

mentation of the Agreement. The balance sheet is, necessarily, of a tentative nature and does not purport to be all-inclusive. The Sterling Area participants, therefore, will wish to consult with each other in good time should the adjustments, as they occur, look like creating a serious imbalance, with a view to adopting remedial action in a way which will protect the interests of the Sterling Area as a whole. The participants will also wish to agree between themselves on a fair division of such Japanese goods in short supply as S.C.A.P. can be persuaded to make available to them.

9. It has been decided that a special co-ordinator should be appointed to watch the forward position in Tokyo on behalf of all the sterling area participants and report periodically to the Governments concerned. As regards consideration of the action to be taken on these reports, with particular reference to the adjustment of the balance sheet, it is considered that the best place for this is London, where representatives of all the sterling area participants are available. It is, however, understood that some of the other Commonwealth participants would prefer the working party to meet in Tokyo and, in order to get the arrangement working, they have been told that we agree to this as an interim arrangement.

#### B.—MOST FAVOURED-NATION TREATMENT FOR JAPAN

1. The United States have been trying for a considerable time to get from us and others an undertaking to give most-favoured-nation treatment to the exports from Japan and Korea. The United States Administration attach the utmost importance to reducing the cost to the American taxpayer of maintaining the Japanese economy. This they can only do by increasing exports; and Congressional opinion is that the granting of most-favoured-nation treatment by other countries to Japanese exports would increasingly facilitate the attainment of this objective.

2. Having raised the matter without success first at Havana, then during the Tripartite Talks on Germany in March, and again in connection with the drafting of the O.E.E.C. convention in April, the Americans tried to secure their objective by the insertion of a clause in the draft Bilateral Economic Co-operation Agreements. We resisted this for the following reasons:—

- (1) We were still at war with Japan and no peace treaty had been made or was under consideration.
- (2) The matter of the status of Japan from a commercial and economic point of view was for decision by all those countries who took part in the war against Japan.
- (3) The proper tribunal to which both the United States and ourselves had agreed that such matters should be referred was the Peace Conference or, pending that, the Far Eastern Commission.
- (4) We could not take any action in this matter except by agreement with the other Powers concerned in the war against Japan and particularly the other Commonwealth countries so concerned.
- (5) There was no connection whatever between the 18 nations of Western Europe and Japan. The great majority of them never took any part at all in the war against Japan.
- (6) It was unfair and unethical to drag this issue into E.R.P. discussions.
- (7) From an economic point of view it would be definitely inimical to the interests of the Western Union and European co-operation to force any condition upon European Powers which would make Japan an equal entrant to their markets with their own neighbours in Western Europe.
- (8) The United Kingdom and its colonies could not afford to be compelled to buy goods from Japan whether for dollars or sterling.
- (9) There would be an immediate and justifiable outcry by the workers and industrialists of this country (and of Lancashire in particular) if this agreement were to be made without consultation with them or indeed at all, and there is no conceivable justification that the United Kingdom Government could put forward for their action. In the event we induced the Americans to accept our point of view; but we did undertake to discuss the matter with them further in an attempt to reach a satisfactory solution.

3. The next development came when the Americans notified us that they were considering seeking signatures at the G.A.T.T. Conference in Geneva to