

proposal, would be in the vicinity of \$150 million for credit over a 12 month period, and proportionately less for shorter credit periods. The Chinese Government would finalize import-export programs for 1961 prior to March 31, 1961, and the Canadian Wheat Board was requested to submit specific proposals for the sale of grain in the volume indicated prior to that date for the consideration of the prospective purchaser.

3. The Canadian Wheat Board representatives made it very clear that the Board could assume no responsibility for increasing the volume of Chinese exports to Canada. In the opinion of the Board this condition is not a decisive factor in the completion of a new sales contract. If pursued, however, it would raise very difficult problems. While China enjoys M.F.N. treatment, there have been problems of valuation for duty. Moreover, any suggestion of establishing Chinese sales facilities in Canada would raise very serious security and political considerations.

4. Quite clearly, every effort should be made to conclude sales for cash since credit raises problems of both a political and commercial nature. While it is impossible to make a definitive assessment of the importance of credit facilities to the completion of additional business, the China Resources Company representatives have clearly indicated that this condition will be a prime requisite to a new sales contract. They have given assurance that this condition carries the considered approval of their principals, and this analysis is borne out by discussions with independent trading and banking authorities in Hong Kong.

5. If credit, involving a Canadian Government guarantee, is required to come to an arrangement with the China Resources Company, there are two ways in which this might be accomplished:

- (1) Under the Export Credits Insurance Act;
- (2) Under the Canadian Wheat Board Act.

With regard to the use of the Export Credits Insurance Act, the proposed transaction, because of its magnitude, cannot be undertaken by the Corporation as part of its normal business. Consequently, it would have to be considered under Section 21 or Section 21(a) of the Export Credits Insurance Act. There are two difficulties in any such procedure, namely:

- (1) The established procedure, though not required by legislation, is that in respect of wheat sales on credit an exchange of notes has been required between the Canadian Government and the Government of the purchasing country. If this practice were followed, in respect of the People's Republic of China, it might be taken to imply recognition of that Government.
- (2) Furthermore, the maximum liability which the Corporation may assume under the aforementioned Sections of the Export Credits Insurance Act is \$200 million of which \$163 million is now committed. Accordingly, legislation would be required to increase the ceiling on obligations which the Corporation can assume if a transaction of this magnitude is to be undertaken.

With regard to the second alternative, Section 11 of the Canadian Wheat Board Act provides authority for the Minister of Finance to guarantee bank loans to the Canadian Wheat Board for the purposes of carrying on its operations under the Act. It would be possible to increase the amount to which this guarantee applies to permit the Canadian Wheat Board to finance credit sales to China. Although this would mean a departure from present Board policy, no new legislation would be required. However, it would seem desirable to establish specific authority by Order-in-Council setting out the overall amount which may be guaranteed for this purpose; the terms and conditions for using such funds and including the assumption by the Government of a direct obligation to reimburse the Canadian Wheat Board in event of default by the buyer.