CONSIDERATION OF SANCTIONS AGAINST JAPANESE POLICIES OF AGGRESSION AND VIOLATION OF TREATY RIGHTS; ENFORCEMENT OF EXPORT CONTROL SYSTEM; FREEZING OF JAPANESE ASSETS IN THE UNITED STATES

Memorandum by the Adviser on Political Relations (Hornbeck)²

[WASHINGTON,] January 6, 1941.

Japan is apparently building up a trade in export of arms. It might easily develop that Japan would become a purveyor of arms to a considerable number of Asiatic and Latin American countries. We could not look with gratification upon such a development. For the time being at least, this affords an additional reason for trying to keep export from this country to Japan of various types of material down to not more than "normal" amounts.

S[TANLEY] K. H[ORNBECK]

Memorandum of Conversation, by the Adviser on Political Relations (Hornbeck)

[WASHINGTON,] January 6, 1941.

Mr. Butler³ and Mr. Hill⁴ called on me this afternoon. Mr. Butler referred to a memorandum which he had left with me under date November 20, 1940⁵ on the subject of possibly cutting down on Japan’s piling up of petroleum reserves by taking tankers out of operation into Japanese ports. He referred to previous conversations on that subject and the fact that thus far this Government has given no official expression of its views. He then gave me the memorandum and compilation of figures that are here attached⁶ and asked Mr. Hill to summarize the contents and purport thereof. Mr. Hill elaborated

³Noted by the Secretary of State.
⁴Neville M. Butler, British Chargé in the United States.
⁵P. C. Hill, Third Secretary of the British Embassy in the United States.
⁶Not printed.
⁷Neither printed.
somewhat on the subject of the problem of withholding increments of reserve supplies from Japan and spoke of the quotas which the Japanese Government has allotted to the Standard-Vacuum and Shell oil companies for importation into and distribution in Japan. He said that the British Government and Shell advocate non-acceptance by the companies of those quotas but that Standard feels that the quotas should be accepted. [Here follows a discussion of details.]

S[TANLEY] K. H[ORNBECK]

The British Chargé (Butler) to the Adviser on Political Relations (Hornbeck)

WASHINGTON, January 8, 1941.

DEAR DR. HORNBECK: With reference to our conversation of January 6th, I enclose a list showing departures for Japan from United States ports of Panamanian tankers and of one Philippine tanker during November and December.

These eight Panamanians have been engaged regularly in the trade. Four vessels are owned by United States interests, and of the others, the "Norness", has now been withdrawn from this route, while we have reason to believe that the owners of two, if not of all of the remaining three, will respect any proposals to curtail Japan's chartering of foreign flag tankers. The problem of employment for these vessels is eased by the existing tight tanker market.

If, as the estimates made recently in London seem to indicate, Japan at her current rate of import is still accumulating stocks of oil, I feel that this must be a matter of serious concern to both our Governments, and a limitation of Japanese chartering of foreign flag vessels seems to offer the most practical means of correcting the situation in a manner least likely to provoke Japan. This was one of the suggestions of my previous memorandum: my Government would be ready to cooperate with the United States Government in such further measures as may be possible to this end, if the United States Government is in a position and is willing to discourage or curb Japanese chartering of foreign flag vessels owned by United States interests under Panamanian or other flags.

I write also to confirm that the figure of 140,000 tons, given you yesterday morning on the telephone as the amount of oil involved in the Japanese offer of an increased quota for the Shell organization in Japan, is only an approximate one. Accurate figures have been requested of London. Nevertheless, the amount is certainly greater than

\[1\] Not printed.
that involved in the proposal to the Standard Oil Company: the two amounts together represent a substantial addition to Japan's imports.

The tonnage involved would be supplied by the companies and would represent a net addition to the tanker tonnage now engaged in the Japanese trade. I therefore hope very much that the United States authorities will find it possible, in order to prevent fresh tonnage becoming available to Japanese trade, to advise the Standard Oil Company of their desire that they should not make increased deliveries under the Japanese proposals. In such circumstances the Shell would be guided by the wishes of His Majesty's Government, who would give them similar service.

In this question, as you know, we are concerned not only with the restriction of Japanese imports of oil but also with the tanker tonnage situation in general. Voyages to Japan from the United States consume greater time than voyages to the United Kingdom. Our own tanker needs being now so urgent, any transfer of tonnage from the Japanese trade would be most helpful to us, and seeing that our shortage must be known to the Japanese, any such transfer could hardly appear unreasonable to them. Similarly any additional tanker tonnage put at the disposal of the Japanese, especially if supplied by the Standard and Shell Companies would materially harm our own tanker position and might, as it seems to me, give the Japanese an impression of diminishing resolution.

To this rehearsal of certain points in our conversation of January 6th I would add that tanker curtailment would not materially detract from Japan's ability to import aviation gasoline, other gasolines, and lubricating oils, as these products are carried chiefly in steel drums as part of general freight cargoes. I mention this in case the United States authorities feel it desirable to give consideration to the question of restraining this trade, which has latterly been increasing, perhaps through subjecting the export of drums to licence.

Yours very sincerely,

Nevile Butler

894.6363/378

Memorandum by the Adviser on Political Relations (Hornbeck) *

[WASHINGTON,] January 11, 1941.

The problem of regulating, curtailing or prohibiting exports of petroleum products to countries of the Far East, especially Japan, is one that involves weighing of many factors and requires great delicacy in handling.

*Prepared at the request of the Secretary of State and sent to him on January 14.
Any procedure which involves a cutting down of exports, as regards any commodity, is a procedure which has adverse effects in both directions: it makes difficulties for the country which is deprived of the commodity and it disturbs the economy of the country which applies the embargo.

In relation to procedures which affect the petroleum industry and trade in petroleum, this Government has been moving very circumspectly. We know that to the Japanese petroleum is an essential import. We know that to this country petroleum is an important export. We know that there are available to Japan many sources of petroleum other than this country. We know that Japan aspires to the acquisition of a controlling interest in the economic and the political life of certain regions in the Far East in which there lie substantial sources of petroleum. We know also that there are various other regions in the world in which the authorities and from which the producers are by no means adverse to supplying Japan with petroleum products.

We are opposed to Japan’s general program of subjugating neighboring countries by force and establishing Japanese political control over unlimited areas both on land and at sea. We have been opposing Japan’s efforts in pursuit of those objectives by various measures on our part short of war. Also, we are now engaged in a gigantic effort of our own in pursuit of our defense program, and we are conserving, by measures which we believe reasonable, this country’s resources.

Thus far, we have interfered with the petroleum trade only to the extent of prohibiting export of “aviation gasoline”, that commodity being described by the formula which is popularly described as “87 octane”. At the time when this restriction was imposed last summer, the Japanese were in process of making contracts for delivery to them at an early date of a huge and altogether extraordinary amount of high-octane gasoline. The imposition of that restriction at that moment prevented the consummation of that Japanese effort. Since then, the Japanese have purchased extraordinary amounts of gasoline approximating but just under the “87 octane” specification. It has been pointed out to us from many sources that the restriction which now exists is not preventing Japan from accumulating huge reserves of aviation gasoline; and it has been urged upon us from many sources, including large exporters of petroleum products, that the restriction upon exports of gasoline be considerably broadened by reducing the “87 octane” to a considerably lower figure.

There was for some time a very important political reason for not taking any new action regarding exports of petroleum products. The Japanese had made a demand on the Netherlands East Indies for contracts which would provide for the procuring by Japan from the Netherlands East Indies of petroleum products to the amount of 3,150,000 tons per annum for five years. Japan was in position to bring pressure, including military pressure, upon the Netherlands Indies authorities. It was considered that pressures, if brought to bear upon Japan by processes of interference with exports to Japan from other countries of petroleum products, would tend to cause the Japanese to increase their pressure upon the Netherlands East Indies. In their negotiations, the companies which produce in and sell from the Netherlands East Indies succeeded in producing an agreement whereby, instead of 3,150,000 tons per annum for five years, they are committed to selling to Japan 1,800,000 tons per annum, much of this on a six-months' basis and some of it on a twelve-months' basis. It is the belief of officers of this Department who have most intensively observed and studied the situation and developments in the Pacific and in United States-Japanese relations, both political and commercial, that the interests of the United States and of American oil companies producing in and selling from the United States are in a better position today than they would be had not the contracts which were made at Batavia been made. [Note: The United States Government as such, although there came to it a substantial amount of information regarding the negotiations at Batavia, had nothing whatever to do with those negotiations; and at no stage did it express approval or disapproval, nor did it in any way interpose.]

There were during 1940 extraordinarily large exports from this country to Japan of petroleum products, especially of gasoline just under “87 octane”. The Government views this development with regret. During recent months an increasing proportion of the exports has been going forward in metal drums. By this process Japan is acquiring large stocks for which she does not have to provide bulk storage facilities and which she can with maximum of convenience move to points where she is conducting military operations or at which she is establishing bases for possible new operations. The American Government cannot but view this development with regret and with misgivings.

The Japanese are today continuing in their effort to conquer China; they are establishing bases in Indochina; they are engaged in agitation in Thailand and are supplying that country with munitions of war; they are known to be contemplating new movements of aggression southward—into and against the Netherlands East Indies and the
general area of which Singapore is a strategic center; they are in various ways rendering certain types of assistance to their Axis partners; they are suspected of supplying and harboring German raiders in the Pacific; and they are constantly making threats, of a contingent character, that they may make war upon the United States.

It is estimated that the Japanese have stored up reserve supplies of petroleum products sufficient to meet their needs for a period of from nine months to a year; also, that the amount of their reserves is being increased rather than decreased.—It is easily conceivable, world conditions being what they are, Japanese psychology and Japanese policy being what they are, and American policy and psychology being what they are, that a time may come in the not distant future when Japan and the United States will be "at war". In such event, petroleum products which have been imported by Japan from the United States will of course be used by the Japanese for operations of the Japanese navy and the Japanese air force against the naval and air forces of the United States.

The American Government has not thus far seen fit to impose embargoes, except as above recorded, upon export of petroleum products from this country to Japan. It has, however, indicated to the petroleum trade that it does not look with favor on unlimited or excessive supplying to Japan of petroleum products. It has hoped that the petroleum industry would exercise self-restraint and discreet self-denial in regard to this trade. It is believed that American petroleum companies could cut down very substantially upon their exports of petroleum products, especially of gasoline, to Japan, without substantial financial losses to themselves and without giving the Japanese tangible grounds on which to base complaints.

(Note: It might be suggested to the present and future inquirers that two procedures in particular might helpfully be adopted:
(1) They might refrain from supplying tankers;
(2) They might discontinue supplying of metal containers—including storage tanks, drums, metal hoops, et cetera.)

Memorandum by the Chief of the Division of Far Eastern Affairs (Hamilton) to the Adviser on Political Relations (Hornbeck)

[WASHINGTON,] January 12, 1941.

MR. HORNBECK: With reference to your memorandum of November [January] 11 on the subject of petroleum exports to Japan. FE 11 offers, in response to your invitation, comment as follows:

11 Division of Far Eastern Affairs.
FE is in complete accord with the view expressed on page 4 of the memorandum under reference that the interests of the United States and of American producers and exporters of oil were served by the recent conclusion of agreements between the Netherlands East Indies and Japan. FE also concurs in the views that it is regrettable that Japan continues to receive from the United States a large share of its petroleum requirements and that in the event of war between Japan and the United States Japan would of course make use of petroleum products of American origin. However, the essential feature of such a situation would seem to be not the particular origin of Japan’s stocks of oil but rather the existence and extent of such stocks. Furthermore, it is suggested that the primary reason why, as stated above, the interests of the United States and of American oil companies were served by the recent conclusion of agreements between the Netherlands East Indies and Japan was the fact that Japan by that means obtained petroleum products in such quantity as, at least for the time being, to cause it to refrain from any attempt to seize by military force such oil supplies in the Netherlands East Indies as were deemed to be of vital necessity to Japan’s economy. If, irrespective of the means employed, effective steps are now taken to curtail materially Japan’s purchases of petroleum products it would seem almost certain that the time will come when Japan will take the situation into its own hands by attempting to meet its needs through attack and seizure—presumably in the first instance on the Netherlands East Indies. Unfortunately it is impossible to forecast with any degree of certainty the point at which restrictive measures would produce such a result but it is quite likely that in Japan’s present desperate frame of mind no great amount of restrictive action would be required to touch off an explosion in southern Asiatic waters—a development which it is believed should be prevented if at all practicable pending further clarification of the European situation.

In view of the foregoing FE of course concurs in the view that it would be well to avoid further legislation and the issuance of executive orders which would call for a substantial curtailment of exports of petroleum products to Japan. With reference to the question of urging the petroleum industry to exercise self-restraint with respect to its trade with Japan FE is of the opinion that, except as a last resort when no other means seem available, requests of private industry for assistance in furthering Departmental policy beyond the bounds of existing law and regulation and at substantial cost to such industry should be avoided. However FE would perceive no objection to intimating to such American interests as own or control tankers engaged in the carriage of oil to Japan that they may care to investigate the possibilities, which are said to exist, of obtaining equally
advantageous charter parties for the carriage of other goods which, because of differing ownership, destination and intended use of such goods are more likely to further American interests. To such action could be coupled that of placing upon our restricted lists metal drums, containers and metal barrel hoops, the export of which could with warrant be prohibited on the basis of national defense and thus, while not creating unnecessary friction by preventing Japan from purchasing oil in the United States, retard and render much more difficult the carriage to Japan of petroleum products as "package goods".

FE also offers for consideration the possibility that the present desire of the British Government to curtail oil shipments to Japan (a desire which is strangely at variance with its attitude in the past when it was fearful of the results of repressive measures taken or believed to be under consideration by the American Government) may be caused at least in part by the fact that unlike American oil interests which have thus far been able to transfer their funds from Japan to the United States, British oil interests are unable to obtain such facilities and therefore any increase in the British oil quota can only result in augmenting British-blocked funds.

M[AXWELL] M. H[AMILTON]

711.94/1963

Memorandum by the Adviser on Political Relations (Hornbeck) to the Under Secretary of State (Welles)

[WASHINGTON,] January 16, 1941.

MR. WELLES: Reference, the project sponsored by the Council on Foreign Relations known as "Studies of American Interests in the War and the Peace."

One of the groups into which the "Studies" project has been divided is the Group on Economic and Financial Questions, of which Messrs. Alvin H. Hansen and Jacob Viner are Joint Rapporteurs. Under date November 23, 1940, there was prepared for this group by William Diebold, Jr., a memorandum entitled "Japan's Vulnerability to American Sanctions" which contains, at pages 23–24, the following observations:

"Certain additional steps might be taken to make a joint embargo watertight by keeping Latin American supplies from Japan:

1. The United States and Great Britain might buy up strategic products for their own defense and war efforts, leaving nothing for Japan; this would hardly be feasible for oil however, which is available in such great quantities.

2. Withholding shipping from Japan, especially the Scandinavian tankers, would make it much more difficult for that country to buy from Latin America.
"3. Japan could not be permitted to procure free foreign exchange to finance purchases in Latin America; Japan could not be allowed to sell to the United States if she were not allowed to buy here; nor could we buy Japanese gold.

"4. Pressure on American, British and Dutch companies owning oil and copper in Latin America not to sell to Japan would greatly extend the embargo; however there would be the danger of arousing the hostilities of local governments interested in selling as much abroad as possible.

"5. Some form of commodity cartel or joint marketing agreement such as was adumbrated at the Havana Conference might be operated to keep products from Japan.

"6. Refusal to sell to Japan might be made a part of Pan-American cooperation, and a condition favorable for securing United States loans.

"Short of a joint embargo by the United States, British Empire countries, and the Dutch East Indies, on all trade with Japan, or all trade in war materials, there are measures which would be effective in varying degrees in checking Japan’s war effort. For instance, an embargo by the United States alone, which might be accompanied by an agreement that British and Dutch countries would hold sales to Japan to a pre-embargo level; a boycott of Japanese goods, making it difficult for her to buy war materials; use of defense measures to keep war materials from Japan; a step by step embargo of the sort already embarked on; strategic purchases interfering with Japan’s sources of supply, for example, Philippine Islands iron ore; shipping restrictions. Each of these measures would hamper Japan’s war effort; their total effect would depend on the pace at which they were applied and the care with which they were directed at vulnerable points in Japan’s economy.

"An embargo by the United States alone, while injurious to Japan’s economy, would not stop her war effort. However, if British and Dutch countries agreed not to sell Japan more oil, iron ore, aluminum, and other products than before the embargo was imposed, it might well be effective. Certainly a joint embargo by the United States, British Empire countries, and the Dutch East Indies would limit the life of Japan’s war effort to the size of her stock piles."

S[TANLEY] K. H[ORNBECK]

894.24/1309

Memorandum by the Chief of the Division of Far Eastern Affairs (Hamilton) to the Under Secretary of State (Welles) 14

[WASHINGTON,] January 23, 1941.

MR. WELLES: In response to your intimation that you would like to have consideration given to the question of possible withdrawal

14 Concurred in by the Adviser on Political Relations (Hornebeck).
from Japanese use of American and foreign-owned tankers now engaged in the carriage of oil to Japan, FE has prepared the attached memorandum in which is offered the suggestion that the concerned American oil companies be approached informally with a view to causing them voluntarily to seek for their vessels cargoes other than petroleum products destined for Japan.

M[Axwell] M. H[Amilton]

811.20 (D) Regulations/3552

Memorandum by the Adviser on Political Relations (Hornbeck) to the Secretary of State

[WASHINGTON,] January 23, 1941.

Mr. Secretary: Having requested from FE, EA, and CO their views on the subject of placing under license steel drums (containers for petroleum products), storage tanks and materials therefor, oil well drilling equipment, and some other commodities, I have returns from FE, EA, and CO indicating approval as regards drums, tanks and materials therefor, and oil well drilling equipment. I myself and Mr. Hiss also favor putting those items under license.—I recommend that this Department inform the Administrator of Export Control that we favor putting those items under license, and I recommend that this action be taken today—in anticipation of a conference which is to be held tomorrow at which those things can to advantage be considered. I believe that the sooner this action is taken the better.

S[Tanley] K. H[ornbeck]

811.20 (D) Regulations/3552

The Chief of the Division of Controls (Green) to the Administrator of Export Control (Maxwell)

WASHINGTON [undated].

The Administrator of Export Control: It is recommended, on behalf of the Committee designated by the Secretary to act in liaison with you, that there be prepared for presentation to the President at the earliest possible moment a draft of an Executive Order sub-

Not printed.
17 Division of Controls.
18 Alger Hiss, Assistant to the Adviser on Political Relations (Hornbeck).
19 Notation by the Chief of the Division of Controls (Green): “Concur”.
jecting the following iron and steel products to the licensing requirement:

Metal drums and containers (having a capacity of forty gallons or more) for petroleum products.

Storage tanks, new or used, for petroleum products and knocked-down material for such tanks.

The exact definitions of these articles should, of course, be determined by experts of the interested agencies of the Government and the above are merely suggested as a basis for discussion.

It is also recommended that oil well drilling equipment be subjected to the licensing requirement at the same time. Whether this can be done by a simple directive under the existing regulations concerning equipment for the production of aviation lubricating oil or whether action by the President in this case also will be necessary is a matter which I assume you will wish to decide.

It is understood that you are considering the advisability of subjecting to the licensing requirement certain other iron and steel manufactures. It is suggested that it would be desirable from the point of view of foreign policy, if you do intend to add any such articles to the licensing list, that they be added simultaneously with the metal drums, storage tanks and oil well drilling equipment referred to above.

Joseph C. Green

The British Embassy to the Department of State

AIDE-MÉMOIRE

On January 23rd the British Ambassador in Tokyo reported that the Japanese Ministry of Marine had made the following communication to the British Naval Attaché.

"The special service ship Asaka Maru of the Imperial Japanese Navy will be sent to Lisbon on a mission to protect Japanese residents in Europe and to transport changing military and naval attachés to Embassies and Legations in accordance with the undermentioned programme. The Imperial Japanese Navy request the wholehearted cooperation of the Royal Navy in regard to the protection of the ship from any danger, and also that the military authorities concerned will be notified by the Royal Navy accordingly."

The vessel in question is a merchant vessel which has been taken up by the Japanese Government for the purpose of making this voyage. According to the British Ambassador in Tokyo the vessel flies the Japanese naval ensign, is manned by naval ratings and carries armament.
In reply to the Japanese Ministry of Marine’s enquiry Sir R. Craigie was instructed to inform the Japanese Government that as the *Asaka Maru* contemplated entering waters where Germany and Italy were engaged in unrestricted sea warfare against Great Britain His Majesty’s Government could not take any responsibility for the vessel’s safety.

The *Asaka Maru* passed through the Panama Canal en route for Lisbon on February 8th. She was carrying a number of Japanese officers proceeding to take up appointments at various diplomatic missions in Europe together with certain naval officers who were, it is believed, proceeding on a technical mission to Germany. It is understood the ship carried no cargo on her journey to Lisbon.

On the other hand the Japanese Ministry of Marine informed the British Naval Attaché on January 31st that it was intended that the *Asaka Maru* should on her return voyage carry a certain amount of cargo consisting of goods destined exclusively for the Japanese Navy. The Ministry of Marine admitted that these goods might be of German, Italian or French origin. According to His Majesty’s Government’s information the cargo to be shipped on board the *Asaka Maru* will include electric transformers and rectifiers, large hydraulic presses, Strontium, Cryolite, Oerlikon Guns, optical equipment and 2000 bottles of Mercury. The cargo may contain other still more important items, including possibly valuable technical apparatus such as submarine detectors.

In view of the definite admission by the Japanese authorities that this ship may be carrying goods of enemy origin His Majesty’s Government feel that they would be amply justified in intercepting the vessel and examining the cargo since the normal immunity enjoyed by a warship must clearly be regarded as forfeited if the ship fails to confine herself to her functions as a vessel of war. Furthermore His Majesty’s Government are bound to take into consideration the fact that there is good reason to suspect that the cargo consists of material which might be of particular value to the Japanese Navy for possible use against the British Fleet.

In normal circumstances therefore the British authorities would certainly feel bound to intercept the *Asaka Maru*. On the other hand, as Sir R. Craigie has pointed out, to intercept the ship might in present circumstances bring about a major incident between His Majesty’s Government and the Japanese Government. In fact the question would seem to turn upon whether or not the Japanese are prepared to enter the war on Germany’s side against Great Britain in the immediate future. If they are not so prepared then his Majesty’s Government feel that they could probably afford to take a
firm line in the matter; if on the other hand the Japanese are prepared to enter the war then to intercept the ship might give the Japanese a pretext for declaring war.

In view of the importance of the issue involved His Majesty's Government before going any further with the matter would wish to consult United States Government and ascertain their views in the matter and to know whether they would regard it as justifiable to take the risk involved in an attempt to subject the *Asaka Maru* to contraband control.

In bringing the matter to the attention of the United States authorities His Majesty's Embassy is instructed to emphasize that there is every reason to believe that this affair constitutes a deliberate plan on the part of the Japanese to evade the British blockade. Furthermore during the last year the British authorities allowed a number of Japanese ships to pass through the blockade with machinery and other goods of enemy origin urgently required by the Japanese Navy; and when the *Nagara Maru* was allowed through the blockade in the autumn of 1940 it was stipulated that this vessel should be the last to which such facilities were granted.

If it is decided to intercept the vessel it is most desirable the Japanese Government should be warned before the ship is loaded. She is now in Lisbon and may commence loading in the very near future. That being so a very early expression of the views of the United States authorities would be appreciated.

WASHINGTON, February 20, 1941.

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894.33/56

*The Department of State to the British Embassy* 20

*AIDE-MÉMOIRE*

Reference is made to the British Embassy's *aide-mémoire* of February 20 in regard to the question of the carrying of cargo from Portugal to Japan by the *Asaka Maru*, an auxiliary vessel of the Japanese Navy.

It is not clear from the *aide-mémoire* under reference whether the stipulation that the *Nagara Maru* should be the last vessel which would be given facilities to pass “through the blockade” was a unilateral statement by the British Government or was in the nature of an agreement between the British and the Japanese Governments; nor is it clear whether reference is made to a blockade in the ordinary sense of the term or to the economic blockade declared by the British Government.

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20 Handed to the British Ambassador on February 21 by the Under Secretary of State.
In all the circumstances of the case, so far as they are known to
the Government of the United States, warrant for interference with
the Asaka Maru might be lacking in substantial legal support and
might hence be regarded in a very serious light by the Japanese Gov-
ernment. In view of the Government of the United States, there is
also the question whether the cargo would be of serious moment from
the point of view of general naval operations.

While the British Government will of course appreciate that re-
sponsibility for a decision in this case rests with it, the Government
of the United States, on its part, would not desire to raise an issue of
this character unless it felt that its position was well founded.

WASHINGTON, February 21, 1941.

894.8363/379

Memorandum of Conversation, by the Adviser on Political Relations
(Hornbeck)

[WASHINGTON,] February 24, 1941.

Mr. Butler, Minister Counselor of the British Embassy, called on
me this afternoon at his request.

Mr. Butler showed me a revised edition of a memorandum on the
Japanese oil situation of which he had brought me an earlier edition
some ten days ago. I had, when he brought me the earlier edition,
pointed out certain inaccuracies in statements involving the Depart-
ment of State and had suggested revision thereof. In the new edition
the revisions had been made.—Mr. Butler also showed me a memo-
randum, without subject heading, which dealt with the subject of oil
policy in relation to Thailand.

Having put these memoranda in my hands, Mr. Butler proceeded to
register, in friendly tones but with expressions of pained regret, a
complaint to the general effect that his Government had addressed to
this Government through him and through me, in November last,21
certain observations on the subject of oil policy, and had received no
reply. Mr. Butler said that this situation reflected upon him and that
his Government was pressing its new Ambassador 22 here to get action
where its Chargé had been unsuccessful. I said to Mr. Butler that it
was a matter of regret to me that any matter regarding which there
were contacts between him and me should be productive of embarrass-
ment to him, but that if he would review developments in the matter—
which I proceeded to outline—I thought he would agree with me that

21 Not printed; see memorandum of conversation by the Adviser on Political
    Relations, January 6, p. 774.
22 Viscount Halifax.
the fact that his Government had received no reply was due to circumstances over which neither he nor I had any substantial measure of control. There followed some discussion of the problems, procedures, possibilities, et cetera, involved; and in the light of that discussion I suggested to Mr. Butler that either he or the British Ambassador leave the two memoranda which Mr. Butler had just shown me with the Secretary or the Under Secretary of State. After some further discussion, Mr. Butler left me with the impression that he would suggest to Lord Halifax that he leave them with the Under Secretary.

894.24/1252: Telegram

The Consul General at Singapore (Patton) to the Secretary of State

SINGAPORE, February 27, 1941—5 p. m.  
[Received February 27—4:50 p. m.]

10. The Colonial Secretary informs me that Japanese Consul General has recently expressed dissatisfaction with restricted amounts of tin and rubber authorized for export to Japan from Malaya; that to these representations Colonial Secretary had replied that his Government would continue to exercise existing stringent control over shipments to Japan in order to prevent their re-export to Germany; that even if Japan prepared to give assurance that none of Malayan exports would be shipped to Germany this would not be satisfactory as Japanese could use Malayan commodities for consumption and re-export like imports from other sources such as Thailand and Indo-China; and further that increased Japanese purchases of tin and rubber from other sources would be counterbalanced here by reduction in authorized exports.

Patton

894.24/1262

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] March 3, 1941.

The British Ambassador called at his request. He handed me the attached documents regarding Japan's purchases of strategic materials, and particularly relating to oil. He brought up the question of an embargo on exports of gasoline to Japan. I said to him that we had already been giving the matter full attention and then proceeded to call attention to the Persian Gulf oil area to which Japan would probably turn if and when the United States should impose such an embargo against Japan. He said he would look into that phase and see
what his country was prepared to do along similar lines. I reminded
him that fifty percent of the Persian Gulf fields were owned by British.
I stated finally that we were considering embargoes on lubricating oils
and certain fats; that this related to mineral, vegetable and animal oils.

C[ORDELL] H[ULL]

[Annex 1]

The British Embassy to the Department of State

1. One of the main weapons which the Democracies hold against
Japan is her dependence on them for many of the materials without
which she would be unable to maintain her war effort.

2. The power of this weapon has already been seriously weakened
since Japan has been able over the last twelve months to import quan-
tities of these materials far in excess of her current consumption needs.
A large proportion of these excessive imports has undoubtedly gone
to build up strategic reserves which if allowed still further to increase
will shortly render Japan independent.

3. The policy of avoiding provocation to Japan is thus having the
direct result of enabling her to make war on us at the moment most
favourable to herself. As long as she has not sufficient reserves she
is unlikely to risk a war which must cut her off from further supplies.

4. The first step required therefore is that a decision in principle
should immediately be taken as to whether Japan is to be prevented
from accumulating further stocks, by restricting her future imports
from controllable sources to quantities not in excess of her estimated
current consumption needs. There is no need to force Japan into war
by a policy of complete economic encirclement. The denial of excess
supplies, which would enable her to build up strategic reserves, may
well suffice as a deterrent, while in any case it will weaken her if she
decides to embark upon war.

5. If this decision in principle can be taken, it becomes necessary to
proceed immediately with discussions as to the means by which it can
be put into practice.

6. The means we have at hand are:

(a) Export Licence Control
(b) Restriction of shipping facilities
(c) Preemption of key materials in Latin America
(d) Restriction of purchasing power by limitation of imports
    from Japan.

7. The co-ordination of these various methods and the extent to
which they are to be put into practice in the various countries con-
cerned so as to avoid the risk that the stoppage of one leak does not
lead to the opening up of another, requires detailed examination by experts.

8. As the second step, the United States Government might perhaps be willing to consider the establishment of a centralized unit, representative of the several Departments concerned, and empowered to examine the above problem and to make recommendations for the action necessary to carry out the basic policy.

9. In particular, it would seem of the first importance if possible to establish such a body for the examination of the oil problem. The danger of Japan accumulating stocks of oil is vital since this is her most serious deficiency and is essential to her war effort.

In view of the paramount importance of this question, it is dealt with separately in the attached memorandum.25

10. The need for action on economic policy towards Japan is urgent. His Majesty's Government hope therefore that the United States Government will be prepared without delay,—

(a) to make the decision in principle as outlined in paragraph 4 above,

(b) to set up the centralized unit for the purpose of expert discussions as set out in paragraph 8 above.

