

AMERICAN COUNCIL
INSTITUTE OF PACIFIC RELATIONS

129 EAST 52D STREET, NEW YORK CITY
(Top Floor)

Telephone, PLaza 3-4700
Cable, *Inparel*, New York

Issued Fortnightly

#2 - 1

Annual Subscription \$2.00

January 5, 1933

MEMORANDUM ON COAL IN JAPAN AND MANCHURIA

The most pressing problems of the new state of "Manchukuo", as the first year since its establishment draws to a close, involve its economic relations with Japan. A special committee under the chairmanship of Mr. Nagai, Japanese Minister of Overseas Affairs, has been meeting in Tokyo in recent weeks to work out a plan for the industrial development of the new state. A sharp division of opinion is reported already to exist on those questions of tariff, fiscal policy and industrial construction in "Manchukuo" in which domestic interests in Japan would appear to be jeopardized. Bean oil, sugar, ammonium sulphate, iron, steel and coal are potential products of the new state which threaten to compete directly with domestic production. The present Japanese government has not yet formulated a concrete policy on these questions, but Japanese press opinion recognizes that the future development of the new state depends directly on their solution.

In the coal industry, which in Japan has been affected most adversely by the depression, this problem has become one of immediate concern. Domestic producers, who have for many years supplied practically all of Japan's demand for coal, have agitated against the import of coal from Manchuria for some time. A curtailment program was agreed on in July, 1932, between domestic producers and the South Manchuria Railway which owns and operates the Fushun mines in Manchuria. Contraction in exports to Shanghai, however, with a falling domestic demand because of general business conditions and the increasing competition of water power and fuel oil, have recently led to more drastic measures. On November 21 the first meeting was held of a new concern, called the Showa Coal Joint Sales Co., which unites for the first time practically all the coal producers of Japan. A capital of 5,000,000 yen has been subscribed by thirteen mining interests: Mitsui Mining Co., Mitsubishi Mining Co., Hokkaido Colliery and Steamship Co., Meiji Mining Co., Kaijima Mining Co., Sumitomo Colliery, Mitsui Bussan (representing other mines), Asao Shoten, Furukawa Mining Co., Okura Mining Co., Asano Amaryo, Joban Mine Co. and Ube Mining Co. Agreements exist with independent producers which cover practically all of the domestic industry. The three principal fields of Japan, Hokkaido, Kyushu and Joban, have had individual sales associations in the past, but competition between them has until now prevented joint action.

The new concern has been formed to stabilize prices, fixing a minimum price level, to arrange quotas and to delimit sales areas. The industry is at present operating on a 35% curtailment schedule. The agreement reached in July

AMERICAN COUNCIL
INSTITUTE OF PACIFIC RELATIONS

129 East 23d Street, New York City

(Top Floor)

Telephone, PLaza 3-4700
Cable, Inland New York

Annual Subscription \$2.00

January 5, 1933

Issued Fortnightly

* - 1

MEMORANDUM ON COAL IN JAPAN AND MANCHURIA

The most pressing problems of the new state of "Manchukuo", as the first year since its establishment draws to a close, involve its economic relations with Japan. A special committee under the chairmanship of Mr. Hasegawa, Japanese Minister of Overseas Affairs, has been meeting in Tokyo in recent weeks to work out a plan for the industrial development of the new state. A sharp division of opinion is reported already to exist on these questions of tariff, fiscal policy and industrial construction in "Manchukuo" in which domestic interests in Japan would appear to be jeopardized. Iron, oil, sugar, ammonium sulphate, zinc, steel and coal are potential products of the new state which threaten to compete directly with domestic production. The present Japanese government has not yet formulated a concrete policy on these questions, but Japanese press opinion recognizes that the future development of the new state depends directly on their solution.

In the coal industry, which in Japan has been affected most adversely by the depression, this problem has become one of immediate concern. Domestic producers, who have for many years supplied practically all of Japan's demand for coal, have agitated against the import of coal from Manchuria for some time. A curtailment program was agreed on in July, 1932, between domestic producers and the South Manchuria Railway which owns and operates the Fushun mines in Manchuria. Construction in exports to Shanghai, however, with a falling domestic demand because of general business conditions and the increasing competition of water power and fuel oil, have recently led to more drastic measures. On November 21 the first meeting was held of a new concern, called the Showa Coal Joint Sales Co., which unites for the first time practically all the coal producers of Japan. A capital of 2,000,000 yen has been subscribed by thirteen mining interests: Mitsui Mining Co., Mitsubishi Mining Co., Hokkaido Colliery and Steamship Co., Meiji Mining Co., Kajima Mining Co., Sumitomo Colliery, Mitsui Bussan (representing other mines), Asao Shoken, Furukawa Mining Co., Kure Mining Co., Asano Amaryo, Jōban Mine Co. and Ube Mining Co. Agreements exist with independent producers which cover practically all of the domestic industry. The three principal fields of Japan, Hokkaido, Kyushu and Jōban, have had individual sales associations in the past, but competition between them has until now prevented joint action.

