



Embassy of the United States of America

February 21, 1986

MEMORANDUM OF MEETING

In Attendance:

Ambassador Mansfield  
Danny Rustel, AEX  
John L. Weeks, Assistant Financial Attache  
Norbert A. Schlei

Subject: Letter to Ambassador Mansfield from Norbert A. Schlei: Subject matter of his visit to Japan and its historical background

Meeting Held: February 17, 1986, at 10:00 a.m.

The following is the retyped text of a letter received from Norbert A. Schlei summarizing the information provided by him at the meeting referred to above:

Dear Ambassador Mansfield:

Thank you for your courtesy in seeing me yesterday despite the fact that it was a holiday. Pursuant to the request made by your colleagues after our meeting, I am writing this memorandum to provide in more usable form the information I gave you at our meeting.

As I told you at our meeting, I have come to Japan nominally representing only a newly-formed non-profit corporation, Japan-America Foundation, Inc. However, in substance I represent approximately 80 Japanese individuals, active in the Liberal Democratic Party, who are seeking to gain control of what they consider to be their share of a very large, confidential, quasi-governmental fund which has been administered for decades by the leadership of the Liberal Democratic Party.

The fund is represented by checks, bonds and other instruments issued by the Bank of Japan, the Ministry of Finance, and the leading private banks of Japan. My Japanese clients are the holders of a large number of these instruments which they have been prevented from cashing by government opposition. They have sought help outside Japan in the belief that this would force the issue and induce the government to deal with their claims. That indeed has been the result, and it is for the purpose of participating in the negotiations now taking place that I have

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come to Japan. It remains to be seen whether I will be able to participate directly in these negotiations or will simply act as adviser to our side's Japanese representatives.

The present negotiations arose out of our group's arranging late last year for the presentation to the Dai-Ichi Kangyo Bank of a cashier's check for Yen 50 billion (then about \$200 million). The check was presented by Prudential-Bache Securities through the Morgan Guaranty Bank. When the check arrived in Japan it precipitated great agitation and conferences about what to do; meanwhile, the check sat at the Bank for 35 days without eliciting a response. Finally, the Bank rejected the check and sent it back, but a solution then began to take shape.

As a result of the presentation of the Dai-Ichi check a confidential committee was formed under Mr. Fujinami, then the Secretary of the Cabinet, to consider how to resolve the matter. Members of the committee included a Mr. Kubota, head of a bureau of the Ministry of Finance, and a Mr. Taniguchi, an intelligence official, among others whose identity I do not know. The committee recommended that the outstanding checks and other instruments be compromised by paying 5% of the outstanding amount (i.e., approximately yen 7 trillion or \$35 billion) provided that adequate assurance could be secured that the funds would indeed be used for constructive purposes in Japan's interests, and not diverted to personal uses. The Minister of Finance, Mr. Takeshita, approved the committee's recommendation and began accumulating and segregating the funds required to effect the settlement.

Our group was in contact with the committee and as a result of discussions in early December asked me to form the Japan-America Foundation, Inc., to be the recipient of the proceeds of the settlement. The Foundation will be governed by up to 36 trustees, half of which must be Americans and half Japanese, and will distribute its income annually to good causes in Japan, the United States and Pacific Rim countries.

Later in December Mr. Fujinami was replaced by Mr. Masaharu Gotoda. Mr. Gotoda took a less favorable view of the proposed settlement and the negotiations slowed to a stop. However, they have recently resumed their progress and last week the government made an offer to our group of 3% of face value; this would involve a total payment of about yen 4 trillion or some \$20 billion.

#### The Background

As I did in our meeting, I will set forth the background as I understand it from my clients. I may have it garbled in some respects but I am confident that in essence it is correct.

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The fund for which my clients are contending had its origin in the immediate postwar era. At that time General MacArthur became convinced that it was essential to establish a secret fund to be used for various purposes not suitable for public view. Among these purposes was the financing of political activity deemed necessary to give democratic forces a running start and keep leftists in check until the new system was operating properly. Such a fund was duly created, utilizing primarily money and treasures which had been brought to Japan during the war from occupied areas (China, Korea, Taiwan, The Philippines, etc.) and funds and properties which had been owned by Japanese military forces. So-called counterpart funds were later added. These funds were administered by General MacArthur's Headquarters with the active assistance and advice of Prime Minister Yoshida.

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The fund established by MacArthur is sometimes called the "M Fund" or "Marcut Fund" after an officer named Marcut who was identified with the fund's establishment and early operation. The fund was used not only for political purposes but for governmental or quasi-governmental purposes, such as providing very low-interest loans to Japanese key industries including coal, fertilizer, iron, shipbuilding, power and other heavy industries.

When the Korean War broke out in 1950, General MacArthur required Japan to establish a National Police Reserve for the purpose of filling the vacuum in the maintenance of public order left upon the departure of the occupation army for Korea. The Police Reserve was the predecessor of today's National Defense Force. About yen 20 billion needed to establish the Police Reserve was allocated from the M Fund.

After the US-Japan Security Pact came into effect the fund was jointly-administered by the U.S. and Japan until the terms of the Pact were revised in the late 1950's through negotiations between Vice President Nixon and Prime Minister Nobusuke Kishi. My clients assert that Nixon agreed with Kishi that if Japan would assist him in becoming President, he would see to it that the U.S. withdrew from its role in managing the M Fund and upon being elected would return Okinawa to Japan. The revision of the Security Pact accomplished the former and in 1972 Mr. Nixon did the latter.