[WASHINGTON,] March 3, 1941.

[Annex 2]

The British Embassy to the Department of State

1. The position with regard to oil supplies to Japan is of particular urgency; in the last six months of 1940 more than one million barrels of aviation grade spirit went to Japan, compared with 560,000 barrels in the twelve months of 1939. In 1941, 180,000 barrels have already gone, and orders for an additional 250,000 barrels are reported. In Thailand stocks of aviation grade gasoline are equal to from two to three years supply on the basis of consumption prior to 1940, and these stocks may well be available for use by Japan against the Burma Road or as a reserve for use against Malaya.

2. We are not proposing a complete embargo; the suggestions, which we originally submitted on November 10th [20th?], 1940 26 but to which we have been unable to obtain a reply, involve co-operative action with the United States to prevent Japan accumulating excessive stocks by curtailing her use of non-Japanese tankers. The effect of this would be to cut shipments by some seven and a half million barrels per year and this, it is believed, would reduce Japanese imports to current consumption needs.

25 Printed as Annex 2, below.

26 Not printed.
3. Such measures would meet the problem of quantity but not that of quality; i.e., of the grades of oil which Japan takes. This is a problem for U.S. licencing control, for it is only from the United States and the Netherlands East Indies that Japan can draw the varied qualities of oil, many of which we consider dangerous and in the case of the Netherlands East Indies, quantities and qualities are already temporarily fixed by an agreement with which the United States Government is thoroughly familiar.

4. The main issue is, does the United States Government agree in principle to a policy designed to curb imports of oil to Japan to an extent which will prevent her accumulating further stocks?

5. If this policy is agreed upon, does the United States Government accept our figures? If our figures are accepted, does the United States Government agree to our proposed methods and will they introduce supplementary measures to cover the ground which is beyond our reach? (See paragraph 3 above).

6. These are matters of complicated detail for expert examination and we regard it as an immediate and urgent essential that we should be able to discuss them with a centralized committee representing the Departments in the United States Administration who are concerned with this problem.

Detailed memoranda on the oil position in Japan and Thailand are submitted to form a basis for such discussions.

[WASHINGTON,] March 3, 1941.

811.20 (D) Regulations/1358: Telegram

The Secretary of State to the Consul General at Shanghai (Lockhart)

WASHINGTON, March 4, 1941—4 p.m.

140. Your 197, February 15, 2 p.m. The policy of this Government in respect to the control of exports is based primarily upon the needs of our own industry in carrying out our own defense program. There is a deficiency or a threatened deficiency of the great majority of the articles and materials subject to export control. When an exportable surplus is available, preference is given to the needs of Great Britain, of other countries engaged in resisting aggression, and of the American Republics. Exports to other countries are permitted with as great liberality as the situation warrants after the needs of the foregoing have been met, but there is little likelihood that substantial exports to Shanghai can be permitted. All applications will, however, be carefully considered and in exceptionally meritorious cases may be granted.

27 None printed.
28 Not printed.
The Department contemplates no change in the attitude expressed in its 580, November 22, 3 p. m., and its 48, January 25, 2 p. m.\textsuperscript{30}

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\textbf{HULL}

894.24/1329

\textit{The Consul at Tsingtao (Meyer) to the Secretary of State}

No. 73

\textbf{Tsingtao, March 4, 1941.}

[Received April 17.]

\textbf{Sir:} With further reference to my telegram no. 10 February 11, 3 p. m.\textsuperscript{31} I have the honor to report that the American ship \textit{S. S. Scottsburg} arrived at this port on February 20, 1941, carrying for the account of Mitsubishi Shoji Kaisha a cargo of 37,904 drums of gasoline each containing about 53 gallons and 834 tons of diesel fuel oil in bulk amounting to 5,874 barrels.

Total arrivals of gasoline at Tsingtao from America on American ships for Mitsubishi Shoji Kaisha during February amounted to 69,988 drums or approximately 8,709,364 gallons. It is estimated that this gasoline total is more than all the oil companies including British and Japanese sold in this area during 1940.

The 834 tons of diesel fuel oil imported represents a small amount in comparison to total imports during 1940. Last year Japanese interests imported 13,241 tons of diesel fuel oil compared to 3,941 tons in 1939. Two oil storage tanks with a capacity of 3,000 tons each were completed for Mitsubishi Shoji Kaisha last year and have been used to store the recently arrived oil.

As far as can be ascertained neither the gasoline nor diesel fuel oil were assessed duty by the Chinese Customs and it is therefore presumed that the shipments were destined for military and naval use. Very little diesel oil is sold commercially at Tsingtao. Another fact pointing to the military character of the shipments was that the American ships were immediately given a berth at No. 3 Wharf upon arrival. No. 3 Wharf is not open to Third Power vessels and when not occupied by Japanese military transports, it is made available for Japanese ships only on a restricted basis, i. e., when all other berths at the No. 1 and the No. 2 Wharf are in use.

[Here follows explanation of lack of shore leave for crew due to Japanese military restrictions.]

Respectfully yours, \textbf{PAUL W. MEYER}

\textsuperscript{30} Neither printed.

\textsuperscript{31} Not printed.
Memorandum by Mr. Cabot Coville of the Division of Far Eastern Affairs

[WASHINGTON,] March 8, 1941.

LIMITATION OF PETROLEUM EXPORTS TO JAPAN

Over a period of years the volume of exports from the United States to Japan of the various categories of petroleum products has generally increased. This increase has been substantial but more or less even, with the exception that the latter half of 1940 shows a very sharp increase concentrated particularly in gasoline (in containers). Increase in various categories of lubricants was considerable but not as sharp as in gasoline.

This increase of Japanese takings of petroleum products especially concentrated in gasoline in containers is unquestionably related to the war and war preparations. It is possible that part of the increase of exports is finding its way to Germany, and it seems certain that the increase is serving to augment Japan's preparedness for war, if war should occur between Japan and Great Britain or the United States or both. The question of limiting these exports is obviously of great importance and of great immediate importance.

The possibility of arriving at some formula for limiting petroleum products exports to Japan has been carefully studied in the light of effect upon Japan. It is believed that any system of limitation which may be arrived at should be a system applying to countries generally (not to Japan alone), although in accordance with present American policy it is to be expected that the Western Hemisphere, Great Britain, Greece, The Netherlands, and such countries as might from time to time be particularly singled out for similar reasons would be excepted from the restrictions. This study, although based upon the premise that a system of limitation of petroleum products exports would apply to countries generally (with the exceptions mentioned) has nevertheless been directed only toward effect upon relations with Japan. Its applicability or inapplicability to relations with other countries would require separate study.

It is recommended that exports for each quarter year period be limited to one quarter of the 1936 quantities of United States exports of petroleum products, category by category in the various categories listed in the official export returns of the United States Government for 1936, the quota for each category to be increased, and to be increased hereafter, by one percent for each quarter year period to allow for presumed increase of ordinary commercial needs. It is recommended that, because quotas for aviation gasoline could not be availed of under present regulations, there be established a lump quota for gasoline of all types based upon the sum of the exports in 1936 of natural gasoline,
aviation gasoline and other gasoline; and that, because of changes in
classification of lubricating oil exports, the lubricating oil quota be
a lump quota based upon the sum of the exports in 1936 of all types
of lubricating oils.

[Here follows a review of the statistics of exports of petroleum
products to Japan in 1936–40.]

864.5034/23: Telegram

The Ambassador in Japan (Grew) to the Secretary of State

Tokyo, March 10, 1941—5 p. m.
[Received March 10—10:05 a. m.]

383. In view of recently enacted legislation extending rigid govern-
ment control over all industrial production, American owned corpo-
rations engaged in manufacturing are extremely apprehensive over
their investments in Japan. Such legislation prescribes a license
system for the manufacture of designated important machines and
machine tools and for raw materials. It provides for expropriation
of lands, materials, labor, plants and equipment, for compulsory amal-
gamation of factories and changes in types of machinery produced.
It further provides for inspection and supervision of business offices,
factories, warehouses and accounting books and for the fixing of
prices. Moreover, it is anticipated that under the broad provisions of
the revised general mobilization and foreign exchange control laws
the enforcing regulations will stipulate a Japanese majority of share
holdings and membership of boards of directors together with com-
plete Japanese control of management.

Under such strong pressure American firms here are almost cer-
tain to be squeezed out entirely through refusals of permits for raw ma-
terials, the sale of their property and the transfer of funds to the United
States. This applies particularly to General Motors, Ford, Otis
Elevator and other industrial companies together with others who
have large frozen cash balances.

This matter is of extreme importance at the moment when extensive
rationalization of industrial production and more rigid foreign ex-
change control are contemplated under the new legislation. Many
Americans have recently approached me and members of my staff for
advice and assistance. They feel that the situation has gone far
beyond the state of “embarrassment” from having their funds tied up
and that they are now faced with the strong probability of losing the
entire or better part of these investments and cash holdings from
being squeezed out of business and the likelihood of heavy exchange
depreciation.
The same situation has existed to a lesser extent for the past three years and representations have been made to the Foreign Office on specific cases in compliance with the Department’s instructions No. 1345, October 4, 1937,22 and No. 1359, October 29, 1937,23 but without satisfactory results. It therefore appears not only justifiable but essential that some steps be taken immediately to permit of exercising control whenever deemed advisable over the liquidation of Japanese assets in the United States and the transfer of the proceeds to Japan, such control to be utilized in effecting the liquidation and transfer pari passu of American holdings in Japan to the United States.

I am convinced that any assistance which this Embassy will be in a position hereafter to render Americans in this particular dilemma will depend on our Government’s frankly informing the Japanese Government that the treatment of Japanese holdings in the United States will rest entirely upon that accorded American holdings in Japan. I recommend that I be authorized to so inform the Foreign Office.

Grew

811.20 (D) Regulations/1744

Memorandum of Conversation, by the Chief of the Division of Controls

(Green)

[WASHINGTON,] March 13, 1941.

I called Mr. Thorold, First Secretary of the British Embassy, by telephone today and told him that I had received information indicating that some shipments of articles and materials exported from the United States to Hong Kong, under license, had been re-exported from that colony to areas of China occupied by the Japanese.

Mr. Thorold said that he would have the Embassy telegraph to the Governor of Hong Kong asking him to enable the Embassy to assure the Department that re-exportation of such articles and materials would not henceforth be permitted.

Joseph C. Green

894.33/48

The British Embassy to the Department of State

AIDE-MÉMOIRE

His Majesty’s Embassy have now received the comments of the Foreign Office on the State Department’s AIDE-MÉMOIRE of February 21st about the Asaka Maru.

23 Not printed.
24 Received in the Department on March 17.
The State Department's aide-mémoire said that it was not clear whether the stipulation mentioned in the Embassy's aide-mémoire that the Nagara Maru should be the last Japanese vessel to be given facilities to pass through the British blockade with enemy exports on board rested on a unilateral statement by the British Government or on a definite agreement between the British and Japanese Governments. The Foreign Office now inform the Embassy that the settlement of the Nagara Maru case was based neither on a unilateral statement by the British Government nor on a written agreement between the British and Japanese Governments, but on the very clear understanding that this would be the last occasion on which German or Italian goods would be allowed to proceed to Japan by sea. The Foreign Office point out that the action of the British authorities in permitting the export of enemy goods in this ship was a concession on their part which was coupled with a warning that such concessions would not be repeated.

The State Department aide-mémoire also said that it was not clear whether the mention in the Embassy's aide-mémoire of the passage of the Nagara Maru "through the blockade" was intended to refer to a blockade in the ordinary sense of the term or to the economic blockade declared by the British Government. The term "blockade" was used in the popular sense. As the State Department will be aware the British Government bases its action as regards enemy exports on the doctrine of reprisal, and seizure is effected in virtue of the Reprisals Order in Council No. 1709 of 1939. The Foreign Office telegram suggests that the State Department, in suggesting that warrant for interfering with the Asaka Maru might be lacking in substantial legal support, may feel that the vessel itself can claim some sort of immunity by reason of her alleged status as a naval vessel. The British view on this point is that a warship necessarily loses her immunity if she fails to confine herself to her proper functions. Furthermore as regards the major question of the right of His Majesty's Government to interfere with enemy exports the Japanese Government themselves went far towards recognizing this right when in the Nagara Maru case they offered to undertake to make no further requests for facilities to enable enemy exports to reach Japan if the British authorities for their part would release the ship with all her cargo.

The State Department aide-mémoire also expressed some doubts whether the cargo on board the Asaka Maru would be of serious moment from the point of view of general naval operations. On this point the Foreign Office have replied that the British authorities consider it as at least probable that the cargo is of considerable impor-
tance. They hope however to get further information on this point from Lisbon and Bilbao.35

WASHINGTON, March 14, 1941.

811.20 (D) Regulations/1355: Telegram

The Acting Secretary of State to the Consul General at Shanghai
(Lochkart)

WASHINGTON, March 17, 1941—7 p.m.

173. Your 240, February 28, 4 p.m. It would, as you suggested to the [British] Commercial Counselor, constitute a definite violation of the export license regulations to obtain a license for shipment to Hong Kong when in fact the goods were destined for Shanghai.

The Department's attitude in regard to the issuance of licenses for exports to Shanghai is set forth in its no. 140 of March 4, 1941. The Department does not wish, under present circumstances, to place upon you the burden of attempting to weigh the relative merits of applications for exports in general from the United States. You are, however, authorized, in your discretion, to bring to the Department's attention, transmitting full details in each instance, especially meritorious cases in which important American or other interests of concern to this Government would be furthered by the issuance of licenses authorizing exports from the United States to Shanghai.

WELLES

894.24/1399

Memorandum of Conversation, by the Adviser on Political Relations
(Hornbeck)

[WASHINGTON,] March 20, 1941.

Mr. Thorold of the British Embassy, with Mr. Hill, called on me this morning at Mr. Thorold's request.

Mr. Thorold said that the British Government was eager to get, if possible, a reply to and action along the lines of the memoranda which the British Ambassador left with the Secretary of State on March 3 relating to cooperation in the field of trade restrictions and to the

35 The Legal Adviser (Hawkworth) in a memorandum to the Chief of the Division of Far Eastern Affairs (Hamilton), dated March 21, stated that he found no necessity for engaging in any discussion with the British Government on the legal questions involved and observed that a public vessel does not necessarily lose its status as such by reason of the fact that it carries cargo for the Government. In fact, many vessels, such as naval colliers, tankers, etc., constituting naval auxiliaries, are primarily engaged in carrying cargoes. (894.38/48)

36 Not printed.
possibility of dealing more effectively with the problem of preventing excessive accumulation of supplies of oil by Japan.

Mr. Thorold said that it seemed to the British especially desirable to have discussion of these matters and arrival at some conclusions regarding them before the discussions which are going on between Japanese representatives and interested parties, including the government and the oil companies, in the Netherlands East Indies are concluded.

I told Mr. Thorold that the papers which the British Ambassador had left with the Secretary on March 3 had been promptly put into circulation to the offices of this Department primarily concerned; that I did not know where the matter now stood; that I would do what I could to accelerate consideration of it; and that in my opinion it might be well for the British Embassy to bring the matter to the attention of the Under Secretary.

Mr. Thorold handed to me a paper dated March 19, 1941 entitled "Oil for Japan," to which there was attached a statistical exhibit. In this paper and the exhibit it is shown that shipments of petroleum from the Persian Gulf area for the years 1938, 1939 and 1940 have been small in absolute amount and almost negligible in comparative amount.

I shall send those papers forward under a separate memorandum.

S[tanley] K. H[ornbeck]

894.24/1390

Memorandum by the Adviser on Political Relations (Hornbeck)

[WASHINGTON,] March 21, 1941.

Reference, my memorandum of conversation with Mr. Thorold of March 20, last paragraph.

The papers here attached, handed to me by Mr. Thorold of the British Embassy on March 20, show that the amount of petroleum exported from the Persian Gulf area to Japan for the years 1938, 1939 and 1940 has been small in absolute amount and almost negligible in comparative amount. They show that the contract made between the Anglo-Iranian Company and Japan called for export from Abadan of approximately 1,125,000 barrels; that in 1940 the amount actually sent was 278,000 barrels; that this is 0.8 percent of Japan's total takings of oil during the year 1940 (whereas the United States supplied 71.8 percent); and that the total export in 1940 to Japan from all Persian Gulf sources was 1,009,286 barrels. They state that the oil from Bahrein is owned by the California Texas Oil Company

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*Neither printed.*

*33 Dated March 21, infra.*

*34 None printed.*
and the oil from Saudi-Arabia is owned by a subsidiary of that company. The exports to Japan in 1940 from Bahrein and Saudi-Arabia were approximately three times the amount of the export from Iran.

Note: It will be remembered that Mr. Butler stated to me some days ago that Lord Halifax had said to the Secretary that the British Government was prepared to regulate exports of Persian oil and to take the risk of trouble with the Shah of Persia—which they were sure that they would have—in order to get adoption by the United States and Great Britain of a common policy in action which would make the said common policy effective.

In the course of a conversation which I had this morning with Mr. Walden, of the Standard-Vacuum Oil Company, Mr. Walden made to me three interesting statements which have a bearing on the above. (1) He confirmed the information that the amount of oil sent by the Anglo-Iranian Company in 1940 to Japan under the contract had been small. (2) He said that the British Government could absolutely control exports of oil from the whole Persian Gulf area, as they control the Anglo-Iranian Company and as California Texas is a “British company, Nassau registered.” (3) He said that he had not the slightest doubt but that the British Government would withhold Persian Gulf oil from Japan completely if the United States would, by agreement, shut down on exports of oil to Japan from this country.

S[tanley] K. H[ornbeck]

894.24/1349

Memorandum of Conversation, by the Assistant Chief of the Division of Controls (Yost)

[Washington,] March 25, 1941.

Mr. J. S. Dent, Second Secretary of the British Embassy, called this morning to say that he understood that the Department is considering recommending further restrictions on petroleum exports, particularly to Japan, within a very few days. I replied that as he was, of course, aware the British Ambassador had taken the question of oil exports up with the Secretary early in the month and that a careful study was being made of the Ambassador’s suggestions. Mr. Dent said that he hoped that the Embassy would be consulted before any definite decision was taken. He remarked that the Dutch are worried about the effect which further restrictions might have on the negotiations with the Japanese for a renewal of the Netherlands Indies oil agreement which expires May 1. He added that the Dutch Foreign Minister 40

40 E. N. van Kleffens.
hopes to call on Dr. Hornbeck for the second time in the near future
and that he will take this question up during that call. I assured Mr.
Dent that I would keep him informed of developments in regard to
this question.

CHARLES W. YOST

894.24/1318a

The Secretary of State to the Chairman of the United States Maritime
Commission (Land)

WASHINGTON, March 26, 1941.

My Dear Admiral Land: The Department understands that there
presently exists an inadequate supply of tanker tonnage to meet pres-
et global demands for this type of vessel. The Department under-
stands also that the Commission recently has taken steps looking to-
ward a more efficient utilization of shipping controlled by American
citizens. The Department understands further that a considerable
number of foreign flag tankers owned by American citizens are operat-
ing in a trade in the Pacific which would seem to be of unnecessarily
large proportions.

In view of this situation, the Department believes, and suggests,
that you may wish to give consideration to the possibility of influ-
encing the employment of foreign flag tankers owned by American ci-
tizens toward causing them to be operated in trades which may best
serve this country’s national defense needs.

The Department would also appreciate there being borne carefully
in mind its opinion that this subject should at all times be considered
as a strictly confidential matter and that any approaches which may be
made to American owners of the vessels in question should be effected
on an informal and oral basis.

Sincerely yours,

For the Secretary of State:
BRECKINRIDGE LONG
Assistant Secretary

894.5151/284

Memorandum by Mr. Joseph M. Jones of the Division of
Far Eastern Affairs 42

[WASHINGTON,] March 31, 1941.

The British Government proposes to release Japanese funds held
in the sterling area against a reciprocal release of British funds held

42 Initialed by the Chief of the Division (Hamilton).
in Japan. According to the attached despatch this proposal has been favorably received in Japan. The reason for its favorable reception is clearly that blocked funds belonging to Japanese individuals and business firms may be repatriated from the sterling area without net loss of foreign exchange by Japan. The Japanese would certainly not favor a similar arrangement proposed by this country at the present time because Japanese funds may move freely in and out of the United States, there not having occurred any blocking of Japanese funds in this country. An agreement to allow reciprocal repatriation of assets would mean a net loss of foreign exchange to Japan because at present she is free to use her assets here to purchase commodities for shipment to Japan and for other purposes. But if we should freeze Japan’s assets in the United States, as our assets are frozen in Japan, our position vis-à-vis Japan would except as noted in the last paragraph hereof be similar to that of Great Britain vis-à-vis Japan. Each would be in the position of blocking the other’s funds. Under such circumstances, Japan might be willing to negotiate a reciprocal release of funds with us as she is doing with Great Britain. If Japan were not willing to negotiate immediately for the release of American-blocked funds in Japan those funds could be given certain protection by refusal on our part to unblock Japanese funds of equal quantity except on a quid pro quo basis. The bulk of Japanese assets in the United States consists of liquid assets (bank balances) whereas the bulk of American assets in Japan consists of American holdings of Japanese bonds and lesser amounts of direct investments and liquid assets in the form of bank balances. Presumably, in case of freezing by this country, there would not be any great rush to dispose of Japanese bonds or to liquidate direct investments (this process is always slow). There could, however, be a mutual transfer of liquid assets.

Action on the part of this Government in freezing Japanese funds would undoubtedly be resented in Japan much more than was the British action in blocking Japanese funds in the Empire by means of exchange control. The British Government is engaged in a war for survival and exchange control has been imposed globally as a means of husbanding her resources for the war effort, an action which the Japanese can fully appreciate since they arrived at exchange control for the same reason. The Japanese reaction to a freezing of Japanese assets in the United States, however, especially if Japan were singled out for such treatment, would probably be far different; it would probably be resented as further economic pressure by this country on Japan.

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*Despatch No. 5342, February 4, from the Ambassador in Japan, not printed.*
The Counselor of the Canadian Legation (Mahoney) to the Assistant Chief of the Division of Controls (Johnson)

WASHINGTON, April 1, 1941.

My Dear Mr. Johnson: With reference to our telephone conversation this morning concerning shipments of asbestos from Canada to Japan, as promised I enclose herewith a copy of my letter of January 23rd addressed to Mr. Hickerson. I may say that we have since been informed by the Metals Controller that asbestos fibres of more than three-quarters of an inch in length would be, according to the Canadian classification, No. 1 Crude—that is to say—the highest grade. At present we are granting no permits in this grade for export to Japan. In fact, the Metals Controller has an understanding with the industry that no applications will be filed either for No. 1 Crude (over three-quarters of an inch) or for No. 2 Crude (not more than three-quarters of an inch).

With regard to shipments to Japan of other grades we have, as mentioned in my letter to Mr. Hickerson set quotas. The amounts allowable in February were 2,000 tons of Group 5, 23 tons of Group 4, and 92 tons of Group 3.

I might add that the Canadian authorities decided in February that any shipments of asbestos permitted to Shanghai will in future be chargeable to the Japanese quota.

With regard to general control, it appears there is a considerable discrepancy between the Canadian provisions (which cover, of course, all grades of asbestos) and those of the United States. The Canadian Metals Controller considers it important that these should be brought more into line since at present our Japanese quota could be easily circumvented by re-export to Japan from the United States of all grades except the highest.

The Legation would like very much to work closely with your Division in the administration of our two countries’ control over shipments of this commodity to Japan. We would therefore very much appreciate having word from you from time to time as to the policy of your Division with regard to granting of permits.

Yours sincerely,

M. M. Mahoney

*Not printed; John D. Hickerson was secretary of the American section of the Permanent Joint Board on Defense, United States and Canada.*
The Secretary of the Navy (Knox) to the Secretary of State

Serial No. 06613  
Washington, April 3, 1941.

(S)A4-5(2)/EF37

Sm: Reference is made to State Department letter dated March 31, 1941, regarding a proposed visit of the Japanese Naval Transport Kyokuto Maru to San Francisco from April 5 to 8, 1941, for the purpose of obtaining fuel oil. In stating that the Navy Department has no objection to this visit, the Secretary of the Navy desires to call attention to the recent frequency of naval visits. Including an additional ship which has been reported confidentially, by the American Consul at Kobe, as enroute to Los Angeles, but regarding which no official request has yet been received, a total of twelve Japanese naval vessels will have obtained a cargo of oil from the United States within a period of six months, five of these within a period of sixty days.

Certain of the vessels now listed as naval vessels have made previous similar trips in their original status as commercial vessels. It appears more than probable that their current naval status has been devised to bestow upon them, and upon their obvious purposes, a degree of immunity which a commercial vessel could scarcely command.

It is suggested that the recent frequency of such visits is, to say the least, unusual; and a matter regarding which it is considered that some restrictive policy would be a timely precaution to prevent the abuse of international courtesy in a manner which appears contrary to the best interests of the United States.

Respectfully,

Frank Knox

Memorandum Prepared in the Department of State

[Extract]

[Washington,] April 4, 1941.

Control of Gasoline Exports to Japan

Conclusions.

Gasoline is of primary importance at this time because of: (1) recent increased concentration of Japanese petroleum purchases on that product, especially from the United States (the decline in crude

Not printed.

Drafted in the Division of Commercial Policy and Agreements and in the Office of the Adviser on International Economic Affairs.
exports to Japan in 1940 was offset by increased gasoline shipments); 
(2) the effect of the manner in which existing export restrictions on 
"aviation" gasoline are administered; and (3) the dangerous extent 
to which Japanese stocks of gasoline capable of being raised to avi-
tion grade may continue to expand because of (1) and (2). Ample 
evidence before the officers of the Department substantiates the fore-
going.

Japan is at present dependent almost entirely upon the United 
States for gasoline which can be raised to aviation grade. The amount 
of gasoline for which export licenses have been issued in recent months 
suggests the possibility, on the basis of past experience, that Japan 
wa is preparing for a new major military operation. (The possibility 
exists also that some of this gasoline may be reaching Germany by 
way of the U. S. S. R.)

Japanese statistics show gasoline imports of all types of about 
4,300,000 barrels in 1936, which may perhaps be considered as a "nor-
mal" year. The present arrangements with producers in the N. E. I. 
provide for supplies to Japan at an annual rate almost equal to Japa-
nese imports of gasoline from all sources in 1936. Any attempt to 
reduce total Japanese gasoline imports of all types to the 1936 level 
would thus involve almost complete cessation of exports from the 
United States or a scaling downward of the Batavia contracts, which 
does not appear feasible. In any case, it is apparently of greater 
importance that United States exports be curtailed, due to the higher 
quality of the gasoline involved. If the aim is to reduce to the 1936 
level Japanese imports of aviation gasoline only, about 1,000,000 bar-
rels of this type could still be exported from the United States—a 
figure which is slightly larger than 1937 exports and roughly twice 
the amount of the exports from the United States to Japan in each of 
the years 1938, 1939 and 1940.

The present discussion is concerned only with exports to Japan 
proper. The critical nature of the problem is intensified if considera-
tion is given to gasoline exports to all areas under Japanese control.

If it is decided that immediate action should be taken by the United 
States (as a first step in a broader cooperative program with the 
British and Dutch Governments involving company control, tanker 
control, etc.) to limit Japanese imports of gasoline to the 1936 level, 
the following line would seem appropriate:

a) Immediate restrictions on shipments to Japan of gasoline at 
present permitted to be exported, to not more than 500,000 barrels per 
year. This would have the effect of reducing total Japanese gasoline 
imports to approximately 1936 levels, assuming no other substantial 
source of supply exists which cannot be controlled; or

b) Lowering of present octane rating of permitted exports of gaso-
line to Japan to a maximum of 70. This would not necessarily have
the effect of curtailing total Japanese imports as in (a) above, but would effectively eliminate exports to Japan of gasoline which could be raised to aviation grade.

Either of the foregoing, however, would reduce Japanese imports of aviation gasoline below the 1936 level. This would be the case if plan (a) were adopted even though all permitted exports from the United States were to consist of the grades labelled as "aviation gasoline"* in the 1936 export figures.

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894.24/1388

The Chief of the Division of Controls (Green) to the Counselor of the Canadian Legation (Mahoney)

WASHINGTON, April 8, 1941.

MY DEAR MR. CHARGÉ D'AFFAIRES: * With reference to your letter of April 1, 1941, addressed to Mr. Hallett Johnson, I think that you will be interested to know that after April 18, 1941, asbestos, if chiefly of fibres of three-eighths of an inch or more in length, will be subject to export control. The result of this new requirement will undoubtedly be to make our policy match more closely with Canadian policy as regards the export of this commodity, and will, I believe, make it difficult to circumvent your asbestos quota for Japan by re-export to Japan from the United States of asbestos coming into this country from Canada.

Your desire to work closely with this Division in the administration of our two countries' control of shipment of asbestos to the Far East is appreciated and reciprocated.

I am [etc.]

JOSEPH C. GREEN

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894.24/1853

Memorandum by the Assistant Chief of the Division of Controls (Yost)

[WASHINGTON], April 9, 1941.

THE EXPORT OF PETROLEUM PRODUCTS TO JAPAN

Gasoline

Since the imposition on July 28, 1940 of restrictions on the export of certain petroleum products,* the Department has licensed about

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*There are several possible definitions of "aviation" gasoline. This reference is to such gasoline as defined in Department of Commerce export statistics, that is, gasoline declared to be for aviation purposes. [Footnote in the original.]

*Form of address apparently an error. The Canadian Minister had been received on March 14.

9,200,000 barrels of gasoline for export to Japan and has applications for 2 million additional barrels now pending. The amount already licensed represents more than twice the normal annual pre-war import of Japan from all sources and is nearly three times the quantity of gasoline which the United States exported to Japan in 1940, a most abnormal year.

Of this 9,200,000 barrels, approximately 4 million have already been exported and 5 million remain to be exported. The Department will, moreover, if new restrictions are not shortly imposed, be obliged to grant the pending applications for 2 million additional barrels. When these licenses are issued, Japan will be in a position to obtain in the United States this year 8 million barrels of gasoline (1 million already shipped plus 7 million authorized) in addition to about 4 million barrels which she will obtain from the Netherlands Indies under existing contracts, to say nothing of what might be licensed in this country during the remainder of the year. Her total import from these two sources would, therefore, be at least three times her normal pre-war import and more than twice her extraordinary 1940 import. Such a supply would obviously make her completely self-sufficient in gasoline for an indefinite period of time.

