

Encl. 8391

EXTRACT FROM ODACREP 750, 6 OCTOBER

Hope Japanese can hold final negotiation Manila shortly in accordance previous public announcements both sides. Could point out serious repercussions on Philippine-Japanese relations of further delays, political inability Magsaysay administration accept major amendment preliminary agreement at this late date and difficulty secure Japanese political and economic acceptance Southeast Asia if vigorously opposed by Philippines.

Philippines have not ratified Treaty and not bound by it. Under Treaty if effective between parties Japan would have right to refuse cash payments but would not be prevented from making such payments. Only effect such payments by Japan under Treaty would be to open possibility claims for same advantages by other signatories under Article 26. Indonesia and perhaps Burma could be expected seek some cash but if same ratios observed amounts would appear manageable.

Understood here services can be of two types: Direct as in case salvage operation and indirect through value added (labor) in manufactured goods. Clearly unrealistic expect anything like 80% of \$550 Million in direct services. Since value most capital goods almost entirely value added with foreign exchange (i.e., imported raw material) costs negligible fail understand liberal opposition payment in capital goods. Also facts capital goods would tend develop basis continuing Japanese commercial exports and contribute area economic development make payment that form attractive for Japan.

Read to POCAPON, 14 October 1955.

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