

China would allow too wide a loophole. It is doubtful whether we should be justified in accepting this as satisfactory and still less in suggesting it. Apart from desirability of pitching a counter proposal higher than we may obtain, it seems advisable from Chinese angle so to frame it as to frustrate the possibility of any attack on Kunming during currency of an interim agreement.

11. On this basis we would suggest for consideration of the United States Government that any counter proposal should stipulate for total withdrawal from Indo-China not merely of Japanese "troops" as in Japanese proposal but of Japanese naval, military, and air forces with their equipment and for suspension of further military advances in China in addition to satisfactory assurances regarding other areas in south-east Asia, southern Pacific and Russia; *quid pro quo* being partial relaxation of existing economic measures so as to allow export of limited quantities of goods to ensure welfare of the Japanese civil population, but excluding goods of direct importance to war potentialities, in particular oil. These relaxations would, of course, only become effective as and when withdrawal of Japanese armed forces took place and we should expect in return to receive goods of a similar nature from Japan if we required them.

12. Mr. Hull has, of course, made it perfectly clear to the Japanese that any interim arrangement is only a first step in a wider settlement which must be in conformity with basic principles acceptable to the United States. We feel that to prevent misrepresentation by Japan, it will have to be made clear publicly that any interim arrangement is purely provisional and is only concluded to facilitate negotiation of an ultimate agreement on more fundamental issues satisfactory to all parties concerned.

13. Above represents our immediate reaction and is sent without consultation with Dominion Governments who, as in the case of the Netherlands and Chinese Governments, may have other suggestions.

14. There remains the question raised in paragraph 8 of my telegram Circular M.376 as to degree of authority to be delegated to representatives of powers concerned in Washington. We are, of course, anxious to facilitate Mr. Hull's difficult task in all possible ways. But our economic structure is so complicated (in particular by necessity of consultation with other parts of the Empire) that we do not think it practicable at this stage to give *carte blanche* to diplomatic representatives. If the United States Government favour suggestion, which we have made above, it will be necessary to define more closely distinction between goods of importance to the welfare of the Japanese civil population and those of direct importance to Japan's war potentialities and to consider whether relaxation of economic pressure should be operated by financial control or by barter. After this stage we would be prepared to consider question of discretion afresh. Telegram ends.