The public is to some degree under the impression, based on the President’s statement of July 26 that no exports of aviation gasoline outside the Western Hemisphere would be permitted,* that gasoline of aviation quality can not go to Japan. This impression is wholly erroneous. Only the very high grade aviation gasoline used by our Army and Navy is under the export ban, and most of the 9,200,000 barrels referred to above is of satisfactory aviation quality or can be made so by a very simple process. In fact a large proportion of the license applications state quite frankly that the gasoline is intended for aviation use by the Japanese Army or Navy.

**Lubricating Oil**

The lubricating oils subject to license are only the high grades used by our Army and Navy air forces. The Japanese have been and are obtaining here, without having to obtain licenses, large supplies of lubricating oil which is either of satisfactory aviation quality or can be made so by a simple process. Exports to Japan in 1940 were more than twice usual pre-war quantities. Furthermore, reliable reports make it appear practically certain that substantial quantities of this oil are now being transshipped by the Japanese across Siberia to Germany.

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Other Petroleum Products

Exports to Japan in 1940 of other petroleum products (except petroleum greases) have not been substantially in excess of usual pre-war quantities. New trends in this field, however, arise very suddenly. For example, the British have recently been most alarmed over exports of diesel oil to both Japan and Thailand, in the former case because they fear the oil may be transshipped to Germany for submarine use, in the latter case because they fear it may be used by the Japanese in an attack on Singapore or by German raiders in the Pacific.

Crude oil exports to Japan in 1940 were actually less than in recent years, but on the other hand the Department has since July 26 licensed approximately 22 million barrels of crude for export to Japan. This quantity, of which some three-fourths remains unshipped, is greater than the amount Japan has obtained from the United States in any year of the Sino-Japanese War. It should be noted, moreover, that Japan can and is concentrating her purchasing on those high grade crudes from which high percentages of aviation gas can be easily obtained.

Recommendations

In the belief that in these circumstances prompt action is necessary, the following recommendations are made. The proposed time table is based on the desire of PA/H 50 and FE to delay most of the suggested steps until Mr. Matsuoka 51 has returned to Tokyo and until the Batavia contract has been renewed.

1. Request General Maxwell 52 at once to furnish the Department with a new and more comprehensive definition of the aviation gasoline the export of which outside the Western Hemisphere and the British Empire* shall be prohibited. (This definition shall include all gasolines susceptible of aviation use and shall exclude ordinary motor gasoline. The dividing line shall presumably be about 65 octane number without lead and 80 when lead has been added.) On the receipt of this definition inform all holders of valid licenses for exports outside the Western Hemisphere and the British Empire to turn in these licenses and submit new applications stating whether or not the gasoline which it is proposed to export falls under the new definition of aviation gas. If it does, no new license will be issued.

50 Office of the Adviser on Political Relations (Hornbeck).
51 Yosuke Matsuoka, Japanese Minister for Foreign Affairs, who was in Europe.
*Note: Where reference is made herein to restrictions on exports outside the Western Hemisphere and the British Empire, it is understood that exceptions shall be made for countries resisting aggression. [Footnote in the original.]
No announcement of policy will, however, be made at this time, and no action on the new applications will be taken until the further steps outlined below are announced.

2. At a convenient moment after the receipt of these new applications, presumably at the end of April, announcement will be made that gasoline not falling within the new definition of aviation gas will be licensed in usual or pre-war quantities. It shall be made clear that during the remaining two-thirds of 1941 shipment of two-thirds of the pre-war export of motor gas will be authorized. The base period will be the average of the years 1935–39 inclusive.

3. General Maxwell shall be requested at once to redefine on April 15 the aviation lubricating oil which is subject to license. This redefinition shall extend the scope of the restriction by dropping the viscosity index of the restricted oil from 85 to 60 or 65. Any outstanding licenses authorizing the export of such oils outside the Western Hemisphere and the British Empire shall be revoked and the holders asked to submit new applications. At the end of April announcement will be made that oils falling outside the new definition will be licensed for export outside the Western Hemisphere and the British Empire in usual or pre-war amounts. The same procedure will be followed in granting applications as in the case of gasoline.

4. General Maxwell shall be requested to place all petroleum products under export licensing control and announcement of this step shall be made at the end of April.

5. When diesel oil is subjected to the licensing requirement, its export outside the Western Hemisphere and the British Empire shall be limited to usual pre-war quantities. The same procedure will be followed in granting applications as in the case of gasoline.

6. The export of other petroleum products shall be licensed freely for the moment, but the question of limiting exports of petroleum greases and high grade crudes should be given immediate study.

7. This whole program, as soon as it has been approved, shall be discussed with the British.

CHARLES W. YOST

811.20 (D) Regulations/1353: Telegram

The Secretary of State to the Consul General at Shanghai (Lockhart)

WASHINGTON, April 17, 1941—8 p. m.

249. With reference to your despatch no. 253, February 11, and to representations made by American Chamber of Commerce, Shang-

*Not printed.
hai, the Department directs that you assign a member of your staff the duty of studying the question of proposed shipments from the United States of commodities intended for the use of reliable firms in Shanghai for their pressing needs. You may suggest to such firms that they inform you when applications for export licenses are submitted in this country for the export to them of merchandise. They should also give you information for transmission to the Department as to the name of applicant in United States, date of application, and amount and exact description of commodity. The interested firms should also be told that they have the full burden of establishing the use to which a given commodity is to be put. You will then inform the Department by despatch or by cable at the firm’s expense your opinion as to the trustworthiness of the firm in question and whether the use to which the commodity is to be put would be in the interests of the United States. Licenses will be granted for the shipments which you recommend if the exportable surplus of the commodity in question is available.

Please make any constructive suggestions you care to in this connection and keep Department informed as to how plan outlined above works out.

Hull

711.94/2113

Memorandum of Conversation, by Mr. Frank A. Schuler, Jr., of the Division of Far Eastern Affairs

[WASHINGTON,] April 18, 1941.

Mr. Hellman was received by Mr. Schuler at the request of Mr. Hornbeck’s office. Mr. Hellman stated that he had called at the Department about a year and a half ago and had discussed with Mr. Hornbeck and other officials of the Department the question of extending credits to American companies doing business with Japan. Mr. Hellman asked whether there had been any change in the situation. To his own way of thinking, the situation had become acute, particularly since the signing of the Russo-Japanese neutrality pact. Mr. Schuler stated that there had been no change in the policy of the United States Government toward Japan, that with respect to the

54 Initiated by the Chief of the Division (Hamilton).
55 F. J. Hellman, Vice President of Wells Fargo Bank and Trust Company, San Francisco.
56 See memorandum by the Assistant Chief of the Division of Far Eastern Affairs, September 15, 1939, Foreign Relations, 1939, vol. iii, p. 545.
57 See telegram No. 763, April 18, 11 p. m., from the Ambassador in the Soviet Union, p. 944.
Russo-Japanese neutrality pact Mr. Hellman would no doubt recall the Secretary's statement of April 14 \(^a\) in which he said among other things that the significance of the Russo-Japanese pact could be overestimated; that the agreement would seem to be descriptive of a situation which had already existed for some time; and that it came as no surprise to this Government. Mr. Hellman declared that the bank had requests from time to time from Japanese banks for the extension of credit facilities, but that it had as a general rule refused to extend any credit. He said that his bank was extending short-term credits to American exporters to Japan on a limited number of commodities and was particularly interested in knowing whether the Department contemplated any embargoes on exports to Japan.

With respect to the first point Mr. Hellman was told in reply, that while there was no law or regulation which prohibited or restricted American banks in the matter of loans or credits to Japan, the Department had, when approached by American businessmen on this question, as Mr. Hellman was undoubtedly already aware, expressed the hope that American business would be guided by consideration of the effect upon American interests in general in the Far East of the granting of such credits, looking at the question from a long-range point of view, and having in mind Japanese policies and actions. Mr. Schuler added that it was the Department's understanding that there was a general tendency to shorten the terms of any such credits both here and abroad and that such tendency was in line with the attitude which the Department hoped would be followed by American businessmen and bankers.

With respect to the second point Mr. Schuler stated that he was not aware of any steps being taken at the present to place an embargo on exports to Japan. He wished to point out at the same time that with the intensification of this country's efforts toward national defense it was obvious that more and more commodities which were normally exported abroad would be needed for ourselves; moreover, that pledged as we are to give every aid to the democracies,\(^b\) many of the commodities which would normally enter our export trade with Japan might conceivably be needed in other directions.

Mr. Hellman declared that he was in full accord with the Government's foreign policy; that until about a year ago certain aspects of American foreign policy, particularly in regard to Japan, had not been entirely clear to him, but that since Japan had joined the Axis he had realized that any aid that we might extend to Japan meant aid to Germany.

\(^b\) For the Lend-Lease Act approved March 11, 1941, see 55 Stat. 31.
Mr. Hellman concluded with the statement that he thought that all exports would eventually have to come under Government control, to which Mr. Schuler made no comment.

**811.20 Defense (M)/1986**

*The Commercial Attaché in Japan (Williams) to the Ambassador in Japan (Grew)*

**[Tokyo,] April 21, 1941.**

On April 21st, at the special request of Mr. T. Horiguchi of the Ministry of Finance, I attended another meeting at the Ministry in connection with the tungsten matter—at the meeting the following were present:

- Mr. Horiguchi, Chief of the Foreign Exchange Control Bureau, Ministry of Finance
- Lt. Gen. Ryukichi Tanaka; two other Army Officers
- Mr. Madokoro and an associate, of the Nishikawa Company
- Mr. F. S. Williams, Commercial Attaché, and
- Mr. John K. Emmerson, Secretary of Embassy, as interpreter

Inasmuch as Mr. Emmerson acted as interpreter and most of the conversation was in the Japanese language, I asked Mr. Emmerson to prepare a memorandum covering these conversations. His memorandum follows:

Mr. Horiguchi first summarized the discussion at the previous conference participated in by Mr. Williams and representatives of the Army. He stated that the Japanese Government in considering the granting of a permit for the exportation of 1,000 tons of tungsten to the United States desired to obtain from the State Department some indication of the attitude of the American Government toward the granting of permits for exports of such articles as cobalt, nickel, high octane gasoline, etc. Mr. Emmerson explained in Japanese the substance of the memorandum prepared by Mr. Williams, stating in effect that the United States Government was not prepared to enter into a discussion regarding any barter arrangements involving Japanese exports of tungsten and American exports of nickel, cobalt and other commodities placed under the licensing system. The American Government regarded the contract entered into by Nishikawa and the American concern as purely a commercial transaction.

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* Copy transmitted to the Department by the Ambassador in covering despatch No. 5550, April 25; received May 16.
* Minutes of previous meeting not printed.
* Not printed.
Mr. Horiguchi then stated that he had no intention of suggesting any sort of political agreement between the two nations of the nature, for example, of the recent loan agreement made between Chiang Kai-
shek's Government and the United States. He desired to treat the case of Nishikawa's export of 1,000 tons of tungsten as a purely commercial transaction. However, since the export of tungsten required the permission of the Japanese Government, before making a decision on this particular case the Government wished to know as a matter of reference what general attitude would be taken by the American Government toward the export of commodities to Japan which are under the licensing system. If an expression from the State Department regarding such a general policy could be obtained it would be helpful, he stated, in enabling Japanese Government to arrive at a decision regarding the granting of export permits such as in the case of the tungsten.

Mr. Williams stated that it would be very difficult for the American Government to give any indication of a general policy in such matters since permits for exports of commodities placed under the license system must, of course, be granted or refused on the merits of each individual case. In deciding each case the Government must of necessity take into consideration the matter of supply and demand, transportation facilities and other conditions which vary from time to time. Therefore, he was convinced that the United States Government would not give any expression of a general policy which might apply to the export of these commodities considered essential to national defense.

Mr. Horiguchi stated that he understood this attitude. He wondered whether a "test case" might be made in which a Japanese firm would apply for a permit for the export of certain commodities to Japan. It was explained to Mr. Horiguchi that "test case" was not an accurate term since a decision granted in one instance would have no influence or bearing upon a decision granted some other time since conditions might be completely different. The Army officials and representatives of Nishikawa agreed that they understood this point and the Army officials suggested to the Nishikawa representative that it might be advisable to make application for a permit to export some of these licensed commodities from the United States. Lt. Gen. Tanaka then launched into a discussion of China's tungsten resources. He wished Mr. Williams to be assured first, that the 1,000 tons in question were actually in existence and available for shipment. He stated that before the China Incident China had furnished 80 per cent of the world's supply of tungsten and that considerable quantities were

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63 Generalissimo Chiang, President of the Chinese Executive Yuan (Premier).
64 July 7, 1937, date of Marco Polo bridge clash outside Peiping.
now available for export. Large resources were available in Kiangsi Province and the ore was being assembled by Chinese coolie labor. There are considerable supplies both in Shanghai and Canton. He stated that the annual production of tungsten had been 60,000 tons. Japan, he said, does not need large quantities of tungsten at the present time and for this reason it is available for export. Mr. Williams was questioned as to whether America was not buying large supplies of tungsten at the present time. He replied that the United States was buying tungsten.

During the discussion Mr. Horiguchi admitted that there had been a misunderstanding regarding the necessity for obtaining a Government permit for the shipment of 1,000 tons and that the American company had not been informed of the necessity for such a permit. He concluded by reiterating the understanding that transactions in these commodities would be on a purely commercial basis and that Japan would have the right to grant or refuse permits just as the American Government possessed the right in regard to licensed commodities. He stated that the Japanese Government was still considering the matter of granting a permit for the export of the 1,000 tons in question.

FRANK S. WILLIAMS

741.94/497

The Ambassador in Japan (Grew) to the Secretary of State

No. 5544	Tokyo, April 25, 1941.

[Received May 16.]

Sir: I have the honor to transmit herewith a copy of a document entitled “Substances of Telegram to the Foreign Office dated April 11, 1941” which was furnished us by the British Embassy on April 14, 1941.66

The telegram referred to was sent by the British Ambassador66 to the Foreign Office at London and describes an interview between himself and the Japanese Vice Minister for Foreign Affairs, Mr. Ohashi, during the course of which Sir Robert commented upon Mr. Ohashi’s recent speech before the conference of prefectural governors on April 10. (See Embassy’s telegram no. 537, April 10, 1941 67)

Sir Robert expressed appreciation of the Vice Minister’s reference to the need for more courtesy to foreigners and especially his exhortation to the police authorities; Sir Robert was less enthusiastic about certain other passages in the speech, notably the reference to economic

66 Not printed.
67 Sir Robert L. Craigie.
68 Ante, p. 140.
pressure which the Vice Minister stated was being exerted upon Japan by Great Britain and the United States, and repeated his denial that such pressure existed designed primarily to interfere with Japan's normal and legitimate peacetime industries. Sir Robert explained that the object of the economic restrictions was threefold: (a) conservation of vital war supplies; (b) prevention of contraband articles reaching Britain's enemies; and (c) certain measures necessary for purely security purposes.

The Vice Minister replied that many of the British economic measures were not explainable on any of the grounds outlined by Sir Robert and that there was a general feeling throughout Japan that it was the deliberate intention of Great Britain and the United States so to hamper Japanese industry that it could not even engage in the normal export of goods to neutral markets.

It was agreed that the discussion should continue on some future occasion.

Respectfully yours,

Joseph C. Grew

894.24/1428

The Secretary of Commerce (Jones) to the Secretary of State

Washington, May 7, 1941.

Dear Mr. Secretary: Our reports show that for the last six months exports from the United States to Japan of petroleum products, including crude petroleum, gasoline, naphtha, kerosene, lubricating oil, and fuel oil, were as follows:

- October . . . 1,732,456 bbls.
- November . . 2,909,214 bbls.
- December . . 1,744,308 bbls.
- January . . . 1,666,855 bbls.
- February . . 1,329,113 bbls.
- March . . . . 1,433,535 bbls.

Apparently, all of these shipments were outside the export license controls which, up to the present moment, appear to cover only aviation gas of a high octane content or capable of being transformed into aviation gas of high octane content.

The following report of the President's press conference of May 2nd may be of interest in this connection:

"In reply to a question on persistent reports of U. S. shipments of oil and gasoline to Japan, the President cautioned that the shipments so made were of types not banned by existing licensing or embargo
laws. Commerce and State Department figures, he said, showed that
the gasoline shipped to Japan was not classified as ‘aviation’ gasoline,
having a lower octane rating.”

Sincerely yours,

Jesse H. Jones

811.20 (D) Regulations/2177: Telegram

The Consul at Hong Kong (Bruins) to the Secretary of State

Hong Kong, May 10, 1941—1 p. m.

[Received 2: 19 p. m.]

172. Importation into Hong Kong of various goods including dyes,
metals, ores, machine tools, chemicals and drugs from the United
States now required by local authorities to have a declaration to the
effect that the goods are required solely for use in Hong Kong; such
declaration if approved will be countersigned at the office of the
Controller of Trade, Hong Kong, thus permitting importation into
this colony. Foregoing is the substance of a notification published in
Hong Kong Government Gazette of May 9th effective immediately.
List follows by mail.⁶⁸

Authorities concerned inform this office that above is their method
of assisting enforcement of American export restrictions, Hong Kong
having recently been used by some commercial interests as a point to
which American export licenses could be easily obtained and from
where transshipment could occur to points such as Shanghai or Indo-
china as illustrated by this office’s confidential despatches 841 of
February 27 and 870 of March 25, 1941.⁶⁹

Sent to Department. Repeated to Shanghai.

Bruins

894.24/1379

Vice President Wallace to the Secretary of State

Washington, May 10, 1941.

Dear Secretary Hull: Enclosed is a letter ⁶⁸ on a subject about
which I have been quite disturbed myself for some time. I notice
that we are still sending considerable quantities of valuable materials
to Japan, especially oil, and I can’t help wondering if there is not
some probability that these materials may be used against us, if
events should take a certain turn. It seems to me that at the earliest

⁶⁸ Not printed.
⁶⁹ Neither printed.
possible opportunity we should choke off the flow of goods from
the United States to Japan.
I understand that the Dutch East Indies are going to furnish oil to
Japan, but I do not see that that is any reason why we should do so.
Can't we use our priorities power to do the job diplomatically and
yet fairly quickly?
Sincerely yours,

H. A. WALLACE

P. S. I know you have been doing a masterful job on this Japanese
problem but it seems to me the time is ripening fast now for more
complete action in shutting off exports to Japan.²¹

804.3311/688

The Secretary of State to the Japanese Ambassador (Nomura)

The Secretary of State presents his compliments to His Excellency
the Japanese Ambassador and has the honor to refer to his note no.
111 dated April 21, 1941,²² stating that the Japanese naval transport
Erimo due to a misunderstanding proceeded to San Francisco instead
of to Los Angeles for the purpose of taking on crude petroleum.
The interested Federal authorities were informed of the change in
ports and the usual courtesies and facilities were ordered extended
to the vessel.
The attention of the Ambassador is invited to the fact that the
Erimo arrived in San Francisco on April 21 in advance of schedule,
before approval had been expressed for it to visit any American port.
Because of the frequency and short notice of visits of Japanese
naval transports to American ports in recent months, it is desired
that the Japanese Government present as soon as practicable an ap-
proximate schedule of the proposed visits during the next six months
in order that it may be given consideration by this Government.
However, this tentative schedule should not be construed as a blanket
request for permission for the proposed visits, as the usual request
for permission to visit should be submitted in each individual case
about three weeks prior to the time of arrival of the vessel at an
American port.

WASHINGTON, May 17, 1941.

²¹ In acknowledging Vice President Wallace's letter, the Secretary of State
on May 20 wrote: "I appreciate what you say about this, and you know that the
matter has been and continues to be very much on our minds here. I shall be
glad to talk with you about this the next time I see you."
²² Not printed.
The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, May 31, 1941—7 p.m.

307. Your 723, May 23, 6 p. m. On May 20, Congressman Weiss introduced four bills and resolutions in the House of Representatives as follows: a bill (H. R. 4824) to prohibit the clearance of any ship or vessel when carrying a cargo of petroleum or petroleum products from any port of the United States to any port of Japan or any of its possessions (which was referred to the Committee on the Merchant Marine and Fisheries); a bill (H. R. 4825) to prohibit the exportation of petroleum or petroleum products except under license from the Secretary of Commerce (referred to the Committee on Inter-state and Foreign Commerce); a concurrent resolution (37) that it is the sense of the Congress that no further shipment of petroleum and petroleum products from the United States to Japan should be permitted, and that the President should immediately issue appropriate orders under section 6 of the Act of July 2, 1940 to prohibit any further shipment of petroleum or petroleum products to Japan or its possessions (referred to Committee on Military Affairs); and a joint resolution (189) that whenever the President shall issue a proclamation under the Act of July 2, 1940 prohibiting or curtailing the exportation of any military equipment or munitions or component parts thereof, the exportation of petroleum or petroleum products to Japan shall be deemed subject to the prohibitions or curtailments imposed on the enumerated articles (referred to the Committee on Military Affairs). On May 5 Senator Gillette submitted concurrent resolution (10) in the Senate to create a special joint congressional committee to investigate the obtaining of essential war materials from the Western Hemisphere by the Axis powers; on May 23 this resolution was reported by the Committee on Commerce without amendment and referred to the Committee to Audit and Control the Contingent Expenses of the Senate.

HULL

The Assistant Chief of the Division of Far Eastern Affairs (Adams) to the Counselor of the Japanese Embassy (Iguchi)

WASHINGTON, June 9, 1941.

My Dear Mr. Iguchi: I address this personal letter to you in accordance with your request that I confirm to you in writing the statements which I made to you by telephone on June 2:

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*Not printed.
*54 Stat. 712.
The Department has made note of the information supplied by the Japanese Embassy in a memorandum dated May 28, 1941,\(^5\) that Japanese naval special transports are requisitioned vessels and that the ranking officer of the Japanese Navy on board is not the captain of the vessel but is described as an inspecting naval officer. American ports are frequently visited by ships requisitioned by various governments, and it is not the practice of the American Government to accord the courtesies and facilities of public vessels to such ships (nor have such courtesies and facilities been requested by these governments), except in the event that such requisitioned ships should be fully manned by naval crews. The according of public vessel courtesies and facilities to Japanese naval special transports would therefore affect the treatment to be accorded to requisitioned ships of a number of nationalities, and this Government is not disposed at the present time to revise its practice in this regard. This Government is consequently unable to accord the status of public vessels to Japanese naval special transports as described in the Japanese Embassy's memorandum of May 28, 1941. Because of the presence of some naval personnel aboard such vessels, the Department would appreciate receiving from the Japanese Embassy advance information with regard to visits of Japanese naval special transports, together with a list of the naval personnel on board.

Sincerely yours,

WALTER A. ADAMS

811.20 (D) Regulations/2901

_The Petroleum Coordinator for National Defense (Ickes) to the Administrator of Export Control (Maxwell)_\(^6\)

WASHINGTON, June 11, 1941.

_MY DEAR GENERAL MAXWELL: The magnitude of recent shipments of petroleum products from the United States to Japan makes it necessary for me to direct your attention to the desirability of securing cooperation between your office and mine in petroleum problems. The President's letter of May 26, in which he designated me as Petroleum Coordinator for National Defense, was directed in part to the subject of having all agencies of the Government work toward a common objective._

Information obtained from the Office of Merchant Ship Control, Treasury Department, shows that 826,383 barrels of petroleum, an average of 118,040 barrels per day, were shipped to Japan from United States ports during the week ended May 31. From the same source,

\(^{5}\) Not printed.

\(^{6}\) Copy transmitted to the Department on June 14.
it has been learned that 4,654,029 barrels of petroleum were shipped from the United States to Japan in the eleven weeks between March 15 and May 31. This quantity exceeds by nearly a million barrels the 3,750,817 barrels shipped to Japan during the eight and one-half months from July 1, 1940, to March 15, 1941, as reported by you on March 31 to the subcommittee of the Committee on Appropriations of the House of Representatives. It may be important to note that the shipments of the past eleven weeks included 1,397,024 barrels of blended or California high octane crude from which by commercial distillation there can be separated more than 3 per cent of aviation motor fuel.

During your appearance before the Committee you stated that your office, serving directly under the President as Commander-in-Chief of the Army and Navy, issues instructions which are given to the Department of State, under which applications for export license are cleared. It was further stated that a license once granted is good for a year, although it may be revoked at any time.

As Petroleum Coordinator for National Defense, I would like to receive from your office complete information as to all export licenses which have been approved covering petroleum shipments to Japan, the quantities and grades of petroleum and petroleum products which have been shipped thereunder; the quantities and grades remaining unshipped under each such license; and the remaining effective time under which shipments may be made under approved license. I would like to receive this information as promptly as possible, as I am recommending to the Secretary of State that no additional licenses covering petroleum shipments to Japan be approved until I have received this information and have had an adequate opportunity to study it.

Sincerely yours,

HAROLD L. ICKES

S11B.20 (D) Regulations/87

The Japanese Embassy to the Department of State

MEMORANDUM

The Japanese Embassy is in receipt of a communication from the Japanese Consulate General at Manila to the following effect:

In spite of the inauguration of the export license system in the Philippines affecting, among other things, higher grade hemp, copper, chromium and manganese ores, scrap iron, etc., etc., it has been confidently expected by the Japanese exporting firms at Manila that applications for export of these articles would be accepted for the most part in accordance with the statement of the High Commissioner and other officials concerned, that under the system normal trade would not be allowed to suffer. But actually permits for the
exportation of these articles—even of iron ore for which permit has been hitherto freely granted—are now withheld, and it is greatly feared that a severe blow will be dealt the normal trade between Japan and the Philippines.

Frequent negotiations between the Japanese Consulate General and the office of the High Commissioner have produced no result, many permits having been refused on the grounds that they cannot be issued without an order from the home government or that equitable quotas for various exporting firms are yet to be fixed.

This Embassy requests the Department of State to be good enough to see that necessary instructions are issued for the removal of such obstacles to normal trade as soon as possible and that in the cases where time is required for establishing specific rules there is made a temporary arrangement covering the coming month or two for facilitating the exportation of these articles in adequate quantities.

This Embassy is also informed that there is at present 1,850 tons of scrap iron at Manila and 8,000 tons at Ilo-ilo which has been put on lighters and is waiting for permit. In both cases customs permit for loading had been obtained prior to the enforcement of the export license system. Especially, at Manila, a ship had arrived to take the ore, but the loading was being delayed owing to undue interferences by the military police until it had been rendered impossible with the coming into force of the export license system.

In consideration of these circumstances and also of the increasing losses accruing from keeping the ore on lighters, this Embassy requests that as regards the iron ore in question special permission, apart from the general policy or rules, be granted for an early shipment.

[WASHINGTON,] June 13, 1941.

894.24/1404

The Secretary of State to the Chairman of the Committee on Merchant Marine and Fisheries of the House of Representatives (Bland) 77

WASHINGTON, June 18, 1941.

MY DEAR MR. BLAND: I refer to your letter of May 21, 1941, and to my preliminary reply thereto of May 26, 1941, 78 in regard to HR 4824, a bill: “To prohibit the clearance of any ship or vessel when carrying a cargo of petroleum or petroleum products from any port of the United States to any port of Japan or any of its possessions.”

77 Notation by the Under Secretary of State (Welles) on June 17: “The President this morning approved this letter.”
78 Neither printed.
From the standpoint of foreign policy, I do not favor the passage of this proposed legislation. Section 6 of Public, no. 703, 76th Congress, approved July 2, 1940, provides that: "Whenever the President determines that it is necessary in the interest of national defense to prohibit or curtail the exportation of any military equipment or munitions, or component parts thereof, or machinery, tools, or material, or supplies necessary for the manufacture, servicing, or operation thereof, he may by proclamation prohibit or curtail such exportation, except under such rules and regulations as he shall prescribe."

The Government has full authority under this provision of law to restrict or prohibit the exportation of petroleum and petroleum products to any and all areas throughout the world, and I do not believe that it is either necessary or desirable to resort to the device of refusing ships' clearance in order to prevent the exportation of petroleum and petroleum products to Japan.

Sincerely yours,

Cordell Hull

The Japanese Embassy to the Department of State

Memorandum

On June 16 at Philadelphia the loading of lubricating oil on a Japanese freighter, the Azuma Maru, was suddenly halted at the request of the Petroleum Coordinator for National Defense. Since the oil in question, which was purchased by Asano Bussan Kaisha, is of a low grade requiring no license, the shipment is entirely within the law. It is reported that all future shipments of oil from the eastern seaboard will be stopped under a new general order, which would entail considerable losses on the part of business firms, both American and Japanese, engaged in bona fide trade.

This Embassy requests the Department of State to use its good offices in the interests of the friendly relations as well as of the trade between Japan and the United States so that:

1. Special consideration will be given by the authorities concerned to the aforesaid shipment of oil and also to other consignments of oil for which contracts have been concluded and shipping arrangements completed before June 16;

2. Adequate steps will be taken in the future to prevent the recurrence of similar cases and to insure a smooth movement of trade between the United States and Japan.

Washington, June 18, 1941.

54 Stat. 712, 714.
Memorandum by the Assistant Chief of the Division of Controls (Price) to the Administrator of Export Control (Maxwell)

[WASHINGTON,] June 21, 1941.

The Administrator of Export Control: With reference to your telephoned inquiry to the Division of Controls on Friday June 20, no applications for licenses to export petroleum products to Japan, Japanese-occupied China, or Thailand, have been acted upon by the Division of Control since April 8, 1941. The tabulation set forth below represents the applications which have been received during the period April 8 to date and action upon which has been withheld pending the determination of certain questions of foreign policy.

JAPAN (37 applications)

Crude Oil 90,000 tons $931,772
Lubricating Oil 4,232,485 gals. 827,962
Gasoline 93,210,000 " 6,834,000

CHINA (26 applications)

Lubricating Oil 694,183 gals. $929,566
Lubricating Grease 8,000 lbs. 227
Gasoline 52,275,000 gals. 2,278,850

THAILAND (6 applications)

Lubricating Oil 176,988 gals. 60,771
Kerosene 3,000,000 " 135,000

No applications for licenses to export articles and materials to Japan, Japanese-occupied China, or Thailand, other than those referred to above are being held without action in the Division of Controls. Such applications as have been received during the past three months, for license to export machine tools to Japan have been rejected in accordance with applicable directives issued by you. However, according to the records of the Division of Controls several applications of this latter character are now pending in your office. A summary of these applications is attached.  

