control, the delegation believe that the degree of foreign control required for the purpose is not very great; the revenues would be remitted to Shanghai and the portion earmarked for foreign debt banked in foreign custodian banks and the portion earmarked for domestic debt banked in Chinese custodian banks.

8. The Foreign Office, however, held the view that control begins at the spot where the revenues are collected, which is also the spot where, if opposition develops, interference is to be apprehended. The Foreign Commissioner of Customs collects the revenue, and under the protection of foreign gunboats (*c.f.* naval demonstrations at Canton, 1918–24), prevents the local authorities appropriating them and remits them to custodian banks, which, being situated in the foreign settlement at Shanghai, are inviolable. This, it is thought, is in effect complete foreign control over the whole customs revenues.

IV.—*Danger to Customs Administration.*

9. The instrument by which this control is exercised is the Maritime Customs Administration. The Foreign Office fear that if the conference makes arrangements for the custody and control of the new revenues similar to those in force for the existing customs revenues, provincial opposition may be aroused. Provincial leaders may object to these new revenues being remitted away to Shanghai, they may attempt to seize them, and such seizures may imperil not only the customs revenues but the Customs Administration.

10. The delegation do not believe that such an increase in the responsibilities of the customs would endanger the Customs Administration. Possibly (though this is not quite clear) their views may have moved more into harmony with those of the Foreign Office on this point within the last few weeks, for the Inspector-General has now stated that collection of the Washington surtaxes under the draft agreement accepted by the foreign delegations on the 15th May (see section IX, paragraph 24 below) would, he fears, put too great a strain on the customs and precipitate a crisis first at Canton and then at other centres. He has also informed the Commissioner of Customs at Canton, in confidence, that as the Powers are apparently not prepared to back the agreement, just referred to, by force he would be compelled, in order to save the Customs Administration, to ignore the agreement, yield to provincial demands, and hand over proceeds of the surtaxes to the local authorities.

V.—*Attitude of Provinces.*

11. The delegation view (unless it has been altered by the recent developments referred to in section IV above) has been that the Chinese do not complain of the present system of custody and control of customs revenues, and that they are anxious to maintain and even strengthen the present customs control of the revenues. This control saves the revenues from the militarists, and is therefore for the benefit of China as a whole.

12. Under the delegation's scheme nearly the whole surtax revenue will be swallowed up by debt consolidation and *li-kin* compensation, so that no free revenue would flow to Peking. Provincial resentment, they believe, would only be aroused if large surpluses were to accrue creating free revenues for Peking.

13. The Foreign Office hold the opposite view that the provinces would resent surtax revenue being sent away to consolidate Peking's disreputable debts.

VI.—*Foreign Office Proposals.*

14. In order to avert the dangers which it was believed threatened the Customs Administration the Foreign Office suggested that the customs revenue should not flow through foreign hands to Peking, but should be divided among the provincial leaders. The delegation pointed out that any attempt so to allocate customs revenues would be resented as an interference in China's domestic affairs.

15. The Foreign Office then proposed that the foreign Powers should limit their interest and control to that proportion of the customs revenues required for the service of the Boxer indemnity and secured foreign obligations. Each commissioner of customs, after collecting the revenue, should remit to the custodian banks at Shanghai a fixed proportion sufficient for the service of these obligations and hand over the balance to his Chinese colleague, the superintendent. It was pointed out that, up to 1912, the Chinese superintendent had, in fact, collected the whole revenue, and that collection and control of the whole revenue by the foreign commissioners of customs had only commenced in that year.