The new concern has been formed to stabilize prices, fixing a minimum price level, to arrange quotas and to delimit sales areas. The industry is at present operating on a 30% curtailment schedule. The agreement reached in July

with the South Manchuria Railway provided for a 20% reduction by that company, the exports to Japan for 1932 being fixed at 1,850,000 tons. The smaller domestic producers have demanded, however, a complete embargo on Manchurian coal. This demand has gained added force in recent weeks, because of the refusal of the South Manchuria Railway to join the new marketing organization.

The following table shows the coal position (in metric tons) in recent years of Japan:

<u>Year</u>	<u>Production</u>	<u>Imports</u>	<u>Exports</u>
1926	31,426,549	2,012,526	2,590,316
1927	33,530,607	2,660,556	2,173,449
1928	33,860,181	2,734,831	2,150,432
1929	34,257,817	3,203,232	2,013,127
1930	31,376,000	2,650,280	2,097,269
1931	27,987,000	2,650,144	1,515,808

In 1932, for the first ten months of the year, production increased slightly over 1931, while both export and import figures showed a decrease. Imports over this period have been about 25% in excess of exports, but the total excess was very small in relation to domestic production. A small amount of the coal imported is secured from Indo-China, but the larger part comes from Manchuria. During the same years, 1926 to 1931, an annual average of 1,790,000 tons has been exported from Manchuria to Japan, about 5.5% of the total amount consumed.

It is true that domestic coal in Japan is notably lacking in coking qualities, and must be mixed with imported coal for use in metallurgy. Relatively little good coking coal, however, has been available in Manchuria. The Penhsiho mines, which produce good coking coal, are limited in extent, and the Fushun mines, which contribute the bulk of Manchurian coal exports to Japan, yield a coal which makes coke of relatively poor quality.

A more important reason for the competition of Manchurian coal with the domestic product is the difference in cost of production. The Bureau of Mines of the Ministry of Commerce and Industry has recently estimated the production cost of coal in Kyushu at 5.50 yen per ton, and in Hokkaido at 4.50 yen. Whether this estimate includes depreciation and capital costs is not stated, but the new sales concern, on the basis of this estimate, claims that coal mining in Japan can be profitable only with a price in Tokyo of from 9.70 to 10.20 yen. Another estimate has placed domestic production costs as high as 13.50 yen per ton. Recent prices have been substantially under these figures. Fushun costs, on the other hand, are considerably lower, even with freight and insurance charges to Japan. For the 45% of Fushun production which is extracted by open-cut mining, production costs at the present time have been estimated at less than 1 yen per ton. The sale price of Fushun coal in Tokyo in 1930 ranged from 6.35 to 8.62 yen per ton.

The exclusion of Manchurian coal, by tariff or by agreement, has thus become a matter of considerable importance to the Japanese mining industry. It has already had unfavorable consequences for the South Manchuria Railway. About 50% of the production of the Fushun mines has in the past been exported.

with the South Manchuria Railway provided for a 20% reduction by that company, the exports to Japan for 1932 being fixed at 1,850,000 tons. The smaller domestic producers have demanded, however, a complete embargo on Manchurian coal. This demand has gained added force in recent weeks, because of the refusal of the South Manchuria Railway to join the new marketing organization.

The following table shows the coal position (in metric tons) in recent years of Japan:

Year	Production	Imports	Exports
1931	27,987,000	2,850,144	1,815,808
1930	31,376,000	2,850,280	2,097,269
1929	34,257,817	2,202,232	2,012,127
1928	32,860,181	2,734,831	2,150,432
1927	32,520,607	2,660,558	2,178,449
1926	31,428,549	2,012,528	2,280,318

In 1932, for the first ten months of the year, production increased slightly over 1931, while both export and import figures showed a decrease. Imports over this period have been about 28% in excess of exports, but the total excess was very small in relation to domestic production. A small amount of the coal imported is secured from Indo-China, but the larger part comes from Manchuria. During the same years, 1926 to 1931, an annual average of 1,790,000 tons has been exported from Manchuria to Japan, about 5% of the total amount consumed.

It is true that domestic coal in Japan is notably lacking in coking qualities, and must be mixed with imported coal for use in metallurgy. Relatively little good coking coal, however, has been available in Manchuria. The Fushun mines, which produce good coking coal, are limited in extent, and the yield a coal which makes coke of relatively poor quality.