LEONARD H. PRICE

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The Consul General at Shanghai (Lockhart) to the Secretary of State

[Extract]

No. 581

SHANGHAI, June 29, 1941.

SIR:

Summary: Many requests are being received by this Consulate General for assistance in securing export licenses. As there is a tempta-

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811.20 (D) Regulations/3066

811.20 (D) Regulations/3950

80 Not printed.
tion to ask for greater quantities of goods than actually required, to hoard goods rather than put them into production, or to sell at high prevailing prices rather than to process into finished goods, it is difficult to determine the legitimacy of requests. Shanghai has served as a supply base for Germany, Japan, Soviet Russia and for yen-bloc areas such as Manchuria. German demand will now be absent in view of the Russo-German hostilities, which have cut off the forwarding route via Siberia. Japan will remain a taker from the Shanghai market. It is virtually impossible to control the ultimate destination of goods once they get into the open market. The maintenance of a status quo at Shanghai in goods and in exchange is undeniably of aid to Japan but preserves the American, British and loyal Chinese vested position built up over many decades, and possibly staves off more aggressiveness on Japan’s part with regard to the concentration of wealth in the Settlement. Certain British firms seeking American materials have functioned in a highly opportunistic way in adjusting themselves to the Japanese occupation of this region. Export licensing is closely related to the subject of currency stabilization, with America the chief source of Shanghai’s exchange resources whether derived from an exchange stabilization fund or from the open market. This Consulate General is refraining from recommending export licenses in cases where there appears a likelihood of the goods passing into Japanese or other undesired hands or where hoarding or war profiteering motives appear to be behind the requests.

Respectfully yours,

FRANK P. LOCKHART

The Department of State to the Japanese Embassy

MEMORANDUM

The Department of State has received the Japanese Embassy’s memorandum dated June 13, 1941 in relation to the exportation from the Philippine Islands to Japan of certain articles and materials subject to licensing requirement.

With reference to the specific commodities mentioned therein, the Embassy is informed that Manila fiber of the so-called rope grades, copper, chromium and manganese ores and scrap iron are materials required for the national defense, a consideration which is deemed to be of controlling importance in determining their availability for export to foreign destinations.

On the other hand, while it is possible that there may have been certain unavoidable delays incidental to the inauguration of the system of export control in the Philippine Islands, the Embassy should
note that the regulations that have been issued do not impose restrictions upon the issuance of licenses to export iron ore from the Commonwealth to any destination.

WASHINGTON, July 1, 1941.

894.24/1450

The Acting Secretary of State to the Director of the Bureau of the Budget (Smith)

WASHINGTON, July 3, 1941.

My Dear Mr. Smith: The receipt is acknowledged of Mr. Bailey’s letter of June 18, 1941, in which you request my opinion relative to H. J. Res. 189, a resolution “Requesting the President of the United States of America to exercise the powers vested in him under section 6 of Public, Numbered 703, Seventy-sixth Congress, to the end that no further shipments of petroleum or petroleum products shall be made to Japan, and for other purposes”. You enclose a copy of a report which the Secretary of War proposes to submit to the Chairman of the House Committee on Military Affairs in regard to this matter. It is noted that the War Department does not favor enactment of this proposed legislation.

From the standpoint of foreign policy, I urge most strongly that the proposed legislation not be enacted. I entirely concur in the reasons set forth in the report which the Secretary of War proposes to submit to the House Committee on Military Affairs.

Sincerely yours,

Sumner Welles

894.24/1453

The Department of State to the Japanese Embassy

MEMORANDUM

With reference to the memorandum of the Japanese Embassy dated June 18, 1941, in regard to shipments of petroleum products from the Atlantic Coast of the United States, it may be stated for the information of the Embassy that a recent comprehensive survey of petroleum products in the Eastern part of this country by the Petroleum Coordinator for National Defense disclosed a threatened critical shortage of petroleum products in the area referred to. This fact was brought to the attention of the Department of State by the Petroleum Coordinator, and it was found to be necessary to impose restrictions upon exports of petroleum products from the Eastern seaboard in order to meet that threatened shortage.

WASHINGTON, July 10, 1941.

* F. J. Bailey, Assistant Director of the Bureau.

* Not printed.
SANCTIONS AGAINST JAPAN

804.24/1580

The British Minister (Hall) to the Assistant Secretary of State (Acheson)

WASHINGTON, July 10, 1941.

DEAR ACHESON: You were kind enough yesterday to think that my suggestion that some of your officers and ours might examine the problem of oil supplies for Japan was worth further consideration with a view to action. My idea was that perhaps two, or at the most three a side might be asked to examine:

1. Estimates of Japan’s stocks and requirements of oil
2. The effect on her current supplies of the withdrawal of non-Japanese tankers
3. The possible implications of ships warrants and bunker control in reducing by means of indirect pressure supplies of petroleum products reaching Japan.

You referred to Mr. Thornburg, and by a coincidence I met him at dinner the night after our talk. He lunched with me today to meet Mr. Wyndham-White, who knows a good deal about policy with regard to tankers. I told him of our conversation.

I am very anxious that we should keep our administrative arrangements closely in step with one another, and if you agree to go forward with the suggestion I have made, we will be happy to collaborate in any practical way.

Yours sincerely,

NOEL F. HALL

804.24/1513

Memorandum by the Assistant Chief of the Division of Far Eastern Affairs (Adams) 

[WASHINGTON,] July 12, 1941.

Reference attached memorandum of conversation between Mr. A. G. May of the Standard-Vacuum Oil Company and Mr. Hamilton and Mr. Adams.

It is suggested that an officer of FE be authorized to telephone to Mr. May, with charges reversed, along lines as follows:

The problem mentioned by Mr. May in regard to supplying Japanese forces in China with gasoline of not more than 86 octane rating from the Dutch East Indies or from other sources outside the United States does not come within the category of transactions prohibited by American law or regulation. It is understood from conversation which Mr. May had with Mr. Hamilton and Mr. Adams that the

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52 Max W. Thornburg, Special Assistant to the Under Secretary of State.
54 Initiated by the Chief of the Division (Hamilton).
55 Not printed.
Standard-Vacuum Oil Company is inclined to lean toward decision not to supply the aviation gasoline requested by the Japanese forces in China. If the Standard-Vacuum Oil Company should, having in mind all considerations affecting the conduct of its business in the Far East, decide not to undertake to supply the gasoline requested by the Japanese forces the Government of the United States would be well content with that decision. The Department of State appreciates very much the spirit of cordial cooperation which the Standard-Vacuum Oil Company has displayed in placing the question before the Department of State.86

Memorandum of Conversation, by the Acting Secretary of State

[WASHINGTON,] July 14, 1941.

The British Ambassador called to see me this morning at his request.

Lord Halifax took up first the possible steps which might be taken by Great Britain of an economic or financial character in the event that Japan undertook some overt action in the nature of extending her military and naval control over additional territories in the Far East. The possibilities contemplated are set forth in the memorandum attached herewith.87

The Ambassador inquired whether I did not believe that in the event this Government were obliged to take action of that character, as had been discussed between the Ambassador and myself in confidential interviews,88 such action by the United States might not be kept quiet and not publicized. I said that I felt that for practical reasons this was impossible in view of the fact that any steps of this character had to be made immediately available to the trade and to private individuals interested in this country, and the public obviously would get the news at once.

The Ambassador said that he wanted then to suggest that there be some discussions between the two Governments as to the measures which might be taken by us for the purpose of correlating them. I said that I was willing to agree to this provided it were clearly understood that such conversations were purely informal and exploratory and that they would be kept entirely confidential. I said that it therefore seemed to me that such discussions should be centralized in the hands of high officials in whom both Governments had complete

86 Notation by Mr. Adams: "Above information telephoned to Mr. A. G. May on July 15, 1941."
87 Infra.
88 Penciled notation on original: "no record"; but see memorandum by the Acting Secretary of State, July 10, p. 300.
confidence and that consequently I would be glad to ask Dr. Hornbeck to discuss the matter on the basis above mentioned with Dr. Hall, whom the British Ambassador had selected for that purpose.

S[UMNER] W[ELLES]

The British Embassy to the Department of State

The United Kingdom authorities are contemplating the possibility of taking the following measures in the event of a Japanese move in southern Indo-China:

1. Prohibition of Japanese ships loading iron ore, etc. off the coast of Malaya by night. Such measures which it may be necessary to enforce on defence grounds even if no move is made by the Japanese against Indo-China in the near future would, incidentally, greatly reduce the exports to Japan of iron ore from the Japanese mines in Malaya.


3. The closure of the Japanese Consulate General at Singapore. In view of the likelihood of retaliation, it is not contemplated that this step should be adopted at once; the matter is, however, being studied further.

4. Restrictions on exports to Japan.

5. Restrictions on imports from Japan.

[WASHINGTON,] July 14, 1941.

The Ambassador in China (Gauss) to the Secretary of State

CHUNGKING, July 14, 1941—2 p. m.

[Received July 14—12:05 p. m.]

291. Reference Shanghai’s No. 840, July 11, 5 p. m. to the Department regarding Standard-Vacuum Oil Company. The reported improved Japanese attitude toward the Company’s trade with the hinterland is undoubtedly in anticipation that the Company may thus be induced to supply Japanese military needs in China in order to continue hostilities in which the sympathy and aid of the United States has been pledged to China. It is difficult enough now to explain


90 Not printed.
why we permit materials to reach Japan which assist that country in the Sino-Japanese hostilities. I trust that permits will not be issued for the direct delivery of similar commodities in China for Japanese interests.

Sent to the Department, repeated to Peiping and Shanghai.

GAUSS

740.0011 P. W./418

Memorandum of Conversations, by the Adviser on Political Relations (Hornbeck)

[WASHINGTON,] July 16, 1941.

In pursuance of arrangements made between the Under Secretary and the British Ambassador, Mr. Hall called on me yesterday and again today.

Mr. Hall stated yesterday that Mr. Welles had informed Lord Halifax and Lord Halifax had reported to the British Foreign Office that in the event of Japan’s taking overt action in Indochina (of a type envisaged) it was the intention of the American Government immediately to impose comprehensive embargoes on trade with Japan.

Mr. Hall said that his Government raised questions: What would we consider an “overt act”; and what was the full meaning or implication of the concept “comprehensive embargoes”. He also said that his Foreign Office gave indication of some uneasiness in regard to possible repercussions were the American Government’s indicated action to be taken precipitantly and all-comprehensively. But, he said, they wanted to take parallel or similar or identical action themselves, and they would like to coordinate these matters as far as possible.

I said to Mr. Hall that I had not received instruction; that I was not prepared to state what would be considered an overt act or to indicate how immediate or how comprehensive this Government’s action might be. I ventured the personal opinion that the Japanese would try to proceed quietly and without spectacular show or use of force in Indochina; and that any imposition of embargoes by this country would be consummated with care and by orderly steps as has been the case all the way along in our procedure of restricting exports. I suggested that we defer serious discussion on the subject (between Mr. Hall and myself) for twenty-four hours.

When Mr. Hall came in this morning, I said that I had been given light upon and had had opportunity to give thought to the questions

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82 See communication of July 15 from the Navy Department, vol. v, p. 209.
83 See memorandum by the Acting Secretary of State, July 10, p. 300.
and the subject upon which he had approached me yesterday. I mentioned information sent us by the British Ambassador citing a report to the effect that the Japanese had made specific demands upon the French and had set a time limit, July 20, for reply. I expressed doubt whether that date would have any substantial significance as far as indicating that we would in the near future have overt evidence of Japan’s forceful pressure. I referred to the records of Mr. Welles’ statement to Lord Halifax and especially to the informal memorandum which Lord Halifax had left with Mr. Welles on July 14 stating that the United Kingdom authorities are “contemplating the possibility of taking” certain measures indicated in the event of a Japanese movement in southern Indochina. I asked whether Mr. Hall was in position to give us any more specific or precise indication of the British Government’s intentions. I pointed out that renunciation now by the British Government of the Anglo-Japanese commercial treaty would constitute a paralleling of action taken by the American Government two years ago but would not of itself have any substantial effect beyond signifying an attitude on the part of the British Government in line with the attitude indicated by the American Government a long time ago. Mr. Hall indicated concurrence in that view. I then said that in as much as the American Government had given the British Government a categorical statement that we intend to act and that our action will be in a specified direction and of a specified type, it seemed to me desirable that before Mr. Hall and I proceed with a detailed discussion of features or items the British Government give us something paralleling our statement of intention rather than merely tell us that they are “contemplating possibilities”.

I said that the embargoes which we have under consideration are such as an embargo on export of petroleum, an embargo on export of cotton, an embargo on import of silk, and embargoes on other items miscellaneously. By the way of reciprocity, even in the matter of carrying on discussions, I would like, I said, to know what the British have in mind under the headings “Restrictions on exports to Japan” and “Restrictions on imports from Japan”. Mr. Hall said that he thought that this was all very reasonable; that he believed that there were agencies within the British Government which had formulated tentative plans, programs, schedules, et cetera, which could be brought forward in answer to my suggestions; and that he would ask for some indications of what they have expressly in mind. He said that one thing that has to be considered is the “repercussions”. I then gave Mr. Hall an outline of my personal estimate of various possible repercussions in the Far East to this, that or another possible application of economic pressure. Mr. Hall gave indications that his thought on these suggestions closely followed or paralleled mine. He said, how-
ever, that when he had mentioned "repercussions" he meant economic repercussions within the British Empire, and especially within certain of its parts. I said that that, of course, was something that has to be taken into consideration. But, I said, if any action is to be taken, in the event of certain action by the Japanese, it will be necessary, toward having such action have any political effect, to take the action, big or little, with a reasonable degree of promptness: if we are going to discuss matters item by item, if we are going to proceed with an expectation of getting first an agreement between this Government and British Government and second an agreement between the authorities in the United Kingdom and the authorities in the dominions, etcetera, it will be likely to happen that long before these agreements are reached (if ever) the moment for taking the action under consideration will have receded into a distant past. Mr. Hall expressed concurrence.

I said that, we having indicated to the British Government the general line along which we will act, I hoped that the British Embassy would be able to indicate to us with some specifications the general line along which the British Government will expect to act. In the interval, I said, I would do what I could toward getting my own Government to come to conclusions regarding the details of our intended action and I hoped that Mr. Hall would do the same as regarded his Government. Mr. Hall said that he would do so.

I then asked whether Mr. Hall could indicate what he thought his Government might be willing to do were the American Government to state a willingness or intention on its part to put complete embargo on export of petroleum: Would the British Government be willing or be likely to parallel that action? Mr. Hall replied that he surmised that the British Government would wish to make action on its part regarding petroleum contingent upon an understanding that if in consequence thereof the Japanese moved southward, substantial aid would be forthcoming from the United States by way of resistance. I said that this was illustrative of one of the factors of difficulty in formulating and achieving joint plans or common commitments between the British and the American Governments for parallel or concerted action: Somebody is always laying down a condition or a reservation—with the result that discussions become deadlocked or are suspended or peter out, and action which might be taken by either Government or by both is delayed and all too often never eventuates. Mr. Hall indicated hearty concurrence in that observation.

I then said that it seemed to me desirable that his Government make up its mind as to what it can do and what it considers desirable that both do and that Mr. Hall and I compare notes as rapidly as we gather information which can profitably be exchanged. I then gave Mr. Hall an outline of my personal thought, emphasizing that in all that I was
saying I was speaking on my own responsibility and not as committing this Department or this Government, as to the advantages or disadvantages which would be likely to flow from action at this time regarding petroleum. I indicated that in my opinion action regarding silk and regarding cotton and regarding some other commodities, and action regarding freezing of funds, would come in a different category and would have a different set of effects from action regarding petroleum.

As the conversation was drawing to a close, I said that I could give no indication as to when the American Government might act or how comprehensively. But, I said, the American Government has indicated that it has its mind made up in principle and it has shown in what direction it intends to go. The sooner we can have, I said, a similar indication from the British Government, the better. It was then agreed that Mr. Hall and I would continue the discussion at the earliest practicable moment.

This afternoon Mr. Hall, at my request, came in again. I said that there was one point in the memorandum of possibilities which Lord Halifax had left with Mr. Welles that I thought we might try immediately to get some light upon: in the memorandum it was indicated that the British Government might try to cut down on exports of iron ore from Malaya by prohibiting night loading; but, I had now found that the question of a cut down on those exports had been a subject of discussion between the British Embassy and the Department and that the Embassy, in such discussions, had suggested that the British Government might be able to cut the figure from 1,900,000 tons per annum to about 1,600,000 tons per annum; and now, I wonder whether the British Government might not be prepared to say that it could and would do a good deal better than that. I said that so far as I know the only iron that Japan is now obtaining from the United States is the iron ore exports from the Philippine Islands; that we have put those exports on a quota basis, 900,000 tons per annum; that in considering the question of comprehensive embargoes we will have to consider whether we are going to cut down or cut off that export from the Philippines; that, naturally, the question of British intentions regarding their exports from Malaya would have a bearing upon our consideration of that problem and the conclusion which we might reach; and that I would like to have from the British Government whatever Mr. Hall might be able to get from them on that subject. Mr. Hall said that he considered this a reasonable request.

I then said that I would like to have Mr. Hall’s opinion, if he cared to give it, and later the British Government’s opinion as to what the British Government thinks on the subject of freezing Japanese funds, and what the British Government might be willing itself to do in regard to that problem. Mr. Hall said that he himself felt in principle
that it might be a good thing to do; that he would not, without giving
the subject more study and thought than he had had occasion to give
it, wish to commit himself very definitely about it; and that he would
ask his Government for its thought on the subject.

S[TANLEY] K. H[ORNBECK]

894.24/1626

Memorandum of Conversation, by the Adviser on Political Relations
(Hornbeck)

[WASHINGTON,] July 18, 1941.

Mr. Hall called on me at his request in continuation of conversation
begun on July 16. Mr. Hall said that the British Government expec
ted to be very conservative about putting embargoes on foodstuffs
in trade with Japan; that it was giving “further study” to certain
commodities, especially: iron ore, lead, zinc, bauxite, manganese, salt,
mica, fluor spar and copra from New Guinea; and that it was especially
interested in the subject of bunker control in the Pacific.

S[TANLEY] K. H[ORNBECK]

894.24/7-1941

Memorandum by the Adviser on Political Relations (Hornbeck) to the
Under Secretary of State (Welles)

[WASHINGTON,] July 19, 1941.

MR. WELLES: There were three parts to the program of action which
I suggested in my memorandum of yesterday as regarding action to be
taken when Japanese action in and against Indochina becomes obvi-
ous: namely, economic pressures and, simultaneously with the ap-
lication thereof, expedition of additional aid to China and new
disposals of armed forces (especially planes) in the Far East (espe-
cially at Manila). I hope that none of the three will be overlooked
and that all three of these measures will be taken simultaneously.

894.24/1575s

Memorandum by the Adviser on Political Relations (Hornbeck)

[WASHINGTON,] July 19, 1941.

Mr. Welles requests that the necessary papers be prepared for put-
ting into execution:

1. A freezing of Japanese and, simultaneously, of Chinese funds;
2. A prohibition (restriction?) of imports of silk (and other important imports?) from Japan;

3. A lowering of the specification for octane content of gasoline and a reduction in the qualities of lubricating oils export of which to Japan may be licensed and establishing of a quota for exports of petroleum products based on a period in which the exports were not abnormally large.

Mr. Welles said that he would like to have these papers ready by Monday.44

Memorandum by the Adviser on Political Relations (Hornbeck)45

[WASHINGTON,] July 21, 1941.

Under instruction from the Under Secretary, Mr. Hornbeck asked Mr. Hall to call at Mr. Acheson’s office this afternoon; and, Mr. Hall having come, Mr. Acheson informed Mr. Hall of steps which the American Government expects to take vis-à-vis Japan. When Mr. Acheson had concluded, Mr. Hornbeck asked Mr. Hall whether he could inform us what steps the British Government intends to take. Mr. Hall replied that his Government expected to denounce certain commercial treaties; that it expected to “tighten controls” of exports and imports; but he did not know what their intentions were with regard to freezing; and that they would ask the Dutch to get “right into line”. Mr. Acheson asked for details about trade controls and mentioned certain features of our theory and practice. Mr. Hall did not elucidate. Mr. Hall stated that the United Kingdom trade with Japan was no longer important in volume but that the trade of the Dominions and Colonies with Japan was important.

On the whole, what Mr. Hall said was inconclusive and not very comprehensive.

Comment: In the light of this conversation and the preceding recent conversations which I have had with Mr. Hall on the subject of coordination of U. S. and British plans and procedures, I am of the impression that the British Government has rather vague and rather limited intentions as regards economic pressures against Japan, and that the British Government’s chief interests as regards such conversations is to find out what this Government has in contemplation and have itself in position to offer to this Government suggestions or advice.

S[TANLEY] K. H[ORNBECK]

44 July 21.
45 Noted by the Under Secretary of State (Welles).
Memorandum by the Chief of the Division of Far Eastern Affairs
(Hamilton)

[WASHINGTON,] July 22, 1941.

I strongly recommend that the two proposed statements to the press be revised in such a way as to (1) indicate that the additional restrictions on exports of petroleum products are being put into effect because of the defense needs of the United States, and (2) avoid mention of Japan (or Japanese-occupied China).

To mention Japan by name would represent a definitely new departure from the procedure heretofore followed. As long as the same effect can be obtained, I definitely favor proceeding with some finesse. I therefore strongly recommend that the press releases follow the procedure and form used in previous statements to the press, for instance, the statements issued on July 31 and December 10, 1940.

M[AXWELL] M. H[AMILTON]

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The Under Secretary of State (Welles) to President Roosevelt

WASHINGTON, July 22, 1941.

MY DEAR MR. PRESIDENT: With regard to the discussion which took place in Cabinet on July 18 concerning the application of certain embargo measures relating to Japan in the event of some overt action by Japan, I consulted General Marshall regarding the attitude of the War Department towards any restrictions which might be imposed by this Government upon the importation of silk into the United States.

I have today received from the War Department a brief memorandum which I attach herewith for your information and which indicates that the War Department has no objection to the imposition of restrictions upon the importation of silk into this country.

Believe me [etc.]

SUMNER WELLES

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Footnotes:

*6 Foreign Relations, Japan, 1931-1941, vol. ii, pp. 218 and 232. For press release issued on July 25, 1941, see ibid., p. 266. See also telegrams Nos. 457, August 1, 9 p.m., and 458, August 1, 10 p.m., to the Ambassador in Japan, post, p. 851.

*9 General George C. Marshall, Chief of Staff, U. S. A.

*10 Not printed.
The Chief of Naval Operations (Stark) to the Secretary of State

Op-10-MD

WASHINGTON, July 22, 1941.

My Dear Secretary: The enclosed is self-explanatory. I sent it to the President via his aide, Captain Beardall. The President told Captain Beardall that he liked it and asked me to send you a copy. Hence, the within.

I hope you are feeling better and stronger every day.

We miss you very greatly, and all of us look forward to your return. We are still hoping you will not come back until fully restored to health. It is better to be sure than sorry.

With every good wish [etc.]

H. R. Stark

P. S. Admiral Nomura is having lunch with me tomorrow at my house. The President's only suggestion is that I tell Admiral Nomura that it is rather difficult to make our people understand why we cut oil and gas at home and then let Japan have all she wants.

Of course, we understand this, because Japan carries the oil in her own bottoms—and our own shortage in the East is due not to lack of oil and gas at the refineries, but to our inability to transport it from the oil fields to points where needed.

H. R. S.

[Enclosure]

The Chief of Naval Operations (Stark) to President Roosevelt

Op-10-MD

[WASHINGTON,] July 21, 1941.

MEMORANDUM FOR THE PRESIDENT

I think you will be interested in the enclosed.¹

Had I seen Nomura, I think I would have told him exactly what Turner did, and, in fact, have given him this picture before, which is one we have talked over rather frequently in the Department.

I have also told Nomura that were our two nations to clash there could be only one ending, because, regardless of how long it took, once we had started it, the United States would finish it in its own way, etc., etc.

¹ Secretary Hull was in White Sulphur Springs, West Virginia.

² For this enclosure, see memorandum of July 21, from the Director of the War Plans Division of the Navy Department to the Chief of Naval Operations, Foreign Relations, Japan, 1931–1941, vol. II, p. 516.
I propose to make a date with Nomura on Wednesday. I thought possibly you might have something you wanted me to get over.

I feel that Nomura has no heart for the Axis tie-up. In fact, he once said that his lips and his heart might be at variance. It was clearly evident that he had to at least give lip service to the Axis, but that his heart just wasn’t in it.

What he had to say about commodities is also more or less, I believe, in line with your thoughts. I thought the plea you made for peace (I believe it was in September, 1939) was one of the best things I ever heard, particularly where you promised the world to do all you personally could for such distribution of raw materials as would permit all nations of their share, etc., etc. These words meant so much to nations like Japan that they undoubtedly sunk deeply into them. Of course, the picture has changed greatly since then.

You remember your request that we draw up an estimate of what the effect of an embargo of essential raw materials might be on Japan. I turned it over to Kelly Turner, head of the War Plans Division, and, upon inquiry, find that he has it completed, except for the import tables which will probably be ready tomorrow and which I will send over by Jack then. However, the report does not really need the import tables to be understandable. I thought it might be of interest to you in connection with Nomura’s visit.

I ran up home Saturday afternoon, so I missed Nomura on Sunday.

I think the reason for Nomura’s dealing with us is that he is used, as all Naval officers are, to direct speaking, and I think at times he gets downright lonesome. His friendship for the American Navy is of long standing and beyond question.

(Signed) BETTY

[Subenclosure]

The Director of the War Plans Division of the Navy Department (Turner) to the Chief of Naval Operations (Stark)


Subject: Study of the effect of an embargo of trade between the United States and Japan.

Enclosures:

*July 23.

*It is not clear which peace appeal was meant. President Roosevelt’s appeal to Chancellor Hitler of Germany and Benito Mussolini as Chief of the Italian Government, on April 14, 1939, expressed the willingness of the United States to enter into discussions for opening up trade opportunities to every nation. See Foreign Relations, 1939, vol. I, p. 130.

*None printed.
(A) Copy of the following tables:
(1) Exports to Japan—December 1940 through May 1941.
(2) Exports from Hawaii to Japan—December 1940 through May 1941.
(3) Exports from the Philippines to Japan—December 1940 through May 1941.

(B) Copy of the following tables:
(1) Imports from Japan—December 1940 through May 1941.
(2) Imports from Japan to Hawaii—December 1940 through May 1941.
(3) Imports from Japan to the Philippines—December 1940 through May 1941.

1. Purpose.

The purpose of this study is to determine the effect that would be produced by the enforcement of an absolute or partial embargo on trade between the United States and Japan. Detailed consideration has not here been given to the trade between Japan and the Philippines.

2. United States Exports to Japan in 1940.

United States exports to Japan in 1940 were valued at $227,000,000, a decline of $5,000,000 from 1939, and of $13,000,000 from 1938. During the first ten months of 1940 the value of exports advanced, due to higher commodity prices and Japan’s increased demand for American products as a result of enforced curtailment of her purchases from Europe. However, sharp recessions in export trade during the last two months of 1940, occasioned in part by the application of export license control to certain products, wiped out earlier gains. In November and December, particularly sharp declines were registered in machine tools, ferro-alloys, and refined copper, while scrap iron exports were practically negligible.


(a) United States exports to Japan during the first five months of 1941 were valued at $47,000,000 as compared with $91,500,000 for the same period of 1940. During the current year, trade has declined steadily from $11,336,000 in January to $6,594,000 in May (see Enclosure (A)).

(b) The principal factor affecting exports to Japan during the past year has been the progressively restrictive effect of export control measures. The virtual disappearance from the trade in 1941 of iron and steel products and of metal working machinery, which together accounted for shipments valued at $67,000,000 in 1940, was the direct result of an embargo on shipments of these commodities to Japan. The sharp drop in Japanese purchases of raw cotton, during 1940, however, was the result of other influences.
(c) (1) During 1939, Japan purchased American raw cotton valued at $42,500,000, while in 1940 her purchases amounted to only $29,500,000. This drop was due to the large quantity of piece goods then on hand in Japan, the relatively high price of American cotton compared to that of India and of Latin America, and shipping requirements for items needed more urgently. In November 1940 American exports of raw cotton were valued at only $157,000; they have risen steadily since then, reaching $881,000 in May 1941.

(2) Declines in luxury items, including automobiles, are due to a decline in purchasing power in Japan and to Japanese action in placing restrictions on the importation and use of these items, rather than to United States export restrictions.

(d) Petroleum exports during 1940 increased by $9,300,000 dollars, or 21%, over the figure for 1939. Exports for the first five months of 1941 were valued at $27,200,000, or 50% of the total for the entire year 1940. This is contrary to the general trend of exports.

(e) Sharp reductions in available ship tonnage have contributed to the fall in exports. Due to withdrawals from trade of additional vessels, future exports to Japan will be even less, regardless of export restrictions.

4. Imports from Japan.

(a) Imports from Japan to the United States during 1939 were $161,000,000 and in 1940, $158,000,000. For the first four months of 1941, imports amounted to $40,000,000, a decline of only $8,200,000 from the same period in 1940; this compares with a decline in our exports of $37,300,000. Our exports to Japan exceeded our imports from that country, during the period 1 January to 30 April, 1941, by only about $500,000, much less than usual. One result of the system of export control is thus seen to be the arrival at a balance between exports and imports. This fact permits Japan to pay in kind for all goods sent to her from this country, and a continuation of the present trend may soon make her our creditor.

