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CABINET

JAPAN: TRADE AND PAYMENTS NEGOTIATIONS

Memorandum by the Secretary of State for Foreign Affairs

In their discussion on 15th August of the Chancellor of the Exchequer's note C.P.(55) 103 the Cabinet asked me to reconsider the decision that the shipping question should not be raised again in the course of the negotiations for a new Trade and Payments Agreement (C.M.(55) 28th Conclusions, Minute 7). Officials were accordingly asked to look at the problem again in the light of recent developments. The following are their views with which I agree.

2. The factors we must take into account are:-

- (a) Our aim is to get Japan to stop subsidising the operation of her shipping services and not to build up her merchant fleet to an uneconomic extent. This is a long-term problem. Shipping is a vital national interest to Japan. We are not going to be able to get satisfactory long-term assurances from her in the context of a short-term agreement unless we are ready to make the question a breaking point or indeed to go further.
- (b) For if we break and do nothing further, the United Kingdom will suffer more than Japan. Our object in the present negotiations is to persuade the Japanese to spend more in the sterling area and to reduce her present discrimination against imports from the sterling area. If we were to confine our action to breaking off negotiations the Japanese would be free to discriminate even more heavily against sterling area imports while the sterling area continued to import from Japan at the present level. Her sterling balances would increase rapidly and we should have failed to benefit United Kingdom and sterling area trade which is our object in these talks.
- (c) We should thus be pushed to impose restrictions on Japanese exports. If these were limited to exports to the United Kingdom the extent to which we could hurt Japan's trade without damaging our own economy (perhaps £10 millions a year) would not be enough to make Japan change her mind and moreover would be certain to incur retaliation against our own exports.

- (d) If we were prepared to threaten the imposition of severe restrictions of colonial imports from Japan (roughly £100 millions a year) this might indeed be decisive. But this would involve the use - or the threat - of import restrictions on the Colonies for other than balance of payments reasons which would be contrary to established policy. Moreover, it seems very unlikely that the Colonies principally involved would agree, in the interests of British shipping, to do without imports which they need.
- (e) Thus we might find ourselves not only without a trade and payments agreement, which we need more than the Japanese, but further drawn into a kind of trade war with the Japanese and on an issue which they could represent as interference with their domestic policies. Economically this could do both sides great harm and politically it would be calamitous. We already discriminate against Japan; we have invoked Article XXXV of the General Agreement on Tariffs and Trade against her: if we now pick a quarrel with the Japanese on the shipping issue the Japanese may well conclude that we are irreconcilably hostile to them and determined not to let them re-establish themselves. We would be pushing them into the hands of the Communists. And we should not succeed in helping our shipping interests.

3. Ministers agreed last month (on individual submissions) that our representations on shipping should be made through the diplomatic channel by H. M. Ambassador in Tokyo in a formal Note and that in the trade talks, while the delegation should refer to this Note and stress the importance of the shipping question, they should state that these questions would not be further pursued in the trade and payments negotiations. Action was taken accordingly. It would be embarrassing to go back on it while we are awaiting the Japanese reply. To postpone the resumption of negotiations until the Japanese have replied to our Note would gain us nothing unless we were prepared to do without an agreement if the reply was not fully satisfactory.

Conclusions

4. We could not effectively negotiate on the shipping issue in these trade talks without making it a breaking point and to make it a breaking point would have the grave economic and political consequences set out above.

Recommendation

5. I recommend that the shipping issue should not be raised further in the course of these negotiations but should be pursued separately through the diplomatic channel and on other suitable occasions.

H.M.

Foreign Office, S.W.1.

24th August, 1955.