

Dominion Affairs regarding the proposed control of exports to Japan via China. It is noted that the High Commissioner has been asked to enquire whether the Canadian authorities would be prepared, where necessary, to adopt a similar procedure in regard to the licensing of exports to occupied China, including Shanghai.

The basis of Canada's trade policy towards occupied China is to allow only such trade as is likely to strengthen the Chinese people in their resistance to Japanese domination, while prohibiting that which will principally benefit the Japanese.

It is recognized that the detailed execution of this policy may present difficult problems of administration. On the other hand, lack of shipping facilities may well automatically cut off Canada's trade with occupied China. If ships should be available however, the Export Permits Branch of the Department of Trade and Commerce provides the necessary machinery for licensing exports.

It is noted, in this connection, that certain specified commodities have been placed by the United Kingdom on a "nil" list, details of which were supplied in telegram Circular W.14 attached to your letter. On the assumption that the commodities on this "nil" list were placed there because of "economic" warfare and not of "domestic supply" considerations, this list will naturally be taken into consideration in dealing with any application here for export permits to China.

Furthermore care will also be taken to ensure that export permits will only be granted for shipments destined for consumption in the locality of the importer and where they are consigned to a reputable British or American firm which is approved by the United States or British Consular authorities concerned. It is understood that similar precautions are being taken by both the United States and the United Kingdom Governments. In this connection, we would appreciate receiving any additional information which may become available to the United Kingdom authorities regarding the desirability of licensing exports to particular parts of occupied China or to particular consignees.

So far as imports from occupied China are concerned, the danger seems to be that such imports might benefit Japan through the use which residents of occupied China might make of the purchasing power in the form of United States exchange thus placed at their disposal. In this connection, there would appear to be two possibilities. If the United States exchange is carried in the name of a Chinese bank which is not a "generally licensed national" (i.e. exempt in certain respects from the American freezing regulation), then the funds will be blocked in the United States and cannot be used for the benefit of Japan. If, on the other hand (as will more probably be the case), the funds are held in the name of a foreign bank which is a "generally licensed national", they will be available to pay for exports from the United