(b) The following table shows items of imports valued at more than $1,000,000 during 1940:

<table>
<thead>
<tr>
<th>Item</th>
<th>Value of 1940 Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crabmeat</td>
<td>$3,269,000</td>
</tr>
<tr>
<td>Tea</td>
<td>3,190,000</td>
</tr>
<tr>
<td>Cotton cloth, bleached</td>
<td>2,263,000</td>
</tr>
<tr>
<td>Raw silk</td>
<td>105,311,000</td>
</tr>
<tr>
<td>Silk fabric, except pile</td>
<td>1,661,000</td>
</tr>
<tr>
<td>Hats, bonnets, and hoods</td>
<td>1,143,000</td>
</tr>
<tr>
<td>China and porcelain ware</td>
<td>2,423,000</td>
</tr>
<tr>
<td>Earthen and stoneware</td>
<td>1,096,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$120,356,000</strong></td>
</tr>
</tbody>
</table>
These eight items account for 76% of our imports and indicate where curtailment might start if it is decided to take steps to reduce Japan’s markets.

5. Effect of Further Restrictions on Exports.

(a) The most important fields for exercising further restrictions on exports are petroleum products and raw cotton, which accounted for 74% and 13%, respectively, of the trade in May, 1941.

(b) It is generally believed that shutting off the American supply of petroleum will lead promptly to an invasion of the Netherlands East Indies. While probable, this is not necessarily a sure immediate result. Japan doubtless knows that wells and machinery probably would be destroyed. If then engaged in war in Siberia, the necessary force for southward adventures might not be immediately available. Furthermore, Japan has oil stocks for about eighteen months’ war operations. Export restrictions of oil by the United States should be accompanied by similar restrictions by the British and Dutch.

(c) Restrictions on the export of raw cotton would probably be serious for Japan only if India, Peru, and Brazil should apply the same restrictions. Cotton stocks in Japan are believed to be rather low at present.

(d) It will, of course, be recognized that an embargo on exports will automatically stop imports from Japan.

(e) An embargo on exports will have an immediate severe psychological reaction in Japan against the United States. It is almost certain to intensify the determination of those now in power to continue their present course. Furthermore, it seems certain that, if Japan should then take military measures against the British and Dutch, she would also include military action against the Philippines, which would immediately involve us in a Pacific war. Whether or not such action will be taken immediately will doubtless depend on Japan’s situation at that time with respect to Siberia.

(f) Additional export restrictions would hamper Japan’s war effort, but not to a very large extent since present restrictions are accomplishing the same result, except with regard to oil, raw cotton and wood pulp. Thus, the economic weapon against Japan has largely been lost, and the effect of complete embargo would be not very great from a practical standpoint.


(a) As previously mentioned, exports and imports are approaching a balance. If exports cease, imports will also cease, as Japan would not have the means to continue her purchases. The same effect would be produced if we stopped buying from Japan, but attempted to continue our exports.
(b) In 1940, raw silk formed 67% of United States imports from Japan. Silk is processed here. It is used in industry and for certain munitions, particularly powderbags. The armed services have large stocks of raw silk, and could get along without further imports, though silk substitutes are not entirely satisfactory. Doubtless industry could manage without silk, although the lack of it would cause a considerable dislocation of labor now employed in the industry. The effect of stopping the purchase of silk would also have an adverse psychological reaction on the part of Japan, though possibly not so great as would an export embargo.

(c) Stopping other imports from Japan would not cause any great hardship in the United States, although the general effect on industry would be adverse.

7. Conclusions.

(a) Present export restrictions, plus reductions of available shipp tonnage for use in Japanese trade have greatly curtailed both exports and imports.

(b) The effect of an embargo would hamper future Japanese war effort, though not immediately, and not decisively.

(c) An embargo would probably result in a fairly early attack by Japan on Malaya and the Netherlands East Indies, and possibly would involve the United States in early war in the Pacific. If war in the Pacific is to be accepted by the United States, actions leading up to it should, if practicable, be postponed until Japan is engaged in a war in Siberia. It may well be that Japan has decided against an early attack on the British and Dutch, but has decided to occupy Indo-China and to strengthen her position there, also to attack the Russians in Siberia. Should this prove to be the case, it seems probable that the United States could engage in war in the Atlantic, and that Japan would not intervene for the time being, even against the British.

8. Recommendation.

That trade with Japan not be embargoed at this time.\(^5\)

R. K. Turner

894.24/14981

The Chief of Naval Operations (Stark) to the Under Secretary of State (Welles)

WASHINGTON, 22 July, 1941.

DEAR MR. WELLES: The latter part of last week the President asked my reaction to an embargo on a number of commodities to Japan. I

\(^5\) Admiral Stark approved: “I concur in general—Is this the kind of picture you wanted?”
expressed the same thought to him which I have expressed to you and to Mr. Hull regarding oil, but as to the subject in general I would be glad to have War Plans Division make a quick study. This study was finished yesterday. I sent it to the President and told his Aide I should also like to send you a copy. The President expressed himself as pleased with it and asked me to send a copy to Mr. Hull, which I have done; and to talk it over with you.

Will you send for me at your convenience?

Sincerely,

H. R. STARK

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Memorandum of Conversation, by the Assistant Secretary of State (Acheson)

[WASHINGTON,] July 23, 1941.

Mr. Butler and Mr. Hall called on me at their request. Mr. Hall stated that the Embassy had received a telegram from London regarding the economic measures which they expected to put into effect against Japan and stated that the British Government had recommended to the Dominions that a full freezing of Japanese and Chinese assets should be instituted. The Government was still awaiting replies from the Dominions but Mr. Hall had no doubt that assent would be given. He said that the British Government had taken up with the Netherlands Government, the Belgian Congo, the Free French authorities the matter of instituting similar action.

I asked whether, as administered by the British, freezing control would carry with it control over exports and imports, and he said that it would. I asked on what basis the British would be prepared to permit exports and imports. He replied that he had understood from my earlier conversation with him that we were considering specific licenses for exports to equal strategic materials which it might be necessary for us to obtain from Japan, and that he understood that the British Government would be prepared to operate on the same basis. He also understood from me that it was our intention at the outset not to disturb the existing export controls from the Philippines and that it would be the British intention to adopt the same principle so far as Malaya was concerned.

In accordance with instructions from the Acting Secretary, I stated to Mr. Hall that the exact situation in Indo China was still not clear to this Government, and that the time table for putting restrictions into effect by this Government and the order and extent of the restrictions would depend upon the facts as they developed. I warned him

* Dated July 19, p. 836.
that my prior conversation with him was not to be interpreted as meaning that this Government would put all the controls into effect simultaneously or immediately, but that we would give him ample notice before taking any action and would inform him of the action proposed to be taken. He said that he would appreciate this very much since this would give an opportunity for the British Government to communicate with the Dominions.

Mr. Butler asked me whether the conference between Mr. Welles and the British Ambassador had thrown any new light on the situation. I said that Mr. Welles had informed me that it had not; that Mr. Welles would make an appointment to discuss the matter with Mr. Butler on Thursday, July 24.

DEAN ACHESON

811.20 (D) Regulations/3783a: Telegram

The Acting Secretary of State to the Consul General at Shanghai
(Lochhart)

WASHINGTON, July 23, 1941.

461. The Department on the recommendation of the British Purchasing Commission has recently issued export licenses authorizing shipments to British companies in Shanghai. This action was taken after explanation by the Commission that the issuance of licenses had been recommended by the British Embassy in Shanghai. The Department has, however, now reached an understanding with the Commission that no action will be taken henceforth on such applications unless your favorable recommendation has been received. It is understood that the British Embassy here will request the British Embassy in Shanghai to request you to recommend favorable action in cases which it approves.

WELLES

894.5151/245: Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, July 26, 1941—5 p. m.
[Received July 26—9:45 a. m.]

1096. During past several days officials from Ministry of Finance have visited American firms in Tokyo and demanded full and complete reports on all business and financial transactions, including details of bank balances, reserves and property holdings. Submission of these reports was demanded by July 25. Demands were also made for a detailed report on all personal property held by American in-
individuals to be submitted by July 31. Apparently this procedure was
initiated as prelude to the freezing of America's credits in Japan as
a retaliatory step against the anticipated freezing of Japanese credits
by the United States.\textsuperscript{7}

\textbf{Grew}

\textit{741.942/54: Telegram}

\textbf{The Ambassador in Japan (Grew) to the Secretary of State}

Tokyo, July 26, 1941—9 p. m.
[Received July 26—1:47 p. m.]

1100. In a note handed to the Japanese Foreign Minister this after-
noon the British Ambassador served notice of the termination of the
Treaty of Commerce and Navigation of April 3, 1911, between Japan
and Great Britain,\textsuperscript{8} and of the conventions regarding commercial
relations and trade and commerce between India, Burma and Japan
of July 12, 1934, and June 7, 1937, respectively,\textsuperscript{9} on the grounds that
these instruments can no longer be regarded as fulfilling the objects
which the British, Indian and Burman Governments had in view at
the time of their conclusion. The note states that in accordance with
the terms of the treaty and conventions the Treaty of Commerce and
Navigation with Great Britain will expire 1 year and the conventions
6 months from today's date.\textsuperscript{10}

\textbf{Grew}

\textit{894.5161/247: Telegram}

\textbf{The Ambassador in Japan (Grew) to the Secretary of State}

Tokyo, July 28, 1941—11 p. m.
[Received July 28—11:48 a. m.]

1111. Embassy's 1108, July 28, 8 p. m.,\textsuperscript{11} numbered paragraph 4.
The attention of the Department is called to the fact that, whereas
the American Government's order freezing Japanese assets restricts
monthly expenditures of Japanese nationals to $500, the Japanese
ordinance provides for a sum of only 500 yen.

\textbf{Grew}

\textsuperscript{7} See press release of July 25 and Executive Order No. 8832, July 26, \textit{Foreign

\textsuperscript{8} \textit{British and Foreign State Papers}, vol. clv, p. 159.


\textsuperscript{10} Text of note transmitted to the Department by Ambassador Grew in his
despach No. 5769, August 4; received October 2.

\textsuperscript{11} Not printed.
Memorandum by the Acting Secretary of State

[WASHINGTON,] July 28, 1941.

The British Ambassador called to see me this morning upon his return from two weeks in California.

The Ambassador left with me the brief memorandum attached herewith suggesting that British and U. S. authorities advise their bunkering firms on the East Coast of South America to delay the furnishing of fuel to the Japanese ships now proceeding around Cape Horn to Japan. I said that this matter would be given immediate consideration.

S[UMNER] W[ELLES]

Memorandum by Mr. George F. Luthringer of the Office of the Adviser on International Economic Affairs

[WASHINGTON,] July 30, 1941.

SUGGESTED POLICY WITH RESPECT TO THE CONTROL OF UNITED STATES-JAPANESE AND PHILIPPINE-JAPANESE TRADE UNDER EXECUTIVE ORDER NO. 8389, AS AMENDED

I

THE IMMEDIATE FUTURE (APPROXIMATELY THE NEXT TWO WEEKS)

A. United States-Japanese Trade

During this period it is suggested that pending future developments in Japanese foreign policy no indication should be made of this Government's general policy in the administration of the freezing control with respect to Japan. During this period no license applications will be granted for exports to or imports from Japan. Inquirers will be told to file applications, but such applications will be held without action during this period. Such a policy will doubtless lead to the conclusion that the control is to be applied strictly to Japan. This period, however, will afford an opportunity to coordi-

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12 Not printed.
13 In a separate memorandum, Mr. Welles recorded that he gave the British Ambassador information in regard to telegraphic reports from Ambassador Grew and also "statements made to the Japanese Ambassador in Washington during the past week by the President and by myself." (740.0011 P. W./458)
14 In submitting his memorandum to the Assistant Secretary of State (Acheson) for approval, Mr. Luthringer on July 30 described it as an attempt "to embody the suggestions which you made following the meeting of the Interdepartmental Policy Committee yesterday evening."
15 C Federal Register 2897.
nate the policies of the various friendly governments which have also applied freezing control to Japan.

During this period Japanese ships should be allowed to refuel, re-provision and clear from American ports but no indication will be given as to the treatment of applications relating to the disposition of their cargoes.

B. Philippine-Japanese Trade

Because of General License No. 64 the Philippines can continue to import from Japan without the necessity for applying for specific licenses for each transaction. To the extent that merchants in the Philippines wish to import from Japan, and the Japanese wish to export, this trade will presumably continue. Philippine exports to Japan, however, are subject not only to freezing control but also to export control. It is proposed during this period to deny or keep pending applications for export licenses for commodities requiring such licenses. Presumably the Philippines will continue to export commodities which do not require a license and for which the Japanese will provide shipping facilities. Shipping difficulties may, however, reduce such trade to a minimum.

II

INTERMEDIATE PERIOD (THE FOLLOWING TWO MONTHS)

A. United States-Japanese Trade

This will be a trial period during which a cautious attitude will be taken with respect to trade with Japan but during which no general policy will be announced with regard to the control. The duration of this period is of course uncertain and will depend upon general political developments in the Far East. It is contemplated that during this period there will be a limited export and import trade with Japan on the basis of specific license applications. Presumably the chief import from Japan which will be licensed will be silk. Specific license applications will also be granted for limited quantities of exports to Japan roughly equivalent in value to imports from that country.

During this period a limited amount of petroleum exports to Japan will be permitted. Applications for licenses for such exports would require a full description of the product proposed to be shipped. Applications for exports of gasoline above any specified octane rating and high-grade lubricating oils would be denied. Applications would be approved, however, for other petroleum products in quantities based on 1935–36 average shipments. Presumably, applications would be freely approved for export of cotton or other products of which there is a surplus.
B. Philippine-Japanese Trade

Presumably, Philippine imports from Japan will continue to be carried out in large part under the General License although a few specific license applications might be approved. During this period there would be some relaxation with regard to the issuance of licenses permitting the export of commodities subject to export control (e.g., iron ore and coconuts oil). Exports of such controlled commodities would be limited in quantity, however, presumably on a pro rata basis of 1935–36 average shipments.

III

FINAL PERIOD ASSUMING THAT POLITICAL CONDITIONS MAKE DESIRABLE AN EXPANDED BUT CONTROLLED TRADE WITH JAPAN

Under this general assumption trade with Japan could probably best be handled under some sort of a clearing arrangement under which proceeds of imports from Japan would be credited to special accounts which would be available for purchasing American exports. A similar arrangement could be put into effect between Japan and the Philippines. The quantities and composition of American and Philippine exports to Japan would presumably be based on some relation to Japanese peace-time needs. These arrangements might also be conditioned in part on an agreement of the Japanese to devote a certain amount of shipping to trade between the United States and the Philippines.

IV

Some mechanism should be established at once for coordinating the various freezing and other controls of the British, Canadian, Australian and Netherlands Governments with the policies of the United States Government. To a large degree it would appear that effective United States policy is dependent upon close coordination with the policies of the Governments mentioned. This is particularly the case with respect to shipments of such commodities as petroleum products and iron ore.

811.20 (D) Regulations/3968a

The Under Secretary of State (Welles) to President Roosevelt

WASHINGTON, July 31, 1941.

MY DEAR MR. PRESIDENT: A few applications to license exports from the United States to Japan have been made under the Japanese

President Roosevelt approved the recommendations, with the notation: "SW OK. FDR".
freezing order. A few inquiries have been made regarding imports from Japan. For the time being, the Foreign Funds Control Committee is holding these applications without action. It seems desirable that the Committee and also the export control authorities be given instructions as to the policy which you desire it to follow. I submit for your consideration the following statement of policy.

1. Exports to Japan. Many categories of exports are already forbidden by the export control regulations. It is recommended that the Foreign Funds Control Committee deny all applications for:

All articles the exportation of which is now prohibited by the existing export controls and such of the following products (or grades or types) as are not already prohibited by those controls:

Wood pulp;
Metals and manufactures;
Machinery and vehicles;
Rubber and manufactures;
Chemicals and related products except certain products such as some pharmaceutical preparations, et cetera, to be specified after further study.

The above list includes all commodities in which there is any substantial trade except cotton and petroleum products (the latter being dealt with below). In none of the items in the list is there any large export at present. Raw cotton exports have averaged about $600,000 per month in the first six months of 1941 as against slightly over $4,000,000 per month average in 1938.

It is recommended also that action similar to that outlined above be taken at once by the export control administration, so that its action may conform to action taken under the freezing order.

2. Imports from Japan. It is recommended that no licenses be granted for importation of silk or silk products. The military authorities inform me that they have no need for further silk imports. Should that situation alter, policy can be changed immediately to meet such an altered situation.

It is also recommended that purchase of gold from Japan be discontinued.

It is doubtful whether application will be made for any substantial imports from Japan other than silk. Should such applications be made, it is recommended that they be acted upon depending upon the estimated need for the products involved in the United States. Proceeds from such imports, if any, can be made available for the payment of such exports as are permitted.

3. Petroleum Products. It is recommended that action here issue from the export control authorities on the basis of national defense needs. The action recommended is the issuance of appropriate direc-
tives and the revocation of outstanding specific and general licenses to prohibit the exportation, except to the British Empire, the Western Hemisphere and to nations resisting aggression, of

Gasoline above a specified quality and beyond a specified quantity (normal 1935-36 amount);
Lubricating oils above a specified quality and beyond a specified quantity (normal 1935-36 amount);
Other petroleum products above a specified quality and beyond a specified amount (normal 1935-36 amount).

(Specifications to be such as will preclude shipment of gasoline or oils capable of use for aviation gasoline and the high grade raw stocks suitable for their manufacture.)

The Foreign Funds Control Committee will continue to hold without action applications relating to petroleum exports from the United States and subsequently grant licenses under the freezing order only in accordance with the policy to be initiated by export control.

Believe me [etc.]  

SUMNER WELLES

894.24/1587

Memorandum by Miss Ruth Bacon of the Division of Far Eastern Affairs 17

[Extract]

[WASHINGTON,] July 31, 1941.

CONCLUSIONS

The decisions taken in this Department upon the course of action to be followed with respect to oil shipments to Japan have been related necessarily to developments in the Far Eastern situation and to this Government’s general policy with regard to that situation. Among the factors determining the Department’s decisions upon the question of oil shipments to Japan have been the state of public opinion in this country, which on the whole has ardently desired non-involvement by this country in any hostilities and which was slow in overcoming an aversion to measures in the nature of sanctions; and the unwillingness of other oil producing countries to cooperate in an oil embargo against Japan unless this Government would give a guarantee of military assistance in case difficulties with Japan should result. With the outbreak of the European war the question of oil shipments to Japan became only one factor in the general

17 Initialed by the Chief of the Division (Hamilton); seen by the Secretary of State.
strategic situation. Our military and naval authorities advised that this Government was not prepared for war on the Atlantic and the Pacific simultaneously and that action likely to precipitate trouble in the Far East should therefore be avoided. The gaining of time to prepare became a paramount consideration which affected this Government's policy toward oil shipments, not because it was felt that an embargo upon oil shipments would lead to an attack by Japan upon the United States, but because an embargo would tend to lead Japan to use duress or military force against British or Netherland possessions in the Far East. It has been felt that such a result would have been prejudicial to the cause to which we were committed and to the progress of this country's rearmament program, and might result in war between the United States and Japan.

Additional considerations weighing against the cutting off of all oil supplies to Japan have been the desire not to impel Japan, or to give Japan an excuse, to move against the Netherlands Indies while they were helpless after the occupation of the Netherlands by Germany, and the desire not to prejudice the ability of the Netherlands Indies to hold their own in the discussions relating to the oil shipments sought by a Japanese economic delegation in the Netherlands Indies. This Government also wished to give an opportunity for the full consideration of a proposal put forward by the Japanese Ambassador here with a view to bringing peace in the Pacific area.18

Although all oil shipments to Japan from the United States were not cut off, shipments of "aviation" gasoline were stopped in the interests of national defense and shipments of other petroleum products were permitted only under license.

During the two years of time which have thus far been gained, this Department has urged that the defenses of the United States in the Pacific be increased and that the British and Netherland Governments be encouraged to increase their Far Eastern defenses. The strategic position of the United States with regard to the Pacific has been strengthened month by month through the progress of its rearmament and naval expansion programs; through the building up of the defenses of the Philippines, Guam and Samoa; and through the reinforcement with American encouragement and assistance of the defenses of Singapore and other British possessions in the Far East and of the Netherlands East Indies. This Government, moreover, has extended material, financial, technical and moral assistance to the Chinese Government; in recent months this Government's determina-

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18 See document presented to the Department on April 9, 1941, Foreign Relations, Japan, 1931-1941, vol. 1, p. 398; see also memorandum by the Secretary of State, April 14, 1941, ibid., pp. 402, 403.
tion to assist China has been emphasized through the extension of aid under the "Lend-Lease" Act. With the conclusion of the Three Power Pact,\textsuperscript{19} moreover, opinion in this country hardened with regard to Japan so that support could be found for measures such as, ultimately, the freezing of Japanese assets in this country. Meantime although Japan has been receiving substantial shipments of certain types of oil from the United States, Japan's economic position and Japanese morale have been drained by two more years of hostilities in China. Japan's position has also been adversely affected by the outbreak of hostilities between Germany and the Soviet Union, which has confronted Japan with the prospect that if hostilities should develop in the Pacific as a consequence of Japanese acts, Japan would be open to attack from all sides, and which has made Japan less likely for the time being to react to the imposition of an oil embargo by promptly moving against the Netherlands East Indies.


\textsuperscript{20} In telegram dated August 11 to the Collector of Customs at Los Angeles, the Secretary of State reported issuance of licenses for certain petroleum products to Japan and authorized their export, "subject, of course, to the receipt of appropriate licenses issued by the Treasury Department under Executive Order 8389 as amended."
WASHINGTON, August 1, 1941—9 p. m.

457. The White House has issued the following press release:

"It was announced today that the President has directed the Administrator of Export Control to initiate further regulation in respect to the export of petroleum products in the interest of the national defense.

The action will have two immediate effects. It will prohibit the exportation of motor fuels and oils suitable for use in aircraft and of certain raw stocks from which such products are derived to destinations other than the Western Hemisphere, the British Empire and the unoccupied territories of other countries engaged in resisting aggression. It will also limit the exportation of other petroleum products, except to the destinations referred to above, to usual or pre-war quantities and provide for the pro rata issuance of licenses on that basis."

Welles

WASHINGTON, August 1, 1941—10 p. m.

458. The Department has issued the following press release:

"There have been revoked today all valid licenses authorizing the exportation of petroleum products to countries other than the following: countries of the Western Hemisphere, the British Empire, and the unoccupied territories of other countries resisting aggression. The holders of these licenses have been informed that, if they wish to resubmit applications for licenses, these applications would be promptly considered in accordance with the policy set forth in the statement issued by the President today concerning the exportation of petroleum products.

Pending applications for licenses to export petroleum products to countries other than those referred to above were returned to the applicants with the same suggestion.

General license No. GEH, issued by the Secretary of State on June 20, authorizing the exportation from those ports located on any coast of the United States except the Atlantic Coast of certain petroleum products, has been revoked in respect to shipments to countries other than those referred to above. Exports to such countries will be permitted upon the issuance of individual licenses in accordance with the policy set forth in the President's statement."

Welles
Memorandum of Conversation, by the Acting Secretary of State

[WASHINGTON,] August 2, 1941.

The Japanese Ambassador called to see me this afternoon at his urgent request.

The Ambassador said that he was informed by the Nippon Yusen Kaisha, the owner of the steamship Tatuta Maru now in San Francisco, that the only way in which the vessel could clear from San Francisco promptly because of the libels and attachments against the vessel and its cargo was for a bond to be placed by the shipping company to cover the amount represented in these attachments. The Ambassador asked if I would be good enough to assist in the matter.

I said to the Ambassador that 48 hours ago through Mr. Acheson I had requested that the Treasury Department make available from the blocked funds an amount sufficient to make it possible to post bond, should that be possible, in order to permit this vessel to clear. I said that I felt sure, therefore, that the Treasury Department would take action immediately in this sense as soon as it was requested to do so.

The Ambassador expressed great appreciation.

S[UMNER] W[ELLES]

The Japanese Embassy to the Department of State 22

The Japanese Government has been obliged to order all America-bound passenger ships now at sea to cancel their call at United States ports in view of the danger of their cargoes being frozen upon unloading and the present circumstances that render it impossible to reload them because of the claims by the consignees of the cargoes and other obstacles.

This suspension of shipping is of course temporary. The Japanese Government is prepared to order the resumption of service as soon as an arrangement is reached to permit the continuance of trade under the present conditions between Japan and America and to facilitate the exchange of goods upon specified conditions.

[WASHINGTON,] August 5, 1941.

22 Handed to the Secretary of State by the Japanese Ambassador on August 6. This aide-mémoire was brought to the attention of the Assistant Secretary of State (Acheson), who expressed the opinion that no action should be taken at that time and that, in view of the strong attitude of the Japanese and of the absence of some indication of a desire to be helpful, the Department of State should maintain a strong attitude.
The Secretary of State to the Japanese Ambassador (Nomura)

The Secretary of State presents his compliments to His Excellency the Japanese Ambassador and refers to his note no. 205 of July 22, 1941 requesting to be informed whether the proposed visit of the Japanese naval transport Shiriya to Los Angeles from August 9 to 14, 1941 for the purpose of taking on crude petroleum would be agreeable to the United States Government.

The Secretary of State takes pleasure in informing the Japanese Ambassador that the visit of the Shiriya and the landing of the crew is agreeable to the United States Government but points out that under Executive Order 8899, as amended, the taking on of crude petroleum by the Shiriya is permissible only if a license pursuant to the said Executive Order has been obtained from the Treasury Department and an export license pursuant to the Export Control Act of July 2, 1940 has been obtained from the Department of State. Applications for such licenses are to be filed with the Treasury Department and the Department of State, respectively, and are dealt with in accordance with the policies of the Government of the United States and the merits of each individual application.

WASHINGTON, August 6, 1941.

The Treasury Department to the Department of State

[WASHINGTON,] August 7, 1941.

Re: Exports to Japan (including Manchuria)

1. The procedure described below is to be followed in handling applications involving exports to Japan:

A. Merchandise (except petroleum products, tetraethyl lead, or certain pharmaceuticals) the exportation of which is subject to export controls. Foreign Funds Control will deny.

B. The following categories of merchandise, whether or not subject to export control: (1) Wood Pulp, (2) Metals and Manufactures, (3) Machinery and Vehicles, (4) Rubber and Manufactures, (5) Chemicals and Related Products (except certain products, such as pharmaceutical preparations, etc., to be specified after further study; to be used for pharmaceutical purposes in Japan). Foreign Funds Control will deny.

C. Petroleum Products and tetraethyl lead. Foreign Funds Control will deny except where an export license has been issued.

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2. Not printed.
D. Cotton. There are pending before the Foreign Funds Control 10 applications covering the export of 37,500 bales of cotton to Japan, the value of which is approximately $2,000,000. It is stated in the letter addressed by the Under Secretary of State to the President under date of July 31, 1941, that raw cotton exports to Japan have averaged about $600,000 per month in the first six months of 1941, as against slightly over $4,000,000 per month average in 1938. A memorandum is being prepared by the Treasury Department discussing exports of cotton to Japan and making recommendations with respect to the licensing thereof. No action is being taken by the Foreign Funds Control with respect to the pending applications referred to above until a decision is reached as to what quantities of cotton are to be licensed, on a monthly or other basis, for export to Japan.

E. All other merchandise. There are pending before the Foreign Funds Control 15 applications covering the export to Japan of merchandise not included in the above categories. The total value of such merchandise is $167,000. Such merchandise consists of fur waste and cuttings, pencil slats, fir lumber and spruce logs, and airplane spruce. The Treasury Department is preparing a memorandum with respect to the treatment to be accorded applications of this type. Some of such merchandise, for example airplane spruce, although not subject to export control, may have a strategic value to Japan. No action will be taken on cases in category E pending a policy determination.

2. A memorandum is being prepared in the Treasury Department indicating the amounts of unblocked funds available to Japan for purchases in this Hemisphere, and discussing whether licenses issued under the freezing order covering exports to Japan should permit any payment from blocked Japanese accounts so long as it appears that unblocked funds are available to finance such transactions.

3. Attention is directed to the fact that the Foreign Funds Control is holding without action a group of applications involving exports from Latin America to Japan, to be financed by means of debits to blocked Japanese accounts in the United States. A list of some of the pending applications has been furnished to the State Department. No action will be taken on cases in this category pending a policy determination.

4. It should be noted that the following general licenses have been issued on the freezing control order:

(a) General License No. 56 relating to trade between the United States and any part of China other than Manchuria.

(b) General License No. 64 relating to trade between the Philippine Islands and China, and trade between the Philippine Islands and Japan.

It should be noted that insofar as Foreign Funds Control is concerned, merchandise may be exported pursuant to the terms and conditions
of the above General Licenses, and accordingly will not require individual licenses from the Treasury Department.

840.51 Frozen Credits/2901a : Telegram

The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, August 7, 1941—6 p. m.

478. The Department desires that you call at the Japanese Foreign Office and leave an aide-mémoire reading substantially as follows:

"With reference to Executive Order 8389, as amended, which, among other things, prohibits banks and banking institutions from making transfers of credits or permitting withdrawals from accounts in which Japan or nationals thereof have an interest, except under licenses and regulations issued by the Secretary of the Treasury, the following procedure is provided in order that appropriate consideration may be given for the issuance of requisite licenses permitting the Japanese Government to withdraw funds for the maintenance of its diplomatic, consular, and other official establishments in the United States and permitting the official personnel of such establishments to withdraw funds for living and traveling expenses in the United States. The procedure outlined below is conditioned upon the Japanese Government according reciprocal treatment.

A. In order that appropriate consideration may be given to the issuance of the aforementioned licenses, the Japanese Government is requested to furnish this Government with a list of the various official accounts of the official Japanese representation in Washington, whether in the name of the representation, any individual, or otherwise, indicating the name of the account, the name and address of the bank in which each such account is maintained, the names, addresses, and official positions of the persons having signing authority over the account, the nature of the payments customarily made from the account, and the nature, purpose, and amount of the monthly payments which it is desired to make from each account. The Japanese Government is also requested to furnish this Government with information as to how it is proposed to replenish such accounts, indicating the source of the funds to be used in replenishing such accounts, and the amount of funds which it is desired to transfer to each such account monthly. The Japanese Government is requested, moreover, to furnish assurances to this Government that any payments which may be licensed from such accounts will be made solely for the official expenditures of the Japanese representation in the United States. Banks maintaining these accounts will be required to make appropriate reports to the Treasury Department.

B. Information and assurances similar to those requested in Paragraph A above should be furnished by the Japanese Government with respect to each account maintained by the Japanese Consulates and Consulates General in the United States, as well as by all other official establishments maintained by the Japanese Government in the United States.

