

export of wheat from Vancouver or pulp logs from Vancouver Island points would provoke local demonstrations which could easily exacerbate the strong anti-Japanese sentiments in British Columbia. We have represented to the Japanese Minister, in reply to his protests, that our refusal to grant export permits for wheat and logs has successfully prevented the occurrence of incidents in British Columbia which might easily prejudice the position of Japanese nationals in Canada and lead to a serious deterioration of relations between Canada and Japan.

The Japanese contend that the risk of local disorders is less than we suggest and that in any case normal rules of international intercourse require us to permit the completion of export contracts entered into by both parties. They say that the pulp logs exported from Canada to Japan are used in the manufacture of newsprint and rayon pulp and not high explosives as some of our newspapers have suggested, and they urge further that the wheat they wish to buy is to be manufactured into flour in Japan for consumption by the Chinese population in North China, which is badly in need of food.

The Japanese Minister has been summoned to Washington this week for consultation with the Japanese Ambassador and expects to return on Saturday. He is anxious to have a personal interview with you on his return. He expects to have the Japanese Consul in Vancouver with him at that time and has enquired whether he could bring the Consul with him when he calls. I think he is relying on his Consul to convince us that the local situation in British Columbia is much steadier and that our fears of demonstrations attending the export of wheat or logs to Japan are exaggerated.

As regards wheat and logs we are imposing restrictions on exports to Japan which have no counterpart in the United States or other Commonwealth countries. We are, therefore, in a rather exposed position as compared with the other Commonwealth countries and the United States. The Japanese have seized on this situation to press us for a modification of our policy. As Mr. Churchill said yesterday in Westminster with reference to the control of exports to Spain, none of us at the present moment are in a position to pursue a "rough, reckless or debonair policy". I am inclined to believe that we should, for the time being, make some modification of our policy and grant some export permits for shipments to Japan which have hitherto been withheld. Possible modifications are:

- (1) granting of export permits for pulp logs, firm orders for which had been placed before the export permit requirement was introduced; and
- (2) granting of export permits for wheat up to the quantity which had been purchased on Japanese account before the export permit requirement was introduced. (This would amount to about 70,000 tons).