

suggestion Kelly, Douglas asked the Bank of Montreal to instruct their agents in Kobe, the Hong Kong Shanghai Bank, to make urgent application for permit for transshipment of this tea either direct to Canada or via Shanghai. Kelly, Douglas hoped for a definite refusal of this application on which they might base a claim under their War Risk Insurance which seemed about the best outcome they could anticipate. After this application had been made we telegraphed to the Legation to say that if they thought that their intervention would help they should take whatever steps were appropriate in the circumstances. Yesterday the Legation replied that the Japanese authorities had refused to grant an export permit by noon of the 23rd (the time of the expiration of Kelly, Douglas's insurance). This refusal, however, was not final since the Japanese authorities have repeatedly indicated their interest in arranging release of wheat in Canada in exchange for this tea. The Legation pointed out that the tea is in transit and that such an arrangement could hardly be described as reciprocal.

At the same time the Japanese Consul in Vancouver called on Kelly, Douglas and made the same proposition, that the Japanese authorities would be willing to arrange for the direct shipment of this tea from Kobe to Vancouver, provided that the ship which brought it could be guaranteed a cargo of wheat (for which export permits have already been issued) for her return voyage. The wheat, he said, would be paid for in either Canadian dollars or sterling, exactly how was not made clear. The Consul told Kelly, Douglas that in any case it was the intention of the Japanese authorities to take up with Ottawa the question of the export of wheat.

You will recall that there is a cargo of 7,400 tons of scrap iron on the *Boris*, the property of Mitsui. Its value is approximately \$140,000 and its technical position in Canada is completely analogous to that of the tea in Japan. (The value of the tea is approximately, \$100,000). This analogy, however, has apparently not yet occurred to the Japanese, who seem so far to have thought of the tea only as a bargaining instrument with respect to wheat. It is quite possible, however, that they will put forward a proposal to exchange the tea for the scrap. We might then consider making a counter proposal that the scrap be sold in the United States or Canada, the tea be released and the proceeds of the sale of the scrap be used to pay for a shipment of wheat on the vessel which brings the tea, although the commercial advantages to be attained would hardly seem to be worth the comment which an export of wheat at this stage would raise. A further complication is that such an arrangement would provide for the release of the property in Japan of only one Canadian Company. We do not know of any other Canadian assets in transit now held up in Japan (the bristle problem was, for the most part, a false alarm and has more or less solved itself) but there may be others. This objection would apply also to the simplest solution of all, i.e. you keep the tea, we keep the scrap and let the wheat exports await better days.

I should be glad to have the Prime Minister's views. Ends.