* * * Federal Register 2807."
C. The Japanese Government is requested to furnish this Government with a list of the personnel of the official Japanese representation in Washington, as well as a list of the personnel of the Japanese Consulates, Consulates General, and other official establishments in the United States, indicating in each case the name of the personal account or accounts maintained by each such person and the name and address of the bank in which each such account is maintained. At present, under General License No. 11, $500 per month may be paid out without any further license for living and traveling expenses in the United States of the person in whose name the account is maintained and his family. Accordingly, it is not anticipated that licenses will be issued in those cases in which the account can operate within the provisions of General License No. 11. Should additional amounts be required, consideration will be given to the issuance of licenses allowing withdrawals of such additional amounts. The Japanese Government is requested at the time of furnishing the list to furnish assurances that such accounts contain only personal funds, that such funds will be used only for the personal expenses of the account holder and his family within the United States, and that this Government will promptly be advised in the event that the account holder leaves the United States or ceases to be connected with the Mission.

At the same time that you leave the foregoing aide-mémoire the Department desires that you make an oral statement, leaving a copy thereof with the Foreign Office, reading substantially as follows:

“This Government wishes it understood that by ‘reciprocal treatment’ there is meant reciprocal treatment in all areas under the control of the Japanese Government so as to permit this Government to withdraw funds for the maintenance of its diplomatic, consular and other official establishments in Japan, Manchuria and all areas occupied by Japanese forces, and to permit the official personnel of such establishments to withdraw funds for living and traveling expenses in Japan, Manchuria and other areas under Japanese control.”

Hull

741.94/499: Telegram

The Ambassador in Japan (Grew) to the Secretary of State

Tokyo, August 14, 1941—4 p. m.
[Received August 14—7:50 a. m.]

1236. This telegram refers to Embassy’s No. 1235, August 14, 3 p. m.25 sent air mail to Shanghai reporting in full the British Ambassador’s interview with the Japanese Foreign Minister26 on August 11.

In summarizing his conclusion and impressions of his interview with the Foreign Minister my British colleague in a telegram dated August 12 reported to the Foreign Office in London:

25 Not printed.
26 Adm. Teijiro Toyoda.
“1. That as a result of his interview with Admiral Toyoda and a brief conversation which he had held immediately prior thereto with the Minister’s interpreter he was convinced that Admiral Toyoda remained reasonably well disposed towards Great Britain and was sincerely desirous insofar as the situation would permit of preventing a break with Great Britain.

2. That he was more than ever convinced that the policy of ‘keeping Japan guessing’ was a mistake under present conditions and that there was more to be gained by a frank and open discussion of mutual difficulties.

3. That it was significant that no mention was made throughout the entire interview of the United States.

4. That the Minister of Foreign Affairs made no complaint concerning the freezing of Japanese assets by Great Britain and confined his remarks in this regard to the dangers of further restriction of exports to Japan on the part of the Dutch East Indies.”\

Grew

Memorandum of Conversation, by the Assistant Secretary of State (Acheson)

[WASHINGTON.] August 15, 1941.

Mr. Iguchi called upon me at his request. He stated that he wished to discuss the matter of paying for the petroleum products, licenses to export which had already been granted, some of which were still under consideration.

He said that he had had a conversation with Treasury officials and had pointed out to them that the suggestion which they and I had previously made, that the cargoes be paid for by cash which had been withdrawn prior to the freezing order by the Japanese Government through the Yokohama Specie Bank, was not feasible because the present purchasers were Mitsui and Mitsubishi, whereas the cash had been turned over to the Japanese Navy. I said that I supposed that the Japanese Navy had some interest in having the oil shipments proceed and that it was not clear to me for what other purpose the cash could be used by the Japanese Navy or why it was not possible to have it made available for this purpose. He said that he had found that difficult to explain to the Treasury and intimated in a somewhat obscure way that the Navy was not subject to the civil authorities and had rejected the idea.

He then suggested that perhaps payment might be effectuated by transfers of Chinese money in Shanghai into dollars. I said that I thought that this was not desirable. He then suggested the possibility of the Dutch unfreezing dollars in the East Indies. I pointed out to him that a much simpler method would be either to use the cash or to transfer dollars on deposit with South American Banks.
He said that he would look into the matter, discuss it with the managers of Mitsui and Mitsubishi who were to be with him this afternoon, and discuss the matter further with me.

Mr. Iguchi then asked me whether I had had an opportunity to discuss with the Secretary Mr. Iguchi's suggestion that commercial relations be continued between the two countries by our agreeing to receive some imports from Japan and permitting the proceeds of those imports to pay for some exports from America. I said that I had not had such an opportunity because the Secretary had been very occupied in the last few days, but that I doubted whether Mr. Iguchi's suggestion of silk as a desirable import would be met with favor in as much as it did not seem to be material of importance, and in these days we wished so far as possible to buy materials which were really needed. He asked me to consider the matter further, to talk with the Secretary about it, and suggested that we might point out any other imports which we would be willing to receive. He stated that this suggestion was his own and was not made by the authority of the Japanese Government, but that, if it met with favor, he would immediately take the matter up with Tokyo.

I suggested to Mr. Iguchi that there were in Japan considerable amounts of materials which had already been bought and paid for by Americans and were on their way to this country at the time of the freezing order, and which had subsequently been landed in Japan; that it might be an acceptable gesture of Japan's desire to continue commercial relations if these shipments were brought to this country. He said that he would give this suggestion consideration and added that if a ship should be available to bring them it might also bring American citizens who wished to return to this country. He said again that he was most anxious to see relations continued by some movement of vessels.

DEAN ACHESON

811.20 (D) Regulations/4148S

Memorandum by the Assistant Secretary of State (Acheson) to the Under Secretary of State (Welles)

[WASHINGTON,] August 16, 1941.

STATUS OF TRADE WITH JAPAN AND JAPANESE CONTROLLED TERRITORY

SINCE THE FREEZING ORDER

Imports.

The only substantial imports which have arrived were those on the Tabuta Maru which were discharged as a result of the libel suits. Similar action occurred on a smaller vessel at Seattle. So far as I
know the goods are still in Customs custody. No applications for payment have been made.

Although imports are permissible from occupied China, other than Manchuria, few, if any, have arrived due to the action of the Japanese authorities in holding up their ships.

A problem exists regarding goods consigned to the United States and paid for by American purchasers which were unloaded from Japanese ships in Japan. Considerable pressure is being exerted by the purchasers to have these goods sent. Minor problems exist about complete payments which have been made by the purchasers but have not been released to the seller. In the absence of further deterioration of relations with Japan, it may be that some action will have to be taken regarding these goods.

Exports.

Exports from the Philippines are continuing, subject to existing export controls. The principal item here is iron ore. Freezing controls have not been used to further restrict trade from the Philippines.

Exports to occupied China, other than Manchuria, continue under a general license. Some goods have gone forward but the volume is small due to the absence of Japanese ships.

Exports to Japan proper.

Small cargoes were authorized for the Tatuta Maru and a ship in Seattle. The cargo consists of low-grade lubricating oil, cocoa beans, cotton and asphalt.

The Treasury continues to license freely bunkers and supplies for Japanese ships.

So far as cargoes other than the two mentioned are concerned, the situation is as follows:

Petroleum products. Export applications have been filed for a total amount of $2,111,412, consisting principally of crude oil and Diesel oil with some lubricating oil. On these, licenses have been granted in the amount of $178,650. Licenses have been rejected, because the material was above the permitted specifications, in the amount of $729,910. The remainder are pending.

To pay for the amounts of the granted licenses the Japanese have filed applications under the freezing order. The Treasury has stated to them that in view of the fact that the Japanese Government and Japanese banks are known to have in this country between $1,000,000 and $3,000,000 and have in South America dollar balances upward of $6,000,000, it does not seem necessary to release frozen funds to pay for these shipments. The Japanese reply that the funds have been turned over to the Japanese Navy which refuses to release them. As the matter stands they are taking it up again with the Japanese Naval
authorities and are considering using their South American dollar balances. A further memorandum on petroleum is attached which recommends a reduction in the permissible exports of crude and Diesel oil to bring those items into line with the permissible exports of gasoline and lubricating oil. The British have pressed us to control strictly the export of Diesel. The memorandum also advocates our insistence that the Japanese use American currency which they have and their dollar balances in South America before any frozen dollars are released.

In Mr. Welles's letter to the President, which the President approved, is reported that average monthly shipments in 1941 has been $600,000. Applications have been filed for over $2,000,000 since the freezing order. It is recommended that a monthly quota of $600,000 be permitted and that this should be paid for by currency or South American balances.

Applications for general merchandise (not now subject to export control) have been filed under the freezing order in the amount of $150,000. These consist principally of fur scrap for Manchuria and spruce, probably for airplane construction. General Maxwell is considering adding fur scrap to the export control list. No action has been taken upon these applications pending a decision as to (a) whether the materials have any strategic value to Japan, and (b) whether payment shall be permitted by release of frozen funds or whether it shall be in currency or South American balances.

In addition to the above applications have been filed to release frozen dollars to pay for exports from South America. The applications cover either cotton from countries in which Japanese already have dollar balances or are strategic materials which we are attempting to purchase. These applications have been denied.

DEAN ACHESON

Memorandum of Conversation, by the Assistant Secretary of State (Acheson)

[WASHINGTON,] August 18, 1941.

Mr. Iguchi called on me at his request. He referred to the situation which we had discussed at our last meeting, of the property consigned to American citizens and already paid for by them which had been

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27 Not printed.
28 July 31, p. 846.
landed and was being held in Japan. He stated that he had received by cable from Japan the following figures of such shipments.

<table>
<thead>
<tr>
<th>Item</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copra</td>
<td>1,000</td>
</tr>
<tr>
<td>Copra waste</td>
<td>1,445</td>
</tr>
<tr>
<td>Coconut oil</td>
<td>1,071</td>
</tr>
<tr>
<td>Chrome iron ore</td>
<td>3,600</td>
</tr>
<tr>
<td>Sugar</td>
<td>5,000</td>
</tr>
<tr>
<td>Rattan products</td>
<td>976</td>
</tr>
<tr>
<td>Miscellaneous charges</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>13,098</strong></td>
</tr>
</tbody>
</table>

Mr. Iguchi stated that he did not know whether or not this list was complete. He said that the Japanese Government would be prepared to send this cargo to the United States on a Japanese ship, together with American passengers who wished to return home, and mail, provided this government would reciprocate. I asked him whether he meant by that that we were holding in this country property which had been paid for by Japanese purchasers and the exportation of which was permitted by our export control regulations. He said that he so understood and believed that included among such products were some petroleum products. He stated that the Japanese Commercial Attaché would return from New York this afternoon with such a list which Mr. Iguchi would give to me tomorrow.

Mr. Iguchi asked whether the proposal was acceptable in principle to this government. I stated that I had no authority to reply to this question but that when all the facts were ascertained I would present the matter to the Secretary of State for his decision. I added that in the meantime I would attempt to find out whether there were any other shipments in Japan of the category referred to which were not included in Mr. Iguchi's list.

I then called Mr. Iguchi's attention to the fact that although this government had from the very beginning of the freezing been very generous in making withdrawals possible for residents of Japan, the Japanese Government had not done the same for American residents. Mr. Iguchi said that the Financial Attaché and himself had already cabled several times to Japan and hope to remedy the matter immediately. I replied that I trusted that this would be done since he had repeatedly stated that the Japanese Government would act reciprocally on all freezing matters.

I asked Mr. Iguchi whether he was making progress on furnishing us with the information necessary for the release of diplomatic ac-

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29 Toyoji Inouye.
30 Tsutomu Nishiyama.
counts. He replied that he hoped to be able to do this within a few days.\footnote{This information was supplied to the Department on August 23.}

DEAN ACHESON

894.24/1686

The First Secretary of the British Embassy (Thorold) to Mr. T. K. Finletter, Special Assistant to the Secretary of State

WASHINGTON, August 21, 1941.

MY DEAR FINLETTER: Thank you for your letter of August 19th \footnote{Not found in Department files.} regarding shipments of Manganese to Japan.

The position, in what you may term the pre-crisis period, was that exports of Manganese to Japan from India were restricted to 10,000 tons a month, which was approximately 80% of normal trade, and from Malaya to 1,700 tons a month, being about 60% of normal trade. The first stage in further restrictions was to reduce these quotas by 50%, and this no doubt accounts for the figure of 5,000 tons per month which you quote in your letter as having been the figure for exports from India.

Now, however, a further step has been taken under which no Export Licenses will be granted for any commodities from the Empire to Japan except in special cases where funds have become available as a result of permitted imports from Japan of commodities of particular value for our war purposes. Even so, licenses will only be granted for goods of least essential value to Japan. As a result of this we understand that no licenses for Manganese are now being granted for shipments to Japan, and if, in fact, 1,000 tons has been exported, as quoted in your letter, I think it may be taken that this had been in respect of a contract already made and paid for before the freezing regulations were brought in.

As far as Malaya is concerned, there are some added difficulties, in view of the fact that the mines are Japanese-owned and the position is somewhat the same as in the case of exports of iron ore from the Philippines. It is the intention to reduce these Manganese exports from Malaya as far as possible, but we have not yet received information as to the exact position at the moment.

I hope to be able to give you more precise details in both these cases before long but, in the meantime, you may take it little or no Manganese is at present being exported from India to Japan.

Yours sincerely,

GUY THOROLD
The Ambassador in Japan (Grew) to the Secretary of State

Tokyo, August 22, 1941—5 p. m.
[Received August 22—12:25 p. m.]

1289. Department’s 504, August 15, 5 p. m., and previous correspondence relating to freezing orders in the United States and Japan. Today I requested an interview with [the] Foreign Minister and, first observing that to date we have received no replies to any of our representations in connection with the subject under reference, including our aide-mémoire dated August 9, 1941, I set forth to him orally and also in a first-person note and accompanying memorandum in general and in detail the serious disparity existing in the treatment accorded to American Government officials and other American nationals residing in Japan and the treatment accorded to Japanese Government officials and other Japanese nationals residing in the United States under the freezing orders in both countries. I pointed out to the Minister that the American freezing orders were not intended to and does not in practice work undue hardship to Japanese nationals in the United States whereas the application of the Japanese freezing orders is working the most drastic hardship to American nationals in Japan.

The American freezing orders in effect works along lines similar to the restrictions and handicaps which American business and trade and commerce have encountered in Japan and in Japanese occupied areas during the last several years. Japan, on the other hand, has evidently interpreted its own freezing orders as aimed both in theory and practice at severely restricting the normal activities and both official and personal privileges of American citizens residing in Japan to an extent which has worked and is still working the greatest unreasonable hardship. The result has been and is an almost complete cessation of financial and business activities on the part of American individuals and firms here and represents utter disparity in treatment. I urged the Minister with the greatest emphasis to take such prompt steps with a view to placing the treatment of our respective nationals on a basis more nearly reciprocal than that formerly existing. I pointed out that the foundation of international relations is reciprocity and I did not fail to indicate that in the absence of favorable results in this respect my Government would obviously have no alternative but to consider such measures as might be necessary to establish reciprocal treatment.

The Minister received my representations in his usual sympathetic way and expressed his regret at the situation which I had described

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3a Not printed.
44 For text, see telegram No. 478, August 7, 6 p. m., to the Ambassador in Japan, p. 855.
to him. He said that he would do his best to place these matters on a basis of reciprocity.

Grew

811.20 (D) Regulations/4198a: Telegram
The Secretary of State to the Consul General at Shanghai (Lockhart)

WASHINGTON, August 23, 1941—1 p. m.

578. The British Purchasing Commission is now presenting to the Department applications for license to export materials to Shanghai, bearing a stamp to the effect that "The material in this application has been approved by both U. S. and British Consular and Embassy officials in Shanghai, China, and is therefore endorsed." The British Embassy in Washington states that British officials in Shanghai have been instructed to recommend no shipments from the United States to Shanghai without your prior concurrence. Have you arrived at any understanding with the British Embassy in Shanghai in regard to this matter? The Department wishes in any case that you continue to make your own recommendations by telegraph to the Department.

Hull

811.20 (D) Regulations/3950: Telegram
The Secretary of State to the Consul General at Shanghai (Lockhart)

WASHINGTON, August 25, 1941—11 p. m.

582. The Department has carefully considered your despatch no. 581 of June 23, 1941, in which inter alia you describe ways in which considerable quantities of American exports to the Shanghai area are likely to reach undesirable destinations. In the light of that despatch and in view of shortages that have developed in this country in many commodities and products, the Department has decided in general to recommend to the Administrator of Export Control the issuance of export licenses for Shanghai only when the proposed shipment appears vital to the preservation of physical properties owned and operated by American or British citizens, where the shipment has some connection with the operation of local public utilities or with public health, or where the quantities involved are insignificant. The applications referred to in the following telegrams will therefore be rejected:

[Here follow details.]

Hull
WASHINGTON, August 28, 1941—8 p. m.

546. The following account of developments in the American silk industry since the application to Japan of the freezing order is given for your information.

The Office of Production Management on July 26 ordered the freezing of all stocks of raw silk in warehouses, the limitation of processing, and the imposition of a ceiling on raw silk prices, and requested the suspension of trading in silk futures in the New York Commodity Exchange. On August 1 OPM issued a further order prohibiting all processing of raw silk after midnight August 2 unless specifically authorized by the priorities’ director, explaining that the Army and Navy needed the total reserves of silk in the country.

On July 29 representatives of importers, dealers, brokers, processors and manufacturers met at the Office of Price Administration and Civilian Supply to take stock of the situation. At this meeting it was determined that the supply of processed silk and finished silk products is sufficient for normal requirements over five months. During the first two weeks in August conferences took place between representatives of the Government and representatives of the silk hosiery, silk throwing and rayon manufacturing industries as well as representatives of workers and employers in silk-using industries other than the hosiery industry. At these conferences the use of substitutes for silk was discussed and reports heard on the available and future supply of such substitutes. The consensus of the hosiery industry, which normally consumes 93 percent of raw silk imports, as brought out at the conferences, is that certain rayons, of which large amounts of the right denier are produced, are suitable for hosiery manufacture, and that while there will be initial shortages, brief shut-downs due to experimentation, and temporary deterioration in quality while shifting to rayon, the adjustment will present no serious difficulty to the industry or undue hardship to consumers. It was also brought out that production of nylon, now furnishing 16 percent of the material for the hosiery industry, will be doubled by middle 1942 and further materially increased in 1943. The weaving industry also indicated at the conferences that it can shift to rayon, although, with the hosiery industry requiring so much more of the output of types of rayon yarn used by the weaving industry, it expects that it will experience difficulty in getting even its normal requirements of rayon let alone additional amounts to take the place of silk. To solve this difficulty, recommendations were made that available types of rayon yarn not
suitable for hosiery be substituted for silk. The problem of substitute raw material was shown to be most acute in the case of the minor industries, but proposals to relieve these industries too were put forward.

A plaintive note over the interruption of silk imports was heard only once during the conferences, when Mr. Levy, saying he represented 175,000 workers depending on silk for their livelihood, in the course of the July 29 meeting stated that the average plant employing such workers would cease to operate in 10 weeks unless more silk were imported. With this single exception further supplies of raw silk were not even mentioned and the proceedings were devoted entirely to adjusting affected American economy to a silkless state. In fact the opinion was current that in 2 years silk will hardly be missed in this country primarily because of the increased production of nylon.35

In this connection it may be mentioned that there was a run on silk hosiery for a few days after the freezing of raw silk stocks, but that it has subsided to a considerable degree. Available information indicates that the prospect of early exhaustion of silk stockings and fabrics has been viewed very calmly if not indifferently by American women.

Sent to Tokyo via Shanghai. Repeated to Peiping and Chungking.

Hull

35 William R. Langdon, of the Division of Far Eastern Affairs, made this comment in a memorandum dated August 22: "The future of the great Japanese raw silk industry, with this country making every preparation to get along without silk, and also of our trade with Japan, with perhaps this important commodity absent from it after normal relations are resumed, is interesting to speculate upon."
be rejected in light of the policies set forth in the Department's 582 of August 25, 11 p. m., just received.

LOCKHART

894.24/1605

The Financial Counselor of the British Embassy (Stopford) to the Assistant Secretary of State (Acheson)

WASHINGTON, August 30, 1941.

DEAR MR. ACHESON: In Mr. Hall's absence I am writing to give you some information which we have received from London upon our policy with regard to China.

It has been decided that to prevent the Japanese benefiting from our exports to occupied China, it is necessary to control by licensing all exports to China except those going via the Burma Road. To avoid injury to legitimate Chinese interests pending the making of detailed arrangements, it is intended to grant licenses freely within the limits of normal trade for exports other than—

(a) those not available for supply reasons
(b) those contained in the annexed list which has been called the "Nil List".  
(c) any specific consignments where there are strong reasons for refusing on grounds of economic warfare.

Action on the above lines is being taken forthwith by the United Kingdom and the Colonies. India, Burma and the Dominions are being invited to take similar action. The Government of Hong Kong, however, is being given some latitude in the application of the above-mentioned policy.

It will be appreciated that although the same export licensing machinery is being used both for China and Japan it is intended to apply the machinery to China in accordance with the principles of giving assistance to China, which has already been declared.

It is intended to tighten up the procedure mentioned above without injury to friendly interests. It is proposed to collect as much information as possible about the trustworthiness of the individual consignees so that exports may be confined to those of which, so far as may be judged, the potential advantages to free China are likely to outweigh the danger of leakage to Japan. In particular, it is intended to take advantage of the advice of friendly banks in Shanghai who are being asked to avoid (where possible in conformity with the policy of U.S. banks) any financial transactions likely to benefit Japan. In the interim period until the necessary administration ma-
chinery can be organized, we propose that Empire Governments will issue licenses without reference in cases where the danger of leakage to Japan does not seem to be over-riding and where delay must be avoided in order to prevent trade being brought to a standstill.

In addition to the consignee control on the lines mentioned above, it is suggested that it may be desirable to super-impose quantitative control of exports of particular commodities. Trade in such goods is to be separately examined in the light of the quantities generally required by reliable consignees, and their value to Japan if they were seized.

The arrangements mentioned in this letter do not apply to petroleum products.

I am sending a copy of this letter to Mr. Cochran for his information.

Yours sincerely,

R. J. STOPFORD

840.51 Frozen Credits/3950

Memorandum of Conversation, by the Assistant Secretary of State (Acheson)

[WASHINGTON,] September 5, 1941.

In accordance with the instruction of the Secretary, given at a meeting which Dr. Hornbeck, Mr. Yost and myself were present with him, I telephoned to Mr. Towson of the Treasury Department, Foreign Funds Control Division, to inquire exactly what had been said between him and Mr. Nishiyama yesterday regarding the provision of free funds by the Japanese for the purchase of oil. Mr. Towson said that Mr. Nishiyama had called to state that he was endeavoring to have funds transferred from South America to the United States to pay for oil for the two tankers now in San Francisco and requested the Treasury not to do anything on the matter until Mr. Nishiyama had proceeded further. Mr. Towson said that he did not know what Mr. Nishiyama thought that the Treasury might do.

Mr. Nishiyama also stated that it might take two or three weeks to arrange the transfer and he wished to know whether if the funds could be made available the Treasury would grant the necessary licenses to permit their transfer to this country and their use in payment for the oil. Mr. Towson had replied to Mr. Nishiyama that each application would have to be considered upon the relevant facts of the particular case. Mr. Nishiyama said that he would continue to work on the matter and would discuss it further with the Treasury.

H. Merle Cochran, Technical Assistant to the Secretary of the Treasury (Morgenthau).
Mr. Nishiyama then raised the question of the funds for the New York Branch of the Yokohama Specie Bank. It developed that shortly before the freezing order went into effect the bank cancelled instructions which had been outstanding requiring its branches in South America to collect for imports from Japan to South America and to deposit the proceeds in New York. The result was that there was a possibility that the obligations of the New York Branch exceeded its assets. The Treasury stated that this was a matter that would have to be investigated carefully and that it might affect the granting of licenses to transfer [funds] from South America to be used in payment for oil. In other words, if the funds in South America properly belonged to the New York Branch, it was doubtful whether the Treasury would permit them to be transferred to the United States for other purposes.

After learning of this conversation I told Mr. Towson that the Secretary wished us to refer Mr. Iguchi and Mr. Nishiyama to him so that they might continue the discussion as to the propriety of granting a license to transfer South American funds to the United States. He said that he would be glad to continue the discussions and that it appeared from the complexity of the situation that no decision would be reached for some time.

DEAN ACHESON

Memorandum by Mr. Edward G. Miller, Jr., of the Foreign Funds Control Division, to the Assistant Secretary of State (Acheson)

[WASHINGTON,] September 5, 1941.

Mr. Nisiyama, Financial Attaché of the Japanese Embassy, came in to Foreign Funds Control at 3:30 this afternoon and conferred with Messrs. Towson and Fox of the Treasury Department, and the undersigned. Referring to the question of payment by the Japanese for pending shipment of oil from this country to Japan, Mr. Nisiyama stated that he had been advised by the State Department that the Treasury Department wished to ask him certain questions with respect to the proposed method to be employed by the Japanese in effecting the payments. Mr. Towson referred to conversations which he had had with Mr. Nisiyama yesterday and stated that in the event that the Japanese were able to obtain the transfer of dollar assets from South America into this country to be used in payment for the oil, the Treasury Department would be interested in considering an application for a license permitting such funds to be applied to the payment, but that until Mr. Nisiyama had made the arrangements
for the transfer of the funds to this country and was in a position to set forth in an application all the relevant facts, the Treasury would be in no position to express an opinion on this subject. Mr. Nisiyama asked Mr. Towson whether he would be able to express an opinion based on a hypothetical set of facts involving the assumption that the Japanese were able to arrange with various foreign exchange controls in South America for the transfer to this country of funds sufficient in the aggregate to pay for pending oil shipments. Mr. Towson repeated that until a concrete case were submitted to the Treasury in the form of an application he could express no opinion. Mr. Nisiyama then stated that he assumed from Mr. Towson's remarks that the Treasury Department would be interested in the source of the funds, and the manner in which they had been accumulated in South America. Mr. Towson agreed that the Treasury would wish to consider these matters very carefully when an application was submitted.

Mr. Nisiyama then stated that he would continue his efforts to arrange for the transfer of funds to this country before making an application, and that he hoped that within a few days he would be in a position to make application for a Treasury license.

E. G. MILLER

840.51 Frozen Credits/3253 : Telegram

The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, September 5, 1941—11 p. m.

565. Reference your 1326, 1327, 1328 and 1329, August 28, in regard to reciprocal allowances for official establishments and personnel. It is desired that you call at the Japanese Foreign Office and leave an aide-mémoire along lines as follows:

"The Government of the United States refers to the Japanese Government's aide-mémoire of August 26 with accompanying addendum and oral statement, and, with regard to the Japanese Government's proposals, offers comment as follows:

The procedure suggested in this Government's aide-mémoire of August 9 for making available funds for Japanese official establishments and personnel in the United States is similar to that which has been provided with respect to the official establishments and personnel of other countries whose funds have been blocked in the

*None printed; they transmitted texts of Japanese Government's aide-mémoire of August 26, and of accompanying addendum and oral statement, and requested instructions as to reply.

*See telegram No. 478, August 7, 6 p. m., to the Ambassador in Japan, p. 855.
United States under similar circumstances and conditions. This procedure has been in general accepted by the other countries concerned. This Government would prefer, therefore, to proceed in the matter of reciprocal allowances along the general lines suggested in its aide-mémoire of August 9.

With reference to the numbered amendments suggested in the addendum to the Japanese Government’s aide-mémoire, reply is made as follows:

1. The practice already established by this Government in connection with allowances for official establishments and personnel and in force on a reciprocal basis with other countries under similar circumstances provides that estimates in regard to desired payments from official accounts be broken down on a monthly basis rather than on a quarterly basis. It is a matter of considerable convenience to this Government, therefore, that the monthly basis for such estimates be maintained in so far as Japan is concerned. However, this Government agrees that payments from official accounts should include all normal expenses, including items such as communication charges, wages for employees, rent, entertainment and other running expenses, and that the various items may be combined in a total monthly estimate for which permission may be requested.

2. In as much as funds to replenish the official accounts of Japanese official establishments would in all probability be transferred from time to time from various blocked accounts to official accounts, it would not be possible to grant general license covering such monthly transfers. However, this Government is prepared to license promptly appropriate monthly replenishments for official accounts.

3. This Government is agreeable to the suggestion that permission should be granted reciprocally for the remittances described in paragraph 3 provided the remittances in question are made by credit of the dollar amount of such remittances to a blocked account.

4. The Japanese Government’s specific suggestions with regard to the maximum amounts which may be allowed American officials in Japan and Japanese officials in the United States without specific license are acceptable to this Government. Those maximum amounts are as follows: for ambassadors, 2,000 dollars per month or its equivalent; for counselors and military and naval attachés, 1,500 dollars per month or its equivalent; for finance commissioners or first secretaries, 1,000 dollars per month or its equivalent; for officials of the rank of consul or second secretary, 750 dollars per month or its equivalent; for all other official personnel 1,500 yen per month for American officials in Japan and 500 dollars per month for Japanese official personnel in the United States. It is assumed that by the term ‘or its equivalent’ is meant the equivalent in yen at the official rate of exchange of the dollar sums referred to above. If sums in excess of the foregoing are needed specific applications may be made in each case.

5. No objection is perceived by this Government to the direct remittance by the Japanese Foreign Office through the Yokohama Specie Bank of the salaries of the officials of the Japanese Embassy and consulates above the rank of ‘Chancellor’. A blanket monthly license may be issued to the Yokohama Specie Bank for such a purpose upon
the receipt from the Japanese Embassy in Washington of a list of Japanese officials above the rank of 'Chancellor' in the United States."

At the same time that you leave the foregoing aide-mémoire, the Department desires that you make an oral statement, leaving a written record thereof at the Foreign Office, substantially as follows:

"As between the inclusion of Manchuria and the areas of China occupied by Japanese forces in any agreement which may be reached between my Government and the Government of Japan in regard to the matter of reciprocal allowances for official establishments and official personnel, and 'mediation' on this subject by the Japanese Government with the regimes in Manchuria and the occupied areas of China, the Government of the United States has no preference so long as the desired result is accomplished without delay, namely the extension of any arrangements which may be arrived at for the treatment of official American establishments and personnel in Japan to official American establishments and personnel in Manchuria and occupied areas of China. The Government of the United States would appreciate receiving from the Japanese Government assurances that the treatment of official American establishments and personnel which the Japanese Government may agree upon shall in fact be so extended.

