

London of arrangements which we propose to adopt for a clearing account for the United Kingdom and Colonies, and will send further information as to how Yokohama Specie Bank reacts.

4. If we were to allow exports to Japan to continue freely, we should either have to allow payment from frozen accounts which would make freezing order inoperative or else exporters would not be paid. We accordingly propose to extend export licencing to cover all exports to Japan and to give licences only against direct barter or to extent that funds are available on new clearing account. For the purpose of such trade we should, of course, make it our object to limit goods which we allow to be exported to Japan, and our aim would be not in any circumstances to licence goods which are not allowed to be exported from the United States.

5. Though system described follows somewhat different lines from those at present envisaged by the United States Government, the effect of both systems seems likely to be much the same, viz. the cessation of trade except for specially licenced transactions based on essentially important import needs.

6. Special arrangements will require to be made for cotton to correspond with arrangements about United States cotton, and special arrangements may also be required as regards Japanese owned concerns in Malaya and elsewhere corresponding with special arrangements contemplated for the Philippines.

7. We are proposing for the purpose of (4) above to draw up for our own guidance and that of the Colonial Governments, a list of goods which might be regarded as "least essential" to Japan. Our present idea is not to make a special case, but we are in communication with His Majesty's Ambassador at Tokyo on this point and will telegraph further shortly.

8. Revocation of existing export licences may, we feel, also be desirable so far as the United Kingdom is concerned. We propose for the present to give permission for insurance of payments. We intend, however, to consider both these points further after ascertaining intentions of United States Government on these points.

9. We think blocked funds should not be freed to enable Japanese to finance movement of goods from one part of the British Empire to another part (or to a third country).

10. Our existing powers under Defence (Finance) Regulation 2A extended to residents in Japan (including companies incorporated there and their branches) and not to Japanese nationals resident in countries other than Japan or China, but question of amending our powers in this respect will require consideration.

We see no objection to Dominion regulations covering Japanese nationals wherever resident—as United States freezing order does—if circumstances make this desirable. We understand [from] Yokohama Specie Bank that Japanese will act on a basis of reciprocity. Ends.