

action if taken as a reprisal and suggested that it might be preferable if notice of termination could be given in a moment of comparative calm. The Commonwealth Government felt there was some risk of denunciation being regarded as an irritant and suggested that counter action in economic sphere could more effectively be provided by adoption of joint policy of import restrictions in co-operation with the United States Government. Alternative suggestion put forward in my telegram that situation might best be met by placing Mitsui, Mitsubishi or Okura on Black or Statutory Lists was felt to have given rise to strong objections at least as far as the two former companies are concerned and was generally viewed with disfavour.

2. We have given most careful consideration to these views and suggestions, re-examining possible courses of action open to us. In deciding to recommend denunciation of Commercial Treaty, notwithstanding doubts previously expressed, we have been influenced by manner in which situation has developed in recent months, and by need for meeting any further Japanese move by a measure which could both be put into effect without delay and would at the same time afford unmistakable evidence of our reactions. We fully recognize that practical importance of this step would be small, but do not consider that it could be regarded as provocative. On the other hand, we have reason to believe that psychological effects in Japan would be salutary and would bring home, especially to trading community, the perils of bad leadership. This has also been the opinion of His Majesty's Ambassador at Tokyo. We further consider it most important to bring ourselves fully into line with the United States in this matter.

[3.] We very much hope, therefore, that on reconsideration, His Majesty's Governments in the Dominions will feel able to concur in our taking this step as soon as moment is judged opportune. Although we should wish to proceed with denunciation of treaty at very short interval after Japanese move into Southern Indo-China we agree with view previously expressed by Canadian Government that it should not be represented as a reprisal, and would propose that notice should be based on grounds that Japanese restrictions on British trade and changing conditions have made continuation of the treaty pointless.

4. A very early reply would be appreciated, since latest indications are that Japanese move may be imminent. As to general United States attitude please see my telegram Circular M.149 of today.¹ In the meantime, we are further exploring possibilities in direction of import restrictions as suggested by Commonwealth Government, but matter is complicated by varying conditions in and needs of different parts of the Empire, and it is clear that preparation of suitable scheme would not be free from difficulty. His Majesty's Ambassador at Washington is, however, being asked to elicit the views of United States authorities as to prospects of their being able to co-operate in this field. [Ends.]

¹ Non reproduit.

¹ Not printed.