The Government of the United States cannot undertake to 'approve the settlement in dollar exchange at New York of remittances from the Imperial Japanese Ministry of Foreign Affairs to Japanese governmental establishments in Central and South America and in the several countries of Europe' or to endeavor to take any active steps, as the Japanese Government suggests, 'to prevent the creation of a situation which would hinder the use of the funds of those establishments and their personnel'.

Immediately following the blocking of Japanese balances in the United States the Government of the United States took prompt action to avoid embarrassment of Japanese nationals in the United States, including official personnel, and in a further endeavor to relieve official establishments and personnel from embarrassment drew up a suggested procedure which was contained in this Government's aide-mémoire of August 9. Meanwhile, the Japanese Government has applied exceedingly onerous regulations to all American nationals, including American official personnel and official establishments, and these onerous regulations are maintained in full force today. No American Government official in the Japanese Empire has been able either to draw upon his yen balances from any bank in the Empire or to cash and convert any dollar or foreign checks since July 26. Under the circumstances therefore this Government is not prepared or disposed to carry on protracted negotiations in regard to the details of the procedure for making reciprocal allowances. American official personnel and establishments in Japan are in exceedingly straitened circumstances as a result of their inability to obtain funds for carrying on their functions and unless some provision is made for their needs in the immediate future the Government of the United States will have no alternative but to accord to Japanese official establishments and personnel in the United States treatment which will be not more
favorable than that now being accorded American official establishments and personnel in Japan and in areas under Japanese control.”

HULL

840.51 Frozen Credits/3387: Telegram

The Ambassador in Japan (Grew) to the Secretary of State

Tokyo, September 8, 1941—7 p. m.
[Received September 8—9:10 a. m.]

1425. Department’s 565, September 5, 11 a. m. [p. m.] The Embassy recommends that the following paragraph be added to the aide-mémoire to be left with the Foreign Office:

“As it has been the practice of many of the American official establishments and American officials in the Japanese Empire to maintain official and personal balances with, and to conduct other financial transactions through, the National City Bank of New York, and in view of the fact that the Japanese Government has specified the Yokosuka Specia [Yokohama Specie?] Bank as the bank through which the salaries of the Japanese Government officials is to be remitted and that the American Government perceives no objection thereto, it is assumed that the Japanese Government will equally perceive no objection of granting to the National City Bank of New York, the necessary permits to enable it to handle the financial transactions of the American official establishments and American officials in Japan.

An expression of the assent of the Japanese Government of the foregoing would be appreciated.”

The Department’s instructions are requested.40

GREW

840.51 Frozen Credits/3012

The British Minister (Hall) to the Assistant Secretary of State (Acheson)

Washington, September 13, 1941.

Dear Mr. Acheson: As a result of further exchanges of telegrams with London I am now able to add to the information contained in my letter of August 12th 41 under the heading of “The Freezing Order and Japan”, and I am at the same time instructed to make certain concrete suggestions for parallel action with regard to a number of important commodities:

40 In its telegram No. 572, September 8, 7 p. m., the Department approved the Ambassador’s proposed addition to the aide-mémoire.
41 Not printed.
1. Bauxite:

The British Government is of the opinion that exports of Bauxite from Malaya to Japan should no longer be permitted and the High Commissioner is being asked to take appropriate action, unless he believes that it would cause grave economic difficulties in Malaya. We are to be informed of the eventual decision.

2. Manganese:

The British Government is also of the opinion that exports of Manganese from Malaya to Japan should cease and I understand that the Dutch take a similar view with regard to exports from N. E. I. Exports from Malaya are at present at the rate of about 10,000 tons per annum (about 50% of normal) and, as you know, Manganese ores and concentrates of less than 35% Manganese are not subject to Export License from the Philippines or the United States. I am asked to enquire whether the U. S. Government would discontinue the export of low grade Manganese from the Philippines if exports are entirely prohibited from Malaya and N. E. I.

3. Iron Ore:

It is possible that exports of iron ore from Malaya may in any case cease as a result of the shutting down of Japanese-owned mines. The British Government is, however, prepared to prohibit exports from Malaya, but it might be found difficult to do so while limited exports are still being made from the Philippines. It is understood that the U. S. Government are considering further restrictions and I am instructed to ask if they will discontinue all exports from the Philippines if exports from Malaya are prohibited.

4. Cotton:

It is our objective to restrict exports from all parts of the Empire to Japan to the minimum level necessary to meet essential requirements from Japan and subject only to this desideratum the Government of India is prepared to restrict exports of cotton to any agreed level. In view, however, of the possible political effect in India it is undesirable that the Government of India should adopt restrictions more stringent than those adopted by the U. S. Government.

In these circumstances the Government of India has followed the action taken by the U. S. Government and has taken steps to limit to the 1940 level exports of cotton to Japan, Manchuria, Korea and Kwantung. Exports to the China coast, including Shanghai, are, pending fuller information as to China’s requirements, restricted to 10,000 bales a month (approximately the 1940 level). The Government of Burma is adopting the same policy.

I am asked to emphasize, however, that as a result of increased imports of raw cotton from China, increased domestic use of artificial
fibres, and loss of foreign markets for textiles, Japan's requirements of India and U. S. cotton are considerably less than they were and could probably be met comfortably by imports from India and the U. S. even at the low 1940 level. The British Government is further of the opinion that failure to restrict Japan's cotton imports from sources under control to a level calculated to cause inconvenience to the Japanese Government would have a political effect on Japan which requires consideration and I am instructed to obtain the opinion of the U. S. Government on this point.

I understand, however, that pending further examination of this question and in order to facilitate joint action, the Government of India has offered to restrict exports of cotton to Japan in any month to the rupee equivalent of the amount covered by U. S. Treasury licenses granted in the previous month, if this figure can be made available and the suggestion is otherwise practicable.

5. Essential Imports:

You will recall that in paragraph two of my letter of August 12th I indicated the general intention to be to restrict exports to Japan from all Empire sources to the minimum necessary to cover essential imports. You will further recall that in my letter of September 1st \(^{41a}\) I was authorized to inform you that the only import from Japan into the United Kingdom of which there is essential need, is some £60,000 worth of Magnesium. I have only to add that the question is under urgent examination, but that we are still awaiting information from some parts of the Empire as to what imports from Japan they consider as essential, and that it is hoped that a common standard will be agreed upon.

6. Foodstuffs:

I am informed that it is our intention to make no exception in the case of foodstuffs to our general policy with regard to exports to Japan, but that in selecting the exports with which we propose to pay for essential imports we shall place foodstuffs (excluding oil seeds) amongst the first exports to be so allowed. This is in line with our general purpose of restricting exports to Japan to those least essential to Japan.

7. Eire:

I am informed that exports direct from Eire to Japan are most improbable because of lack of shipping and exports for trans-shipment in the United Kingdom are controlled through United Kingdom Export Licenses. As a precautionary measure, however, the Eire authorities are asking Banks to refer to them proposals for transfer from Japanese accounts.

Yours sincerely,             NOEL F. HALL

\(^{41a}\) Not printed.
[WASHINGTON,] September 15, 1941.

Baron van Boetzelaer 42 called upon me at his request and said that the Legation had received a telegram raising some questions about our policy of granting export licenses for petroleum shipments to Japan while refusing to grant the necessary payment licenses for the same exports under the freezing regulations. He said that his Government had expressed a reluctance to adopt a similar practice for fear that it might lead to unnecessary misunderstanding with the Japanese. He explained that the Japanese might think that they were entitled to export shipments for which export licenses had been granted and would then feel unnecessarily irritated if they found that due to payment restrictions this was not the case.

I told Baron van Boetzelaer that as a matter of fact according to my understanding we had issued only three export licenses for permitted petroleum shipments and that thereafter in the course of conversations with representatives of the Japanese Embassy on the issue of payment it had been more or less mutually agreed that as a matter of practice we would no longer issue export licenses until the manner of payment for the particular shipments involved had been agreed to. I said that it seemed to me that if his Government preferred not to issue export licenses until all matters relating to the shipments under consideration had been clarified, there would be no divergence of fundamental policy from our practice. [In this connection we have been notified by the British Embassy that the British intend to make their export licenses the final act of control over all shipments to Japan. Messrs. Stopford and Dent have said that they understand this to mean that before an export license is granted all necessary payment requirements and shipping requirements will have been met.] 42a

Baron van Boetzelaer went on to say that he felt the important point was that there be no shipments in fact without full understanding of the policy involved between his Government and the American Government. He said that the Netherlands Government had thus far refused to permit shipments on three tankers which have called at Indies ports and that one of these tankers sought diesel oil at Tarakan which was of a quality and quantity that placed it within any Netherlands quota that might be established as the equivalent of even the reduced quota for diesel oil which the United States has under consideration. This refusal had been based on the fact that we had not

42 Minister Counselor of the Netherlands Legation.
42a Brackets throughout this document appear in the original.
permitted exports of similar oil because of our financial requirements even though export licenses therefor had already been issued by us. [In connection with the Netherlands East Indies attitude on payment matters see note at end of this memorandum.]

Baron von Boetseelaer then said that he had further been informed that the Netherlands Indies Government, which as we had previously been informed considers that our quotas for crude oil, diesel oil and fuel oil are too high, is willing to reduce its comparable over-all quota for permitted exports of petroleum products from 800,000 tons (which he understood to be the 1935–1936 level) to 570,000 tons annually. He went on to say that in terms of specific commodities for the rest of the year 1941 this figure would mean 60,000 tons of low grade gasoline, 2,000 tons of kerosene, 40,000 tons of fuel oil, 30,000 tons of crude, and 40,000 tons of diesel oil.

Baron van Boetseelaer then said entirely on his own initiative that he believed that his Government would be prepared to cut off all exports of petroleum if the United States were to adopt a similar policy although he thought that such action would raise political questions for discussion between his Government and the American Government before the action was finally decided upon.

I told Baron van Boetseelaer that I would convey the information which he had supplied to Mr. Acheson and others in the Department interested in the matter. He said that he would like to call upon Mr. Acheson to discuss the question because his Government was anxious that a definite policy be arrived at as soon as possible. He said further, however, that he was trying to collect a good deal of other related information which he hoped to obtain within the next day or so and that it might be well for him to wait to see Mr. Acheson until this information had reached him. He said that this information related in part to the question of what imports into the Indies from Japan the Indies Government considered essential. He thought that only cotton textiles were involved but he was not in a position to say so definitively at this time. Nor could he at this time estimate the quantity and value involved. He also hoped to receive shortly from his Government information as to whether any official announcement of export policy had been communicated by the Indies Government to Japan in recent weeks. [We have been informed by Mr. Grew, see Tokyo's telegram number 1810, of August 26, that the Dutch Indies authorities have recently expressed to the Japanese Consul General in strong terms their adherence to a policy of hereafter forbidding the exports of all oil to Japan unless Japan publicly declares that she does not intend to attack the Indies and unless Japan withdraws its troops from southern Indochina. According to Mr. Grew's informa-
tion this statement was confirmed to General Pabst, the Netherlands Ambassador at Tokyo, by the Netherlands Government.] Finally Baron van Boetzelaer hopes to obtain more definite information than he has at present as to Dutch policy with respect to exports to Japan of other important commodities such as rubber and tin.

[Note: We have heard from a number of sources that the Indies Government wishes to cause the Japanese to use up their present blocked guilder balances in the Indies in order to be in a better position to require the Japanese to supply such articles as the Netherlands Indies find it necessary to import from Japan. In this connection it seems relevant to point out that, according to information received from the British Embassy, the Government of India, which also desires certain essential imports from Japan, has adopted a different policy in order to accomplish the same result. The Indian Government will not permit the use of blocked Japanese funds in India to pay for exports to Japan but requires fresh imports from Japan as a source of purchasing power for exports to Japan. It would seem that this policy is more likely to be effective in compelling the Japanese to supply needed imports than is the current Dutch policy and is at the same time less likely to appear to be at variance with our own freezing policy vis-à-vis exports to Japan.]

756D.94/187

Dr. Henry F. Grady to the Secretary of State 44

12TH CABLE REPORT

For Secretary Hull:

I have discussed in an hour's interview with the Governor General 45 and at great length with van Mook 46 on several occasions their views and policy with regard to economic measures against Japan. The views of both officials are identical. Thinking you would wish a summary of my conversations with these officials I give it herewith. This statement has been approved by the Governor General and by van Mook:

With regard to exports to Japan the policy of the Netherlands Indies has twice undergone an important change.

Before the war the general complaint from our side was that the balance of trade with Japan tended to be more adverse every year. The exports, however, which we would specially like to see increased,

44 Dr. Grady was President Roosevelt’s personal representative on an economic survey of the Pacific area. Copy of this document was transmitted to the Department by the Consul General at Batavia (Foote) in his despatch No. 315, September 15; received September 27.
45 Jonkkeer A. W. L. Tjarda van Starkensoh or Stachouwer.
46 H. J. van Mook, Director of the Economic Affairs Department, Netherlands East Indies.
happened to be those of non-strategic agricultural and forestry products like sugar, copra, coffee and timber.

After May 10th, 1940 the interest of Japan for our export products showed a sudden development in the direction of raw materials for industrial and military purposes like mineral oil, rubber, tin and various ores. After the conclusion of the tripartite pact in September 1940 the Japanese made additional demands for vegetable fats, fibres, tanning materials, etc., goods which were notoriously lacking in Germany.

The restrictive measures taken during that period by the N. E. I. government were based on three principles:

a. no export of goods needed for ourselves or for our allies;

b. no discrimination in favor of Japan and against other neutral countries;

c. no exports which would provide Japan with more than its normal requirements and thus enable it to furnish the enemy with those materials.

Although there was no embargo directed against Japan, the restrictions mentioned had to be strictly executed and therefore the quantities to be exported were generally calculated on a basis of the known consumption in Japan in former years; any recent increase of consumption could not, as a rule, be taken into consideration.

A complete embargo was not deemed advisable at that time; moreover it would not have been supported by a similar policy of the British Empire and the U. S. A.

When Japan moved south in Indo-China, this move was considered a direct threat against the N. E. I. Even if the U. S. A. and the British Empire had not promptly frozen the Japanese assets, we would have had to reconsider our position. As it was we immediately joined in this action, even though a clear system of co-operation had not yet been established.

The restriction of exports to Japan should be co-ordinated in such a way that

a. Japan will not be able to get from one country what is denied elsewhere;

b. the embargo effectively lowers the war potential of Japan.

The machinery for co-ordination is still rather rudimentary, especially as regards the contact and the exchange of information between the U. S. A. and the N. E. I. The alliance between the Netherlands and the British Empire, has, of course, gradually developed a closer co-operation. It would be advisable to develop a similar system of co-operation with regard to export controls both in Washington (with the Netherlands legation) and in Batavia (with the U. S. A. consulate general).
The embargo itself should be specially directed towards the prevention of exports of goods, which can be used for military purposes. It should not be used as a method to starve or cripple the Japanese people, as this [is] not required to realize the aim of lowering the Japanese fighting strength and might enable the military party to propagate the inevitability of war amongst the Japanese people. As regards war material however, the embargo should be as complete as possible.

It must not be overlooked that Japan has many—though partly inadequate—sources of war materials within the Japanese Empire, Manchukuo, China, Indo China, Thailand and possibly South America. Half way measures from our side would not exert enough pressure, as Japan might then be able, partly through severe restrictions on civil use, to maintain and even increase its war potential, while entrenching itself at leisure in Indo China and possibly Thailand and waiting for a better opportunity to strike.

Of course a tight embargo on war materials may lead to war. Any less stringent system, however, will seem to strengthen the position of the military party, whereas the fear of a general war is probably strong enough at present to deter the Japanese government from extreme measures as long as there is no change for the worse in the allied situation in Europe.

Finally measures of an ambiguous or intricate character should be avoided, as the fear of unknown consequences easily leads the Japanese to react by force. A gradual tightening of the chain may have a similar effect; our experience teaches us that a clear and convincing action is most effective in the way of making the Japanese pause to consider.

In practice this policy should mean for the N. E. I.:

*no* exports of mineral oil, rubber, tin, iron and iron ore, bauxite, nickel ore, manganese, resins, tanning materials, palm oil, etc.;
*small* exports of fibres, copra, kapok, etc.;
normal exports of sugar, coffee, maize, timber, etc.

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894.24/1750

*Memorandum by Mr. Jacques J. Reinstein, Assistant to the Assistant Secretary of State (Acheson)*

*[Extract]*

*[Washington,]* September 22, 1941.

**Restrictions on Japanese Trade and Payments in the British Empire**

All British countries have frozen Japanese assets. According to the British Embassy, all have agreed in principle to the policy adopted
by the British Government of restricting exports to Japan to the
minimum level necessary to obtain essential imports from Japan.

As a practical matter trade between the British Empire and Japan
is virtually at a standstill. Except for manganese and iron ore from
Malaya and cotton from India, exports to Japan of products valuable
from a military viewpoint have been completely cut off.

J[ACQUES] J. R[EINSTEIN]

894.24/1750

Memorandum by the Assistant Secretary of State (Acheson) to the
Secretary of State

[WASHINGTON,] September 22, 1941.

MR. SECRETARY:

TRADE WITH JAPAN

There are attached two memoranda 47 which survey the policies and
practices of the British Empire, the Netherlands East Indies, and the
United States regarding trade with Japan. Except for iron ore,
manganese, petroleum and cotton (exports of which the British and
Dutch are prepared to prohibit if we do so), the three countries have
decided as a matter of policy to cut off exports to Japan of products
useful from a military viewpoint.

The survey indicates that, contrary to our assumption, we have not
gone farther in our restrictions on Japan than the British and the
Dutch. Their policy decisions are in advance of ours in many respects.
Our own policy, owing in part to the dual control which we exercise
over trade with Japan through export control and financial control,
is obscure and not fully developed.

In so far as the actual treatment of trade with Japan is concerned,
as distinguished from the policy decisions, the situation is about the
same in all three countries. Trade is virtually at a standstill.

The obscurity of our policy and the complexity of our financial and
export controls have given rise in recent weeks to increasing uneasiness
on the part of the British and Dutch regarding our intentions. They
have expressed to us their desire for a more definitive but private
statement of our policy, including our views on the products men-
tioned above, regarding which they are prepared to take action par-
allel to ours. In this connection, there are attached a letter from Mr.
Noel Hall of September 13,48 a memorandum from the British Em-

48 Ante, p. 873.
bassy of September 22, a despatch of September 3 from Minister Biddle, and two memoranda of conversations with the Minister-Counselor of the Netherlands Legation.

The British and Dutch have told us that they will go as far as we will, but that they do not want to get ahead of us. Today, for the first time, and after years of effort, we have achieved effective joint action against Japan. Indecision or the evidence of weakness on our part will endanger this common front.

Recommendations

There are certain questions now before us involving parallel action with the British and Dutch which require immediate and clear action. The recommendations made below regarding these questions would require no public announcements. In no case would they result in any actual change in our current exports, which are nil due to a combination of export control, payment difficulties and suspension of shipping facilities.

PETROLEUM

At present no petroleum is moving to Japan from any of the three countries. However, there are applications pending before both us and the Dutch which require immediate clarification.

(1) Tentative export quotas (of which the British and Dutch have been advised) have been worked out by the United States, but exportation is dependent upon the issuance of both export licenses and financial licenses. There are three export licenses outstanding for petroleum products valued at $178,000, for which no Treasury licenses have been granted because of the inability of Japan to arrange satisfactory methods of payment. The Japanese have recently informed us that they are not prepared to meet our suggested methods of payment (use of cash held in this country by Japan or, possibly, use of concealed Japanese dollar balances held in South America). They now suggest that payment be made by the shipment to this country of gold or of American currency which they have managed to accumulate in the Far East, particularly in Shanghai. (Payment in gold is ruled out by the policy decision approved by the President not to permit the importation of gold from Japan). We are under no obligation to the Japanese to consider either method of payment, since the only methods discussed with them have been those which they have now rejected.

(2) American oil companies have applied to the Dutch for export licenses, but the Dutch have held up issuance of licenses for the reason that licenses for payment have not been granted by the United States.

49 Not printed.
50 On September 18 and 20, respectively; neither printed.
Should we grant these licenses for payment, our action would be interpreted by the Dutch as an indication that we want to see the oil exported.

Knowledge by the Dutch of our tentative export quotas (which they regard as excessive) and the delay in clarifying our position on the question of payment for both American and Indies oil has caused them to become increasingly uneasy.

It is recommended:

(a) That we inform the Japanese that the methods of payment proposed by them are not acceptable.

(b) That we inform the British and Dutch in strict confidence that if they are prepared to act similarly, we will not permit further exports of petroleum products.

IRON ORE

Malaya has exported iron ore to Japan for many years. During the last few years the Philippines have also entered this trade. Malayan exports in the most recent years have amounted to about 2,000,000 tons; Philippine exports to about 1,150,000 tons. Japan also imports fairly substantial quantities of pig iron from India.

The British state that, through prohibition of night loading and night clearance, they have reduced exports from Malaya by about forty percent. A quota of 525,000 tons was fixed for exports from the Philippines for the last seven months of this year, which is equivalent to an annual level of 800,000 tons or a restriction roughly comparable to that on Malayan exports. However, because of heavy exports during the early months of this year, Philippine exports for 1941 as a whole will show little or no reduction from the high levels of recent years.

The British have now informed us that they are prepared to prohibit the exportation of iron ore from Malaya if we will prohibit exports from the Philippines.

It is recommended:

(a) That we agree to the British proposal on condition that exports of pig iron from India be prohibited.

(b) That we tell the High Commissioner to suspend the issuance of new licenses pending further instructions, and that we review the situation with regard to any outstanding licenses.

COTTON

Over a period of recent years, the United States and India have had roughly equal shares in the Japanese cotton market, the ratio from year to year depending to a large extent on price factors. During the past year, exports of American cotton to Japan were extremely small, while Indian exports continued at the level of the last few years.
Since the freezing order, no cotton has been exported from the United States to Japan, although some has continued to move to occupied China. Exports from India to Japan have been limited on a monthly basis to the 1940 level in so far as they were covered by confirmed credits prior to the freezing order. (Exports to occupied China are also tentatively limited to the 1940 level). These credits are practically exhausted. The British have offered to reduce exports to Japan to whatever level (in terms of value) that we reduce.

It is recommended:

(a) That we accept the British offer and inform them that we are prepared to withhold Treasury licenses for the exportation of cotton, except for cotton bought by the Japanese prior to freezing, the release of which would be dependent upon arrangement being made for the reciprocal release of American-owned goods by Japan.51

(b) That we approach the British with a view to working out an arrangement for restricting exports of cotton to occupied China to reliable British, American and Chinese mills.

I also recommend that, with reference to each of these products, we inform the British and Dutch that if future events should warrant any changes in our policy, we would discuss the changes with them in advance of taking action.

In conclusion, I should like to emphasize again my feeling that, unless we give the British and Dutch a clear statement of our policy and take immediate and decisive action on the questions now before us, the whole program of concerted action against Japan will be seriously imperiled and, in my opinion, if it collapses it can, in all probability, not again be resurrected within the foreseeable future.

DEAN ACHESON

884.24/1750

Memorandum by the Adviser on Political Relations (Hornbeck)52

[WASHINGTON,] September 24, 1941.

I concur, right straight through, in the expressions of opinion which I find in this memorandum.53

I concur in the recommendations with regard to petroleum and iron ore—except that I would suggest that, in imparting to the British and the Dutch information regarding our position and intentions, we do so in general and guarded terms rather than in terms of a promise or agreement.

51 The Chief of the Division of Far Eastern Affairs (Hamilton) on September 25 reported his Division concurred in the suggestion that cotton purchased by the Japanese prior to freezing be released in exchange for the release by Japan of American-owned goods held in Japan.
52 Initialed by the Secretary of State.
53 Dated September 22, supra.
With regard to cotton, I suggest that the question be “let ride” for the present—with an expectation that before long we will arrive at an opportune moment for taking the action recommended; and that we so inform the British.

S[TANLEY] K. H[ORNBECK]

The Japanese Ambassador (Nomura) to the Secretary of State

No. 280

The Japanese Ambassador presents his compliments to the Honorable the Secretary of State and has the honor to refer to the agreement entered into at Tokyo on September 15, 1941, between the Imperial Foreign Office and the United States’ Ambassador to the effect of exempting from the application of the “freezing” orders, on a basis of reciprocity, the diplomatic and consular officers, as well as other official agents, of both countries within the territories under the authority of each of them.

In conformity with the stipulations of the said agreement, lists of those coming under the said exemption are herewith submitted. The Ambassador will appreciate it if the Secretary will be so good as to cause to be removed the existing hindrances in the way of the transfer of funds from the Imperial Government to the said agents and the free disposal of the funds by the persons concerned.

[WASHINGTON,] September 24, 1941.

Memorandum of Conversation, by the Assistant Secretary of State (Acheson)

[Extract]

[WASHINGTON,] September 25, 1941.

Mr. Iguchi called at his request. He handed me the attached memorandum relating to the licensing of the accounts of Japanese official representatives in this country and Japanese consular officials, together with the attached list of such accounts and amounts requested. This agreement was made pursuant to telegram No. 565, September 5, 11 p. m., to the Ambassador in Japan, p. 870, and was reported in detail in telegram No. 1465, September 16, 5 p. m., from the Ambassador in Japan, not printed (840.51 Frozen Credits/3563).

None printed.

Neither printed.
Mr. Iguchi stated that he presumed that, an agreement having been reached in Tokyo between Mr. Grew and the Japanese Foreign Office, Mr. Grew would present similar lists and we could then license the accounts. I stated that according to my understanding there was one matter still under discussion between Mr. Grew and the Japanese Foreign Office, which was the extension of similar treatment to American diplomatic and consular accounts and officials in Japanese occupied areas in China; that I understood that the Japanese Government had expressed its willingness to use its good offices to bring about such treatment, but that in view of the importance to us of assuring such similar treatment I could not tell him that we would be prepared to license the accounts in this country until we were assured either that similar treatment would be or had been accorded in Japanese occupied areas in China. I added that this matter was under consideration by other officials in this Department, who were in touch with Mr. Grew, and that I had every hope that the matter would be shortly arranged either with the Japanese Government or in some other satisfactory way.

DEAN ACHESON

811.20 (D) Regulations/5462

Memorandum of Conversation, by Mr. Alger Hiss, Assistant to the Adviser on Political Relations (Hornbeck) 57

[WASHINGTON,] September 26, 1941.

After Mr. Acheson had discussed with the Secretary the substance of his memorandum of September 22 entitled "Trade with Japan" and after having worked out with Messrs. Hornbeck and Hamilton the nature of information which it would seem wisest to impart to the British and Netherlands Governments, Mr. Acheson asked Baron van Boetzel aer to call (the Minister being out of town).

Mr. Acheson had previously written out the phraseology which he intended to follow in talking to Baron van Boetzel aer and he stuck closely to this phraseology in making the following remarks: In view of Baron van Boetzel aer's repeated requests for a statement of the policy of the American Government regarding the shipment of petroleum products from the United States to Japan, Mr. Acheson said that he was now in a position to say that no shipments of such products had gone to Japan since the date of the freezing order, and that although three export licenses for comparatively small amounts of petroleum products had been granted sometime ago the Japanese had

57 Initiated by the Assistant Secretary of State (Acheson).
refused to turn in as payment hidden currency in their control in this country and all other forms of completing the transaction have been found unsatisfactory by the United States. It is the intention of the United States to continue to take this same attitude. In other words, through the medium of our freezing control, exports of petroleum to Japan have ceased and the Netherlands authorities may expect that through the maintenance of the same control the same result will continue. Should anything occur which might warrant a reconsideration of the situation we would of course discuss the matter with the Netherlands authorities before taking any action.

Mr. Acheson then said that Secretary Hull had particularly stressed his desire that the information which had just been given to Baron van Boetzelaer be disseminated among as few officials of the Netherlands Government as possible and had also stressed the importance that there be no publication in any way of anything ascribing any particular policy to the Government of the United States.

804.24/1825

Memorandum of Conversation, by the Assistant Secretary of State (Acheson)

[WASHINGTON,] September 27, 1941.

Mr. Hall called at my request. I referred to the fact that from time to time Mr. Hall had made inquiries regarding the policy of this Government toward the shipment of petroleum products from the United States to Japan and that, as he knew, the Netherlands Government had made similar inquiries. I said that yesterday Baron van Boetzelaer called again to ask for clarification on this point and that I wished to inform Mr. Hall of what I had said. I then repeated to Mr. Hall the statement which I had made to Baron van Boetzelaer, having previously refreshed my memory from the written memorandum. The statement was as follows:

[Here follows substance of statement given in memorandum by Mr. Alger Hiss, supra.]

I then referred to the suggestion which he had made that the Government of India was willing to restrict its exports of cotton to Japan and I believed to Japanese occupied China in any month to the amount which had been exported to those destinations from the United States in the preceding month. I informed him that at the present time no cotton was moving from this country to Japan and relatively small amounts to Japanese-occupied China, and that we would procure for him as promptly as possible after the end of each month a statement from the Collectors of Customs of the amounts exported.
I then referred to his letter in which he had suggested that the British authorities were prepared to stop the exports of iron ore from British Malaya if exports of iron ore from the Philippines were discontinued. I stated that we were trying to get from the Philippines a statement of the amounts of iron ore, if any, which was already under license and the amount of the unexhausted quota. Such figures as we had led us to believe that the quota was very nearly exhausted. If this were so, it would not be our intention to enlarge the quota. If there were no outstanding licenses, the policy would be to have the whole matter referred to Washington for review, with a view toward discontinuing exports. If there were any substantial number of licenses outstanding, that situation would require further study. I told him that I would discuss this matter further with him very shortly, as soon as we had received the essential information from the Philippines.

DEAN ACHESON

811.20 Defense (M)/3469

The Secretary of State to the Deputy Federal Loan Administrator (Clayton)

WASHINGTON, September 27, 1941.

