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TOP SECRET

Copy No. *29*

C.P.(47) 143

30th April, 1947.

CABINET

IMPLEMENTATION OF THE FUSION ARRANGEMENTS
IN THE BRITISH AND UNITED STATES ZONES OF GERMANY

Memorandum by the Secretary of State for Foreign Affairs

My colleagues should know that a fundamental difference of opinion has arisen between the Americans (or, more exactly, General Clay) and ourselves on the steps to be taken to remedy the shortcomings of the organisation set up in Germany to carry out the Fusion Agreement of last December. We are all agreed that shortcomings exist and must be put right; but, whereas we think that the remedy lies in a more effective control and planning both by the Control authorities and German agencies, of the economic life of the combined zone, General Clay does not accept the necessity of central planning and is unwilling to restrict the rights of the individual Länder in favour of the (German) bi-zonal organs we have created.

2. I had some discussion of this vital question with Mr. Marshall in Moscow and agreed with him that General Robertson and General Clay should endeavour to reach agreement. So far the results have been disappointing owing to the intransigence of General Clay. Subject to the endorsement of my colleagues I have therefore authorised General Robertson to bring the issue to a head by presenting to General Clay the proposal reproduced in Appendix A. My colleagues will observe that this contemplates the establishment of a Bizonal Economic Council with advisory functions and certain powers of direction, and that the whole proposal is consistent with the principles which they approved, and which were generally agreed at Moscow (subject to agreement on other outstanding issues) for the eventual constitution of a central German administration.

3. General Clay has intimated that he would be more ready to agree to effective central control in the combined zone if it were exercised under the direction of a bi-zonal parliament. Complete political fusion on this scale would in my view prejudice the chances of agreement with Russia when the Council of Foreign Ministers resumes discussion of the German question in November. I therefore ask my colleagues -

- (a) To approve the proposal at Appendix A as a basis of negotiation;
- (b) To agree that the constitution of a bi-zonal parliament would be premature;
- (c) To agree that if no satisfactory agreement can be reached with General Clay in Berlin, the question should be taken up with Mr. Marshall in Washington.

4. I would emphasise that nothing in the proposals in Appendix A affects the agreed policy of socialisation in the British Zone. In this connection I would invite the attention of my colleagues to the concluding sentence of Berlin telegram No. 681 (Appendix B).

E.B.

Foreign Office, S.W.1.,
30th April, 1947.

APPENDIX ABASIS FOR DISCUSSION WITH GENERAL CLAY
(Ad Referendum)1. Establishment of a Bi-Zonal Economic Council:

- (a) To be announced simultaneously with declaration on level of industry and reparations.
- (b) Constitution: As decided in MOSCOW for the German Advisory Council.
- (c) Functions:
- (i) To advise the Bi-Zonal authorities on all matters within its field, and
- (ii) To direct, subject to our approval, the reconstruction of the economic structure of the two Zones on the basis of the new plan for the level of industry and reparations.
- (d) Field of Action: The subjects covered by the Bi-Zonal Agencies and reparations so far as they are a German responsibility.
- (e) Powers: To be given power to issue directives to be binding upon the Land Governments, within its field of action, and endorsed by US/UK Military Government. The US/UK Military Government to take the necessary legislative or other action to ensure that the Land Governments are empowered to carry out these directives.
- (f) The Council will nominate State Secretaries (or their equivalent) who will take charge of the existing Bi-Zonal Agencies and direct their operations, subject to the Directives of the Council.
- (g) The existing Executive Committees will then be abolished.

2. Immediate Action:

WEIR and DRAPER to examine on the spot the functioning of the present machinery and make recommendations for its improvement, without reference to 1 above, within four weeks. The question of controls to be examined and discussed but no expression of our view to be given by us to the Germans. If at the end of 10 days it seems to either General Clay or General Robertson that Weir and Draper are unlikely to be able to reach agreement upon these recommendations by the end of the four week period, the discussions between Weir and Draper may be suspended and resumed at a higher level.

3. Reference to Governments:

If no agreement on 1 or 2 above by 1st June, 1947, a joint recommendation that an Inter-Governmental Conference be convened. If at the end of 10 days it seems to either General Clay or General Robertson that it is unlikely that they will reach agreement by 1st June on a joint recommendation, either General Clay or General Robertson may ask for the discussions between them to be suspended and the matters under discussion will be examined on an inter-governmental level.

28th April, 1947

APPENDIX B

COPY OF TELEGRAM NO. 681 OF 29TH APRIL, 1947,
FROM BERLIN TO FOREIGN OFFICE

MOST IMMEDIATE

CONFIDENTIAL

Following from Robertson.

I saw General Clay this morning. I was accompanied by Strang and Weir. Murphy and Draper were also present. Clay said that sooner than give his opinion on the report on our previous negotiations which I had shown him he would prefer not to comment on it but would be ready to have a bipartite board meeting with me at which we should agree upon a joint report to our respective Governments reflecting our differences. I accepted this proposal and ask him to prepare a first draft. I then discussed the possibilities of some form of political fusion leading round to the note of which a copy was given to the Secretary of State before his departure. Clay repeated his view that anything less than a fully constituted Bizonal Parliament would give us something less than we needed to resolve our difficulties and problems while not abating the flood of criticism from the Soviet. He thought that if any German body were given any responsibilities regarding the reparations plan it would immediately incur great unpopularity among the Germans. However, he was in a receptive mood and undertook to consider the note and to obtain the opinion of his government upon it. I stressed that the note itself did not necessarily reflect His Majesty's Government's policy but could only be regarded as a proposal ad referendum. I will report further when Clay gives me his reactions. The question of socialisation of industry came up incidentally. Murphy asked whether we had decided to do it on a land basis or on a broader basis. He indicated plainly that a solution on a land basis would be preferable from the United States point of view.