A more important reason for the competition of Manchurian coal with the domestic product is the difference in cost of production. The Bureau of Mines of the Ministry of Commerce and Industry has recently estimated the production cost of coal in Kyushu at 5.50 yen per ton, and in Hokkaido at 4.50 yen. Whether this estimate includes depreciation and capital costs is not stated, but the new sales concern, on the basis of this estimate, claims that coal mining in Japan can be profitable only with a price in Tokyo of from 9.70 to 10.20 yen. Another estimate has placed domestic production costs as high as 13.50 yen per ton. Recent prices have been substantially under these figures. Fushun costs, on the other hand, are considerably lower, even with freight and insurance charges to Japan. For the 48% of Fushun production which is extracted by open-cut mining, production costs at the present time have been estimated at less than 1 yen per ton. The sale price of Fushun coal in Tokyo in 1930 ranged from 6.55 to 8.62 yen per ton.

The exclusion of Manchurian coal, by tariff or by agreement, has thus become a matter of considerable importance to the Japanese mining industry. It has already had unfavorable consequences for the South Manchuria Railway. About 50% of the production of the Fushun mines has in the past been exported.

Of a total export figure for 1931 of 4,100,000 tons, about 43%, or 1,800,000 tons, has been sold in Japan. Increased limitations, applied in answer to the demands of Japanese producers, have steadily cut into the margin of profit.

The balance of the coal produced at Fushun, except for that which is used by the South Manchuria Railway itself and small amounts sold locally, is consumed in China. The recent customs dispute, however, between that country and "Manchukuo" has endangered this market. Dairen being recognized by the Chinese Maritime Customs as a foreign port, a recent shipment of Fushun coal was made from Newchwang to Tsingtao. It was ruled, however, that it was of foreign origin, and duty was collected at a rate of 3.73 yen per ton, instead of the old rate of .22 yen per ton. Coal exports from Manchuria to China in the first half of 1932 amounted to only 116,000 tons, about one fifth of the normal figure. The South Manchuria Railway has reported profits from its colliery operations in recent years as follows: 1929-30, 12,275,116 yen; 1930-31, 1,813,172 yen; 1931-32, 25,562 yen.

The problem arising from this situation, which is that of reconciling established Japanese industrial investments with the development of competing establishments in "Manchukuo", is not confined solely to the coal industry. The present dispute between the South Manchuria Railway and the Showa sales concern, however, is illustrative of the difficulties surrounding the problem. The Showa plan was apparently conceived and supported by powerful financial interests in Japan, including the Mitsui and Mitsubishi families. The refusal of the South Manchuria Railway to cooperate, however, has been applauded by the army and fascist groups which appear to be in control of the present policy of the railroad administration.

Sources: This memorandum is based on information and figures in the appendices to the Lytton Report, the Financial and Economic Annual of Japan, the Third Report on Progress of the South Manchuria Railway, the Economic Review of the Soviet Trade Delegation in Japan, and in the Japanese press.

Of a total export figure for 1931 of 4,100,000 tons, about 43% or 1,800,000 tons, has been sold in Japan. Increased limitations, applied in answer to the demands of Japanese producers, have steadily cut into the margin of profit.

The balance of the coal produced at Fushun, except for that which is used by the South Manchuria Railway itself and small amounts sold locally, is consumed in China. The recent customs dispute, however, between that country and "Manchukuo" has endangered this market. Dairen being recognized by the Chinese Maritime Customs as a foreign port, a recent shipment of Fushun coal was made from Newchwang to Tientsin. It was ruled, however, that it was of foreign origin, and duty was collected at a rate of 3.78 yen per ton, instead of the old rate of .33 yen per ton. Coal exports from Manchuria to China in the first half of 1932 amounted to only 1,800,000 tons, about one fifth of the normal figure. The South Manchuria Railway has reported profits from its colliery operations in recent years as follows: 1929-30, 12,275,116 yen; 1930-31, 1,813,172 yen; 1931-32, 25,562 yen.

The problem arising from this situation, which is that of reconciling established Japanese industrial investments with the development of competing establishments in "Manchukuo", is not confined solely to the coal industry. The present dispute between the South Manchuria Railway and the Showa sales concern, however, is illustrative of the difficulties surrounding the problem. The Showa plan was apparently conceived and supported by powerful financial interests in Japan, including the Mitsui and ~~Mitsubishi~~ families. The refusal of the South Manchuria Railway to cooperate, however, has been applauded by the army and fascist groups which appear to be in control of the present policy of the railroad administration.

Sources: This memorandum is based on information and figures in the appendices to the Lytton Report, the Financial and Economic Annual of Japan, the Third Report on Progress of the South Manchuria Railway, the Economic Review of the Soviet Trade Delegation in Japan, and in the Japanese press.