My dear Mr. Clayton: I am advised by officers of the Department who are working on the subject with me that the range and details of our emergency buying program for Philippine export products are being worked out and made effective. I would like to convey to you my sense of the importance of the undertaking. The action of the Philippine authorities, in conjunction with this Government, in controlling their exports will prove a very substantial contribution to the execution of our foreign policy. It should serve at once to make available to us for purposes of defense production materials we urgently need, and at the same time curtail supplies in other directions. These purposes, I am certain, will justify the expenditure that the Federal Loan Agency may be called upon to make or the financial risk to which it may expose itself thereby.

I believe it important that the Government go as far as it conscientiously can by means of our purchase program to minimize the disturbance and loss occasioned to Philippine producing interests and

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58 September 13, p. 873.
59 In a memorandum of September 8, the Adviser on International Economic Affairs (Feis) stated that "our export control directive as applied to the Philippines already curtails or eliminates the Japanese market for many important Philippine products; to wit, chrome, manganese, copper, iron ore, copra, coconut oil, abaca."
workers. Under certain contingencies, the Philippines might become an even more important center of political and military interests than they are at the present time. Assurances that both the Philippine authorities and the people working in the Philippines will be convinced of our consideration for their interest will be certain to be helpful. I suggest and recommend that the Federal Loan Agency consider the whole purchase program in the light of these considerations.

I understand that some hesitation exists particularly in the matter of low grade iron ore. Without going into detail, I feel that if as a consequence of our general policy in these matters the mines concerned completely or substantially lose their customary markets, this Government would be well advised during this emergency period in providing at some reasonable minimum price the financial assistance whereby the mines can avoid shutdown or too drastic reduction. If this means the accumulation of ore in the Philippines that cannot be moved to the United States now, there is always the hope that at the end of the emergency it will find a market; or at the worst, that we should have to consider this as one of the minor losses under the defense program.

Even more important than iron ore and the other base metals, from the standpoint of the Philippine economy, are such industries as coconut products, sugar, lumber and tobacco, which provide a large proportion of the Philippine income from exports and on which a large proportion of the population is dependent. I understand that plans for the alleviation of the problems of the coconut industry are being studied. The other industries mentioned are not affected by export control but are in grave danger of losing their normal markets as a result of our policy in the allocation of shipping space. The sugar industry, on which nearly ten percent of the population depends, is in a particularly difficult situation since the International Sugar Agreement provides that Philippine sugar may be sold only in the United States. It is doubtful if a loan policy would be very effective in this instance, due to storage difficulties and the unlikelihood of an adequate market at the end of the emergency, but the gravity of the situation makes it imperative that a solution of the problem be sought.

In the case of lumber, it might be found desirable to make loans against accumulated stocks, since lumber would not deteriorate and should ultimately be in good demand. It is possible that our responsibility toward the tobacco industry might be fulfilled simply by assuring that shipping space is available for the established quota for cigar shipments to the United States, which should not be difficult. It is hoped that Dr. Grady will find it possible to give some consideration
to the problems of these industries, particularly sugar, before leaving the Islands.

I thank you for your consideration of this matter.

Sincerely yours,

CORDELL HULL

840.51 Frozen Credits/8519: Telegram

The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, September 27, 1941—7 p. m.

623. Your 1470, September 17, 1 p. m. and 1465, September 16, 5 p. m. The Japanese note verbale in itself is acceptable to this Government. It is noted, however, that there has been no reply to our oral request for assurances that the treatment of American official establishments and personnel in Japan which the Japanese Government may agree upon shall in fact be extended to the official establishments and personnel of this Government in Manchuria and the occupied areas of China. However, in order to avoid further delay you are authorized to fulfill the conditions set forth in the note verbale with respect to the official establishments and personnel of this Government in the Japanese Empire and the Kwantung Leased Territory, including, of course, the establishments and personnel of all the agencies of this Government. At the same time that you furnish this information, however, it is desired that you make an oral statement, leaving a written record thereof, along lines as follows:

"It is assumed that the Japanese Government will take prompt action to the end that there shall be effectively extended to the official establishments and personnel of the Government of the United States in Manchuria and the Japanese-occupied areas of China allowances and privileges equivalent to those accruing to the official American establishments and personnel in Japan and to official Japanese establishments and personnel in the United States."

The Department is instructing the Embassy at Peiping to keep a close check on whether American official establishments and personnel functioning in posts in Manchuria and the Japanese-occupied areas of China where restrictions on withdrawals and expenditures by official establishments and personnel are in force receive in the future allowances and privileges no less favorable than those accruing to American and Japanese official establishments and personnel each in the territory of the other and, within a reasonable period of time, say three or four weeks, to report to the Department on the subject by naval radio repeating its report to you.

*Neither printed; with regard to the latter, see footnote 54, p. 385.
SANCTIONS AGAINST JAPAN

Please repeat to Peiping your 1465, September 16, 5 p. m., and furnish Peiping by mail a precise list of the data which you plan to furnish the Japanese Government in regard to American official establishments and personnel.

Sent to Tokyo via Peiping.

HULL

994.24/1818

The British Minister (Hall) to the Assistant Secretary of State (Acheson)

WASHINGTON, October 2, 1941.

DEAR MR. ACHESON: After our conversation last Saturday morning I reported to London that exports of cotton from the United States to Japan during August last had been zero and that they were almost certain to be zero during September.\(^{41}\) London has passed on this information to the Government of India and suggested to that Government that it should now implement the general undertaking which it suggested about cotton exports to Japan. Under this undertaking shipments from India during October to Japan should be nil, except insofar as shipments are made under unexpired, pre-zero confirmed credits for other pre-zero contracts where payment is made in cash.

Very sincerely yours,

NOEL F. HALL

711.94/2406\(^{4}\)

Memorandum of Conversation, by Mr. Joseph W. Ballantine \(^{42}\)

[WASHINGTON,] October 3, 1941.

The Japanese Ambassador called at his request. He handed the Secretary the attached statement marked “oral” \(^{43}\) and stated that although the subject was a matter concerning which he was reluctant to trouble the Secretary, he had brought it personally to the attention of the Secretary because he had been expressly instructed by his Government to do so. He said that the Counselor of the Embassy, Mr. Iguchi, had been dealing with Mr. Acheson in regard to the matters discussed in the statement and that Mr. Acheson had been very considerate to Mr. Iguchi. The Secretary read the statement and replied that he would, of course, look into the matters mentioned in the state-

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\(^{41}\) No licenses for the export of cotton to Japan were issued by the Treasury Department for September–November.

\(^{42}\) Foreign Service Officer detailed to the Department on special consultation.

\(^{43}\) *Infra.*
ment given him by the Ambassador. He said that those matters were ones in which other Departments of this Government were concerned and interested; that he could not undertake to say offhand just what departments were concerned.

The Ambassador then took up another unrelated matter which is the subject of a separate memorandum.64

711.04/24064

The Japanese Ambassador (Nomura) to the Secretary of State

ORAL

I have been instructed, Mr. Secretary, to appeal to you personally for assistance in the settlement of two long pending issues: one concerning the resumption of shipping from Japan to the United States and the other concerning the payment for the licensed oil shipment.

As regards the first question, I am told that if no assurances can be obtained regarding the question of “claims” because it is a matter in the hands of the judiciary authorities, the proposed resumption of shipping will have to be delayed indefinitely.

The Japanese Government hesitates to use a requisitioned ship as such a ship is likely to be regarded as an “evacuation ship” and would create consequently an undesirable impression upon the public.

Since it is intolerable, in fact inhuman, to keep waiting so long so many prospective passengers, and since as many Americans as possible are also to be accommodated, I am instructed to request the American Government to be good enough to see to it that, no matter what technical difficulties there may be, an arrangement is speedily made for the sending of one ship at least.65

As regards the second question, in view of the delay in obtaining an answer to its proposal of two weeks ago to ship gold or U. S. dollar notes in payment of the licensed oil shipment, the Japanese Government, despite serious difficulties, has finally decided to remit the money from South America, as was once suggested by the American Government. It is hoped this step will facilitate the settlement of the case.

[WASHINGTON,] October 3, 1941.

The Japanese Ambassador (Nomura) to the Secretary of State

No. 288

The Japanese Ambassador presents his compliments to the Honorable the Secretary of State and has the honor to acknowledge the receipt of the Secretary's note dated September 16, 1941, regarding the Treasury Department's information to the Department of State on the waiving of requirements in filing reports for duly accredited diplomatic officers of foreign governments and employees in diplomatic missions.

In connection with this matter, the Ambassador is instructed to inform the Secretary of State that, in conformity with the spirit and aim of the agreement reached in Tokyo on September 15, 1941, the Japanese Government desires to propose to waive, on a basis of reciprocity, the requirement to file reports personally with respect to the property not only of duly accredited diplomatic officers and employees in diplomatic missions as referred to in the Secretary's note above-mentioned, but also consular officers or employees and other officials or employees of foreign governments.

This the Japanese Government proposed to do provided it meets with the approval of the American Government.

[WASHINGTON,] October 3, 1941.

756D.94/189: Telegram

The Consul General at Batavia (Foote) to the Secretary of State

BATAVIA, October 7, 1941—3 p. m.
[Received October 7—9: 54 a. m.]

160. Department's telegram No. 123, September 13 [26].

1. The following items were shipped to Japan between June 1 and July 28, 1941, the date of the Netherlands Indies freezing order (stated in metric tons): 1815 rubber; 41 cinchona bark; 29 quinine; 151 copal; 4600 copra and oil bearing seeds; 9400 sugar; 600 tapioca; 56 kapok; 80,800 mineral oil; 25,700 bauxite; 5800 scrap iron; 17,000 salt; 9700 nickel ore; 305 tin; 35,000 corn; and other goods valued at 278,000 guilders.

2. After the local freezing regulations became effective one Japanese tanker was loaded with 10,583 tons of crude oil. This was paid for

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66 Not printed.
however prior to July 28 and the ship was in Netherlands Indies waters at that time. No other deliveries of oil have been made except for small quantities for ship's use.

3. On the day the local freezing regulations became effective there were four Japanese ships in Netherlands Indies waters to transport cargoes which had been paid for prior thereto. These ships were permitted to load and depart with the following goods (stated in metric tons): 610 rubber, 110 tin, 15,980 corn, 65 cinchona bark, 16 quinine, 2059 scrap iron, 60 mangrove bark, 565 palm oil, 150 sisal, 10,750 sugar, 250 paraffin wax, 200 manganese ore, 1400 copra, 117 tapca [sic] roots, 81 wattle bark, and other small quantities of less important commodities. No other export permits have been granted with the exception of one for 7500 tons of soft wood timber which has not yet been shipped.

4. I am informed that some bartering arrangement may be made in the near future to meet this country's urgent needs for glassware, textiles, et cetera, but that nothing will be exchanged therefor which would increase the war potential of a possible enemy. I have been promised that the details of such transactions, if consummated, will be made available to me for the Department's information.

5. Van Mook took great pains to assure me of this Government's desire to cooperate with the United States and to exchange information on all points of mutual interest. After pointing out that nearly 4 days passed before he received any official information about the American freezing order and that press reports were too fragmentary and unreliable to act upon, he said that it would save time and be most helpful if this office were in a position to inform him of any similar actions contemplated by the United States Government.

FOOTE

The Ambassador in Japan (Grew) to the Secretary of State

Tokyo, October 9, 1941—9 p. m.
[Received October 9—10:46 a. m.]

1598. 1. A member of my staff has learned from a source considered very reliable that the Japanese Government's available supply of foreign exchange has been reduced to around 20,000 reichsmarks and that it will have no other recourse than to default on maturing foreign exchange contracts. The American, British and Netherlands East Indies freezing orders have completely blocked exchange transactions in dollars, sterling and guilders and have sharply curtailed dealings in South American currencies. Our informant states that his exchange contracts amount to around 5,000,000 Swedish kroner
and that Japanese purchases from Sweden during the past several months have been financed chiefly through Berlin, presumably by credits advanced by Germany.

2. Recently the Germans have frozen these credits advising the Japanese that they are to be used to finance the purchase of German goods only. Another likely motive according to our informant is that the Germans anticipate Japan's withdrawing from the Axis. They suggested that in as much as Sweden is heavily in debt to Germany for arms and ammunition, Germany is now demanding goods from Sweden rather than kroner. There are reports here to the effect that Japan now owes Germany around 80,000,000 marks.

3. Actually Japan now finds herself in exactly the same embarrassing international financial position as the foreigners have been placed in Japan.

Grew

894.24/1783

The Japanese Embassy to the Treasury Department

ORAL

PAYMENT FOR LICENSED OIL SHIPMENTS

When Mr. Nisiyama called on the Treasury Office (1610 Park Road) on September 30th and had a talk on the above subject, he was given to understand that the Government of the United States was not in a position to indicate when it would reach a decision to reply to the Japanese proposal to ship gold or dollar bills from Japan in payment for the shipments.

In the meantime, two Japanese tankers were being kept at San Francisco. These vessels have waited far too long.

The Japanese Government, having been informed that the money position of the Yokohama Specie Bank in South America slightly eased off, now proposes to revert to the original plan, which was suggested by the Government of the United States, to have the money remitted from Rio de Janeiro.

The Yokohama Specie Bank, Rio de Janeiro, will arrange the following telegraphic transfers, through the Banco de Brazil, which will instruct the Chase National Bank of the City of New York, New York, to pay to:


— Copy received in the Department of State from the Treasury Department on October 10.

3. Wells Fargo Bank and Union Trust Company, San Francisco in favor of Mitsubishi Shoji Kaisha, to be paid to Tidewater Associated Oil Company $72,000.

The Japanese Government believes that the above arrangement meets the requirement of the Government of the United States. Upon receipt of the assurance of the Government of the United States that the relevant permits will be granted for the aforesaid telegraphic transfers, the Japanese Government will take necessary steps in order that the payment for and the loading of the oil be effected without further delay.

[WASHINGTON,] October 9, 1941.

840.51 Frozen Credits/3453 : Telegram

The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, October 10, 1941—4 p. m.

648. Your 1430, September 8, midnight, and subsequent confidential code telegram in regard to regulations for the control of transactions concerning foreigners.

The Department desires unless conditions have materially improved that an emphatic and comprehensive approach be made to the Japanese Government on behalf of American nationals residing in Japan, other than official personnel, who are suffering undue hardship as a result of regulations enforced in Japan with regard to transactions concerning foreigners. The approach should be in reply to the Japanese Government’s note of September 8 reported in your 1430, September 8, midnight. The Department feels that the Embassy is more familiar with the facts and is, therefore, in a better position than is the Department to draft the communication on this subject. However, the Department suggests that you might refute various of the Japanese Government’s allegations by reference to the facts, along the lines of your confidential comments to the Department.

Please telegraph the Department whether there has been any improvement in the situation since your last report. Also, after making a further approach to the Japanese Government along the lines indicated in this telegram, please press the Japanese Government for early and favorable response and keep the Department currently informed by telegraph of developments.

Sent to Tokyo via Peiping.

HULL

— Not printed.
SANCTIONS AGAINST JAPAN

711.94/2362 : Telegram

The Consul at Osaka (Allison) to the Secretary of State

OSAKA, October 13, 1941—4 p.m. [Received October 14—1:40 p.m.]

The news of the despatch of three Japanese ships to the United States was received in Osaka business and financial circles with considerable pleasure. Prices on the Osaka share market rose appreciably this morning and foreign businessmen with important Japanese contacts have reported that there is prevalent an optimistic feeling to the effect that Japanese-American relations are at last on the mend. In spite of the report in the Japanese press that these ships would carry no freight there is a strong belief that some arrangement will be reached whereby it will be possible for them to bring back a certain amount of goods. One cotton merchant told me his Japanese partner stated that after space was provided for industrial and military materials there would probably be room for some cotton also. There are reports too that inquiries for large amount of raw silk have recently been received from America, it is believed that this display of optimism is the result of wishful thinking on the part of Osaka businessmen to whom the freezing order has been a real blow and is also indicative of the genuine hope of many of them that trouble with the United States may be averted. That this attitude is not unanimous is evident from the fact that the Osaka Mainichi continues to feature anti-American articles noted for their insulting attacks on American policy and leaders, particularly the President, the latest of which appeared yesterday morning. The Jiji also published an editorial Sunday which reiterates the now familiar statement that American and British policy towards Japan consists of economic pressure and military encirclement.

ALLISON

840.51 Frozen Credits/3642 ; Telegram

The Secretary of State to the Counselor of Embassy in China (Butrick), at Peiping

WASHINGTON, October 14, 1941—8 p.m.

190. Your 279, September 25, 1 p.m.,* request for report on Mukden Consulate's assets.

You are authorized to instruct the Consul at Mukden that he inform the authorities, either by informal letter or by informal oral approach at Hsinking, as he thinks appropriate, that while the

* Not printed.
American Consulate General at Harbin and the American Consulate General at Mukden are under no legal obligation to comply with the regulations under reference, they are prepared voluntarily to supply all reasonable information concerning their assets. The Consul, however, might point out that this Government, as of September 16, waived in the case of the real property, furnishings and archives of foreign Embassies, Legations and Consulates in this country, including the Japanese and Chinese Embassies and Consulates, certain reports required under Executive Order No. 8388 (freezing order),\(^1\) and might express the hope that the Hsinking authorities will find it likewise unnecessary to require reports from American Consulates in Manchuria.\(^2\)

Sent to Peiping. Repeated to Chungking. Peiping please repeat to Tokyo.

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**Hull**

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**The Secretary of State to the Japanese Ambassador (Nomura)**

The Secretary of State presents his compliments to His Excellency the Japanese Ambassador and has the honor to acknowledge the receipt of the Ambassador’s note of date October 3, 1941 in regard to the waiving of requirements in filing reports for consular officers and employees and other officers and employees of foreign governments.

The requirement under discussion is applicable to consular officers and employees and other officers and employees in the United States of all foreign governments, and the Secretary of State regrets that after careful and sympathetic consideration of the Japanese Embassy’s suggestion it has not been found feasible to make an exception in the case of Japanese officers and employees to the general rule.

**Washington, October 29, 1941.**

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**The Japanese Embassy to the Department of State**

**MEMORANDUM**

The Japanese Government is prepared to issue the instructions necessary for exemption from the freezing orders of the official establishments maintained in Japan by the American Government and of their personnel, in accordance with the agreement between the two

\(^1\) In Federal Register 1400.

\(^2\) In response to this information, the Consul at Mukden reported at the end of November that the authorities in Manchuria “refused to release funds for November salaries and expenses until monthly reports of assets from August to date are made in addition to the previously required detailed applications for withdrawals. Reports are being made.” (840.51 Frozen Credits/4339)
Governments referred to in the Japanese Ambassador’s note No. 280 of September 24, 1941. The Japanese Government wishes to be apprised of the attitude of the American Government on the following point:

The aforementioned instructions will authorize, upon application, the release of funds to the American establishments and to their personnel to cover expenses for the months of August, September, and October. The Japanese Government is desirous that the American Government will grant similar releases of funds to Japanese establishments in the United States and to their personnel.

[WASHINGTON,] October 30, 1941.

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The Japanese Embassy to the Department of State

[WASHINGTON,] October 31, 1941.

MEMORANDUM

(1) The following arrangement for the release of funds to American establishments and personnel in Japan is satisfactory to the Japanese Government:

Whenever the Yokohama Specie Bank, Tokyo, shall supply to the National City Bank, Tokyo, yen-funds to cover the necessary expenses of American establishments and their personnel, and both banks have notified their New York offices of the consummation of the transaction, the National City Bank, New York, shall pay to the Yokohama Specie Bank, New York, an equivalent amount in dollars.

(2) With reference to the Embassy’s memorandum of October 30th regarding the period of time for which the Japanese Government is prepared initially to release funds for the expenses of American establishments and their personnel, the Embassy desires to make clear that the intention of the Japanese Government is to release funds for November expenses as well as for the expenses of August, September, and October, and that the releases for November shall include funds for the three preceding months.

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The Counselor of Embassy in China (Butrick) to the Secretary of State

PEIPING, October 31, 1941—2 p. m.
[Received November 4—8:42 p. m.]

335. Department’s 181, September 27, 7 p. m. Reciprocal arrangement for unfreezing blocked official accounts. With the exception of

73 Not printed; it was similar to Department’s telegram No. 623, September 27, 7 p. m., to the Ambassador in Japan, p. 890.
the Consulate General at Mukden, Embassy has received no reply to
its circular telegram of October 4 (repeated to Department)\textsuperscript{75} indicating that any American official establishment or employee in Jap-
nese occupied areas has a bank account in China which is subject to
retaliatory freezing measures. Particulars required from Mukden
were furnished the Embassy in Tokyo [on] October 6.

So far as the Embassy is aware, none of the retaliatory freezing
measures in force in China has been abolished or modified in favor of
American official establishments and personnel to such an extent that
if such establishments and personnel had accounts in a bank in China
those accounts would be as free from restrictions on withdrawals and
investments as are the accounts in the United States of Japanese
official establishments and personnel. In short, the arrangement for
reciprocal treatment is not in effect in China.

Sent to the Department, repeated to Chungking and Tokyo.

\textbf{Butrick}

\textit{811.7194/12}

\textit{Memorandum of Conversations, by the Assistant Chief of the Division
of Far Eastern Affairs (Atcheson)\textsuperscript{76}}

\[\textit{[Washington,] November 3, 1941.}\]

Mr. Iguchi telephoned this morning and stated that his Embassy
had received a cable from the Japanese Consulate General at Hono-
lulu to the effect that United States postal authorities there had re-
ceived orders not to permit mails scheduled for the \textit{Taiyo Maru} to be
sent on that vessel which was due to depart for Japan November 4.
Mr. Iguchi inquired as to the purpose of such orders and requested
appropriate information in the premises. Mr. Atcheson stated that
he would look into the matter and let Mr. Iguchi know. Mr. Iguchi
stated that he would be absent from the Embassy for a period and
upon his return he would telephone to Mr. Atcheson again.

Mr. Atcheson subsequently learned from Mr. Keating of IN\textsuperscript{77} that
the mails which were being withheld from the \textit{Taiyo Maru} were first-
class mails only; that this action was taken in accordance with the
procedure worked out whereunder first-class mails for the Far East
would pass through British territory to be censored; and that second-
and third-class mails would go forward on the \textit{Taiyo Maru}.

Mr. Iguchi later telephoned to Mr. Atcheson again. Mr. Atcheson
stated that he had made inquiries in regard to this matter; that as
Mr. Iguchi knew, wartime conditions and shortage of ships and

\textsuperscript{75} Not printed.
\textsuperscript{76} Initiated by the Chief of the Division (Hamilton).
\textsuperscript{77} Division of International Communications.
changes in shipping schedules had recently caused delays in the forwarding of mails and alterations in the procedures followed in the forwarding of mails; that he understood that the Post Office Department was undertaking the formulation of new procedures for the forwarding of mails and it appeared that while second- and third-class mails would be sent on the Taiyo Maru, the first-class were of a category falling within the new general procedure. Mr. Iguchi said that he had assumed that something of the sort was the case and he inquired whether it would be all right for his Embassy to cable the Consulate General at Honolulu to have the Taiyo Maru sail therefrom on schedule without the first-class mails in question. Mr. Atcheson stated that this would seem to be appropriate as the postal authorities would not, of course, wish to delay the vessel's departure. Mr. Iguchi said that he would send a message to the Japanese Consul General at Honolulu and would have the vessel sail on time.

840.51 Frozen Credits/4362: Telegram

The Ambassador in Japan (Grew) to the Secretary of State

Tokyo, November 13, 1941—2 p. m.
[Received November 22—1: 36 p. m.]

1795. On November 11, 1941, the Japanese Government published in the Official Gazette general licenses Nos. 61 and 62 of the Ministry of Finance which in effect unfreeze American Government establishments and personnel in Japan.
[Here follow texts of translations of the general licenses.]

Grew

840.51 Frozen Credits/4350

The Assistant Secretary of State (Acheson) to the Counselor of the Japanese Embassy (Iguchi)

WASHINGTON, November 14, 1941.

MY DEAR MR. IGUCHI: This is in reply to your letter of November 10, 1941 78 with respect to licenses releasing within the amount agreed upon the official funds for salaries for the month of November of the official Japanese establishments in the United States. Licenses were issued today by the Department of the Treasury releasing the various accounts of the official establishments and personnel which were set forth in the note from the Japanese Ambassador to the Secretary of State, no. 280, dated September 24, 1941. The licenses which have been granted cover all payments which are to be made under the ar-

78 Not printed.
rangement which has been agreed upon. The when it is desired to trans-
fer funds to replenish these various accounts, the appropriate pro-
dure would be for the Yokohama Specie Bank to file an application
describing the transfer which is to be made. When such applications
are filed, the necessary licenses will be granted promptly.

Sincerely yours,

DEAN ACHESON

811.20 Defense (M)/3764 : Telegram

The Consul at Shanghai (Stanton) to the Secretary of State

SHANGHAI, November 15, 1941—9 a.m.

[Received 1:18 p.m.]

1. Department’s 955, November 10, 5 p.m.68 Estimates of quan-
tities of waste silk in Shanghai range up to 10,000 piculs said to be
mostly in Japanese hands with larger quantities up country. Japan
military still control exports of all grades of raw silk including waste
silk and there is apparently no change in situation whereby permits
for export can be secured only if exporter can arrange imports of petro-
leum or other products desired by Japanese authorities as reported
in this Consulate General’s message 1249, September 11, 4 p.m.69
Thus, a virtual embargo is in force on silk and waste silk shipments to
United States and a large British exporter states that its silk ship-
ments to the United Kingdom have been dead for the past 2 months
for same reasons. Japan holders of waste silk apparently do not wish
to ship to Japan, where there is a demand, as price to be realized is not
sufficiently attractive. Hence they prefer to hold stocks here hoping
some basis for resumption of usual export trade may be found.
This Consulate General will not encourage exporters to make efforts
to develop import link deals with Japanese for waste silk exports un-
less Department so instructs.

STANTON

811.711/1649: Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, November 21, 1941—8 p.m.

[Received November 21—6:57 a.m.]

1. Department’s 718, November 5, 11 p.m.68

1. Tokyo Asahi this morning reported that the director of the Amer-
ican Bureau of the Foreign Office,61 replying on November 20 to an

68 Not printed.
69 Kumaichi Yamamoto.
interpellation in a committee of the Lower House, stated that the action of the American authorities in withholding mail from the Tatsuta Maru was an "extremely unfriendly act and contravened the understanding which was reached with regard to the sending of the vessel".

2. At my direction the Counselor 82 called this afternoon on Mr. Yamamoto and inquired whether the Asahi story were correct. Mr. Yamamoto replied that he had submitted to the committee a written reply to a heated interpellation criticizing the Japanese Government for failing to protest to the American Government with regard to the incident; that the story omitted his account of the satisfactory action of the American Government in sending forward the mail on subsequent vessels; but that he had in fact used the words as above quoted. He was informed that the Japanese oral statement delivered to the Department on October 7 83 made no mention of the carrying of mails and that that fact was admitted on November 4 by the Counselor of the Japanese Embassy in Washington. When informed that I desired that a statement be issued by the Foreign Office which would in effect retract the statement above quoted, Mr. Yamamoto said that no correction of his official reply could be made as the Diet had adjourned and he expressed unwillingness to have any correction released by the Foreign Office. He said that he would however be prepared to write me a letter of explanation.

3. As it is unlikely that any Japanese newspaper would be prepared to publish any statement from the Embassy controverting the reply to the interpellation made by Mr. Yamamoto, I recommend that I be authorized to address to the Minister for Foreign Affairs 84 a formal note taking strong exception to the objectionable statements of Mr. Yamamoto.85

Grew

840.51 Frozen Credits/4442

Memorandum by the Assistant Secretary of State (Acheson) 85

WASHINGTON, November 22, 1941.

PRESENT EFFECT OF THE FREEZING CONTROL IN THE ECONOMIC CONTROL AS EXERCISED UPON JAPAN

1. Effect upon control of imports. Japanese imports into the United States in 1940 were $106,000,000. In the first five months of 1941 they were $52,000,000. Approximately two-thirds of these im-

82 Eugene H. Doorman.
83 Not printed, but for Department's reply, see note to the Japanese Embassy, October 8, vol. v, p. 432.
84 Shigenori Togo.
85 The Ambassador was authorized on December 1 by the Secretary of State to address a note to the Minister for Foreign Affairs along the lines recommended.
86 Noted by the Secretary of State.
ports were silk and silk products. The freezing order is our only machinery for controlling imports. If there were no freezing order, but if export controls were continued, there would undoubtedly be a resumption of imports. It seems probable that these would be chiefly silk and silk products. Probably the general level of imports would decrease, since the export controls would diminish the use of the dollars for purchases in this country. However, the Japanese might be anxious to resume silk imports, both because otherwise the market might be permanently lost through the use of substitutes and partly because it might delay the transformation of our textile equipment from silk to synthetic fibres.

2. Effect of Freezing upon export control. Prior to the application of freezing to Japan, American exports to Japan were approximately $10,000,000 per month. The largest items were scrap rubber, raw cotton, and petroleum products. Since the end of July export control has been extended over a considerable range of products. At the present time raw cotton, textile manufactures, and lumber and wood products other than pulp and paper are the chief items not under export control. However, animal and vegetable food products, other than oils and fats, while under export control, may be exported by reason of the existence of general licenses to all destinations, except from the Philippines. It is the imposition of freezing control which prevents these exports to Japan and Japanese-occupied China. Of course, it would be possible to revoke the general licenses and exercise the control through export control rather than through freezing.

3. Export control in its effect on Japanese trade with other areas. The Japanese oil trade with the Netherlands East Indies was financed largely through the use of dollars. The freezing control has been a factor in stopping this trade. The freezing control also has been a factor in stopping, or greatly limiting, Japanese trade with the other American Republics, since here again payments were made through dollars.

4. Effect of freezing control upon Japanese assets in the United States. The control has immobilized Japanese deposits in the United States. If it did not exist, presumably a large part of the deposits would be withdrawn. In Japan American deposits are immobilized not merely through freezing control, but through pre-existing exchange control.

5. Effect upon Chinese stabilization. At the present time the American freezing control is one of the chief instruments—if not the chief instrument—in the attempt to stabilize the Chinese currency and to control imports and exports through Shanghai. If the freezing control did not exist in respect to Japanese assets, these efforts would be made immeasurably more difficult.

DEAN ACHESON