

2. Our understanding of United States position is that:

- (1) There will in future be *no* exports to Japan of any goods on United States Licensing List or of goods mentioned in paragraph 2(b) of the above telegram;
- (2) If Japanese choose to export to the United States gold, silk or other goods not definitely required by the United States, such goods will be admitted, but dollar proceeds will be permanently frozen;
- (3) Licences will be granted for release of dollars received for any imports from Japan (excluding gold, silk or other goods coming under (2)) which may be required by the United States, on condition, however, that such dollars are used only for payment of permitted exports;
- (4) Such permitted exports will be largely confined to cotton and low grade petroleum products. These will only be permitted to the extent that funds are available under (3) to pay for them, and in any case will be subject to limitations indicated in paragraph 2(c) and (d) of my above mentioned telegram.

3. On the assumption (which we are taking steps to confirm) that this description of United States policy is correct, it is clear that United States measures are likely to have a paralysing effect on trade with Japan, and indeed that forecast originally given us by State Department (my telegrams Circular M.173 and 174)¹ should in fact prove substantially accurate, viz. that it will only be possible for trade to take place within narrow limits, and even then with difficulty and on a basis equivalent to barter. Moreover, the volume of such trade will be governed primarily by the extent to which imports from Japan are needed by the United States, and this, we are advised, is likely (since silk is excluded from calculation) to be very small.

4. In the light of above, the apprehensions, which we had previously entertained that we might be ourselves ahead of the United States in our restrictions, no longer arise. Policy which in these circumstances we propose to adopt in the United Kingdom and the Colonies, and would wish to recommend to His Majesty's Governments in the Dominions and Governments of India and Burma, is set out in my immediately following telegram.

5. We hope that action on these lines will commend itself in principle to the Dominion Governments, and should be grateful for earliest possible expression of views.

6. It will be appreciated that governing factor in administration of proposed arrangements would be the extent if any to which continued imports from Japan are of essential importance to parts of the British Empire concerned. It will of course be very desirable in determining degree of essentiality of imports [that] principles followed throughout the Empire should be generally

¹ Non reprints.

¹ Not printed.