

3. Clause 3 suggests Netherlands East Indies are to be looked upon merely as a storehouse and pays little heed to sovereignty of The Netherlands.

4. Clause 4 lays special stress on oil of which we know the Japanese have no shortage, except for war purposes.

5. In brief the Japanese proposal comes to this: that not only shall freezing measures be withdrawn but positive assistance shall be given to Japan to acquire certain commodities, including oil, while assistance is withdrawn from China; and only concrete offer which Japan makes in return is to move her troops from one part of Indo-China to another.

6. This proposal is clearly unacceptable, and only question appears to be whether

- (a) To reject it and (while making it clear that a limited agreement is not ruled out) to leave it to the Japanese to produce a better offer, or
- (b) To make counter proposal.

7. We have complete confidence in Mr. Hull's handling of these negotiations, and he is in the best position to judge which of these two courses is the better tactic. We feel sure that he fully understands that the Japanese will try to force a hurried decision by magnifying dangers of delay. If, having taken this into account, he feels it best to put forward a counter proposal, we will support this course.

8. We are, however, impressed by Dr. Hornbeck's¹ recent forecast that in the case of any fresh agreement there was no guarantee that the Japanese would honour it, while its psychological effect would far transcend its face value; in his view the Japanese Government would hail it as a triumph and would seek to convince China that the latter had been sold. This applies very exactly to type of agreement which Japanese have proposed, and every care will have to be taken to see that it does not apply to any agreement which we ultimately accept.

9. Secondly, the Japanese proposal should, we feel, be regarded as the opening move in a process of bargaining. It puts His Majesty's Government's [Japanese Government's?] desiderata at a maximum and price at a minimum. If a counter proposal is to be made, we suggest that this process should be reversed and that our own demands should be pitched high and our price low.

10. Mr. Hull's counter proposal, as described in paragraph 5 of my telegram Circular M.376, does not in our view go far enough to justify relaxation of economic measures. Removal merely of bulk of Japanese troops from Indo-

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¹ Adviser on Political Relations, Department of State.