My clients also assert that in due course Mr. Kishi helped himself to a fortune of yen 1 trillion from the fund.

According to my clients a condition of the release to Japan of the M Fund was that Japan add a specified amount to the yen 12.3 trillion of which it consisted at that time. The task of

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adding the required amount to the Fund fell to the administration of Premier Hayato Ikeda, who succeeded Kishi. The plan was to obtain the necessary amount by selling the Japanese real estate which the government had confiscated during the war from citizens of enemy countries. The task of carrying out this plan was delegated to Kakuei Tanaka, Finance Minister in the Ikeda Cabinet.

Tanaka started the work in about 1960 with financial assistance from Kenji Osano, Hideki Yokoi (and, later, a number of my clients) and such companies as Nissho Iwai, Nishikawa Futon and Konishi Sake Brewery. A total of 1,681 properties were sold at a total profit of yen 7.9 trillion. Most of these funds were deposited in the Nippon Kogyo Bank because Sopppei Nakayama, President of the Bank, had greatly assisted Tanaka's work. Fund sales were halted by Premier Sato in 1970 in order to avoid public disclosure of the program after questions were raised in a Diet committee by Akira Kuroyanagi, Diet member from Komeito.

During the years of Japanese administration of the Fund, it was normally held in the form of negotiable documents in the name of the Prime Minister or a small number of key officials. However, when the Lockheed scandal threatened to erupt in the 1970's and it was thought necessary to have the documents held in others' names, a different policy was adopted and a large number of holders were utilized. At the present time about 80 individuals hold documents representing a portion of the Fund.

When the individuals holding the documents representing the Fund began to demand a voice in administering the Fund, the government vigorously resisted. At various times it forcefully demanded return of the documents, but very few holders responded. In order to prevent these documents from being negotiated, the government has at times advised persons making inquiry about these documents that they are forged. However, my clients assert that most of the documents presently outstanding can be shown to have been printed at a factory of the Finance Ministry in 1982 by order of Finance Minister Michio Watanabe, now Minister of International Trade and Industry. The ink used for the printing, they assert, is the ink used for printing the old paper money, now no longer circulating, and is totally unavailable except to the Ministry of Finance.

The face value of instruments now outstanding probably exceeds by a considerable margin the amount of money actually in the Fund. This results partly from the activities of a woman named Hatsu Aoyagi, who worked closely with Tanaka and had a role in selecting the holders of the securities representing the Fund. Ms. Aoyagi was convicted of fraud and misappropriation of funds within the past year in a Tokyo court. One thing

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she apparently did was to charge people large sums to become holders of the Fund's securities. She represented that the fees charged would go to the Party, but in fact she pocketed most of them. Also, although in some instances she was supposed to exchange one set of securities for another, in some instances she simply distributed the new ones without collecting the old. Because of this practice and perhaps other irregularities, the face value of the instruments outstanding is approximately yen 130 trillion whereas the actual amount of the Fund is believed to be a maximum of approximately yen 50 trillion.

My clients assert that one of the reasons for their determination to bring this matter to a head is that the Fund has been productive of impropriety and corruption. In addition to Mr. Kishi, they say that Mr. Tanaka misappropriated a large fortune of yen 10 trillion which is invested through the Union Bank of Switzerland. They state that Mrs. Hironaka Sato, widow of Premier Eisaku Sato, cashed documents amounting to yen 300 billion through the Chase Bank. According to my clients Mr. Masaharu Gotoda, Secretary of the Cabinet who has somewhat impeded their settlement, has personally cashed three checks through the Dai-Ichi Kangyo Bank for a total sum of yen 60 billion. It is, of course, possible that some of these sums were further transferred and applied to proper purposes.

With a view to testing the reliability of some of the assertions made by my clients I asked how it was known that Mr. Gotoda had obtained yen 60 billion from the Dai-Ichi Kangyo Bank. The reply was that a member of our group is an official of a government agency which was engaged at the time in a special investigation; that when Mr. Gotoda conducted his final negotiation with a high official of the Bank, he did so on a telephone line that happened to be tapped; that the Bank asked Mr. Gotoda to accept yen 50 billion but he adamantly refused, after which arrangements were made on the telephone to pay him the full amount demanded.

I believe that the negotiations relating to this matter will be concluded in any and all events by the end of the Japanese government's fiscal year on March 31. If the non-profit foundation we have formed is indeed funded, it will have an enormous potential for good. Two people -- Senator Alan Cranston and Jack Anderson, the syndicated columnist -- have been asked by people in our group to serve as trustees and have agreed to do so. I plan to ask Ted Kennedy to join us. You would be an ideal trustee if your post would permit such service.

As you know, I am providing this information on the understanding that it will be kept confidential in the sense of not being disclosed to the public, and will not be attributed to me.

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Any use of this information you may feel is in the interests of the United States in terms of disclosure within the government is not objectionable to me or my clients.

I will keep you informed.

Again thanks, and kindest personal regards.

Sincerely,

Norbert A. Schlei

cc: Desaix Anderson, DCM  
Bill Breer, POL  
Danny Russel, AEX

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