

maintained throughout that comparable quantities to 1961 purchases will follow in the next two years. The Wheat Board officials have made it clear that the extension of credit this year hinges upon Chinese agreement to a long term contract over the next 2½ years. In addition they have stipulated that approximately \$2 million of the \$50 million credit should be allocated to Canadian flour exports. At the time of their departure for Peking details about deliveries, positions, rate of interest, prices, etc., had not been negotiated although the Canadian position had been made clear on the need for six percent interest (as opposed to the Chinese offer of 4 percent), and the inclusion of an element in future prices to cover the Wheat Board on their Sterling operations since the Chinese had insisted on Sterling payment.

Although a six month credit period would be easier to operate and offers a number of advantages from the Canadian standpoint, it seems clear that the Chinese require a longer period. This is understandable because six months would hardly allow them enough time to market this year's agricultural exports abroad in sufficient volume to commence repayment of the credit. A nine month period would probably provide them with just enough time to do so. It is quite possible that they may agree to the six month period if the Wheat Board holds out but, in my personal opinion, it would be a mistake to do so because of China's poor economic situation at the present time. If we press them into six months against their wishes and needs it will be remembered and held against us when future trade is considered.

In lighter vein, it was gratifying to be able to sit on the side of the conference table which was pointing out that the absence of Sino-Canadian diplomatic relations made it impossible for Canada to extend credit to China on similar terms to that obtained by Poland and Czechoslovakia which is only possible on a government to government basis. Mr. Forsyth-Smith and I, having heard the same type of reasoning advanced for lack of Chinese interest in Canadian products ad infinitum on our trips to China, could hardly be grudged an internal chuckle to find ourselves participating in negotiations when the shoe was on the other foot!

Three officials of the Australian Wheat Board arrived in town yesterday to commence negotiations with China Resources for further Australian sales. It is our understanding that the Australians are prepared to offer China 500,000 - 750,000 tons on credit terms and have several alternative propositions in mind including a range of between 25 and 33⅓% down payment and various usance periods ranging from six months to a year.

Yours very truly,

C.J. SMALL

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*Note du sous-secrétaire d'État aux Affaires extérieures
pour le secrétaire d'État aux Affaires extérieures*

*Memorandum from Under-Secretary of State for External Affairs
to Secretary of State for External Affairs*

SECRET

[Ottawa], April 28, 1961

SALE OF GRAIN TO CHINA

I wish to report that on April 22 Mr. McNamara signed a long term agreement with the Chinese authorities in Peking for the purchase from Canada of between three and five million tons of wheat prior to the end of 1963 together with between 600,000 and one million tons of barley in the same period. Mr. McNamara also made a firm sale contract covering delivery prior to November 30 of this year of 750,000 long tons of wheat (60 percent No. 2 Northern, balance No. 3, of which 300,000 tons will move out through the St. Lawrence Seaway). There