and going through the motions of bizonal administration but each running his zone separately. Clay stated that he was opposed to central planning of production and foreign trade. Robertson's attempt to get a charter signed by the two secretaries is because he believes that in fact the political ideas of the two countries are not very far apart.

Incidentally, the British propose for incorporation in the document a paragraph saying that consideration will be given to devising means whereby the British will get as reparations ~~xxx~~ such plants as they really want. Robertson states that these are two in number: the rolling mill of the German



powering Works at Salzgitter and a hydrogen peroxide plant. The former is needed because Britain does not have that type of equipment and is unable to produce or buy it for the next several years; the latter for national defense. I asked whether such an undertaking would commit us in IARA where we might be called upon to arbitrate. It was pointed out that the agreement would only bind General Clay to consider. It would not require the US to sanction a unilateral withdrawal outside of IARA. The British ~~xxxxx~~ say they do not know what they mean by devices. I suspect they are as anxious as they appear to be to deck re plants available right now before fixing the level of industry because they want to choke IARA with similar type plants before bringing forth each of their prizes, holding back on the first run of plants and getting in a good position in IARA on the second. They probably also want support against the Russians in the four-power negotiation to allocate in Berlin.

Mr. Bevin and the Secretary met at lunch and agreed not to make an immediate announcement of their level of industry reparation delivery plans but to wait six weeks. It was agreed that the allocations would be made quadripartite and that deliveries would go to the USSR. It was agreed to concentrate the bizonal agencies in one spot as soon as accommodations could be found. No early announcement on this point. No agreement was reached on the division of powers between the ~~xxxxx~~ military government, the bizonal agencies and the Laender, although the Secretary agreed that we should make this division of powers conform to our long-run desires for the division of power between the future central German government and the Laender (see CFM (47) M 122). This is the nub of the Clay-Weir controversy which started the bizonal difficulties. I'll tell you more about it when I see you.

General Robertson will go to Berlin tomorrow to discuss the other issues in the British original paper with General Clay. The Secretary will stop overnight in Berlin on his way back and see Clay and Robertson. I don't know what will emerge on such matters as ~~xxxxx~~ financial reform, the printing of currency issue, etc.

I am too tired to write you further of the Saar coal issue. Suffice it to say that I am getting out the telegram tonight and hope that you will have seen to it that the announcement is properly made on Monday.

Sincerely yours,

Carli

