

(e) Withholding promised supplies would lay the Government open to possible suits for breach of contract.

7. On the other hand, as the Chiefs of Staff have indicated that in their view it is doubtful whether the Chinese National Government will remain in effective existence for six months, the possibility of these supplies falling into Communist hands cannot be overlooked. If the Cabinet concludes that it would be undesirable to take action to prevent shipment of supplies whose purchase has already been approved, it may wish to consider whether it would be desirable to direct some agency of the Government to explore the possibility of supervising the shipment of these supplies to see that they are in fact delivered to the National Government in China.

8. In the light of the views expressed in the letter of the Minister of Finance dated December 6 and the considerations outlined above in this memorandum the following recommendations are submitted:

A. No action should be taken to interfere at this time with the production or shipment of items already approved, including the release of the Ming Sung Company ships, subject to

(i) any direction which Cabinet may give regarding possible measures to prevent shipments falling into Communist hands

(ii) continuing review of the delivery programme in the light of developments affecting China.

B. No further commitments should be made in respect of the 1946 loan to China except as may be necessary to give effect to commitments already made.⁷

E[SCOTT] R[EID]

1116.

PCO

Extrait des conclusions du Cabinet

Extract from Cabinet Conclusions

TOP SECRET

[Ottawa], December 16, 1948

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CHINA; SUPPLIES AND CREDITS FROM CANADA

1. *The Prime Minister* observed that, at the previous meeting, consideration had been given to the position of Canadian credits to China in relation to the current crisis in that country. The new factors involved were the possibility of goods purchased in Canada falling into the hands of a Communist-dominated government and the prospects of re-payment as the situation deteriorated.

The consensus of Cabinet opinion had been that the current situation did not justify interference by the government with deliveries of goods ordered and for

⁷ Claxton fit rapport au Cabinet sur ces événements le 15 décembre. En l'absence du ministre des Finances, une décision sur les recommandations fut reportée.

Claxton reported these developments to Cabinet on December 15. In the absence of the Minister of Finance, a decision on the recommendations was deferred.