

United Kingdom Financing, 1953

sterling balances in London. In this way Canadian dollars were made available to the United Kingdom as a form of transitional financial assistance in order that essential war supplies could be bought in Canada without restriction arising from lack of foreign exchange.

By 1942 these sterling balances amounted to the considerable sum of approximately \$1 billion. Under the 1942 legislation referred to, \$700 million of these accumulations of sterling were converted into a formal loan to the United Kingdom government. The remaining balances were used for the purchase of Dominion of Canada and Canadian National Railways securities held by British investors.

Section 4 of the 1942 act authorized this loan in exchange for an obligation of the United Kingdom to pay \$700 million, subject to such terms as the governor in council might prescribe. It further stated that no interest should be payable under such obligation prior to the termination of the war. By the United Kingdom financial agreement acts, 1946 and 1951, parliament authorized the continuance of this interest-free provision and maintained unchanged the other arrangements with respect to the loan, up to January 1, 1954. It was provided that discussion would be entered into prior to that date, that is prior to January 1, 1954, by the two governments with regard to the question of interest on, and terms of repayment of, any balances of the loan then outstanding. The discussions held between the two governments have resulted in the signing on August 13 of the new agreement, the terms of which I outlined.

Under the arrangements made in 1942 for repayment of the loan, it was agreed that funds arising from the redemption of Canadian securities owned in the United Kingdom or from the sale of such securities to non-residents of the United Kingdom would be applied in reduction of the loan. In 1946 it was considered desirable that we should allow new direct investments, including the development of new enterprises or companies in Canada, or the expansion of United Kingdom-owned enterprises here, to be offset against the sales of securities for the purpose of calculating the amount which should be applied from time to time in retirement of this loan. Total offsets in respect of new direct investments in Canada up to the time of the signing of the new agreement on August 13 amounted to \$71.6 million, of which \$16.8 million was allowed for the purchase of aircraft.

As the agreement signed on August 13 provides that the United Kingdom government will pay off the loan directly, it consequently releases that government from its undertaking to apply to the repayment of the loan net proceeds of sales and redemptions of Canadian securities. The British authorities desired to obtain this release in order that they might make it possible for individual British investors to reinvest the proceeds of sales of Canadian securities in other securities of new and expanding Canadian enterprises of their own choice. This greater freedom and flexibility is in the mutual interest of both countries.

Net repayments of the loan up to the time of the signing of the new agreement had amounted to \$511.4 million, or an average of some \$48 million each year. The average rate of repayment in the years from 1948 until August 13, 1953, had, however, fallen to \$31.7 million per annum. This was in some measure due to the offset provisions allowed for new direct British investment in Canada, but also to the fact that sales of Canadian securities by British investors had declined in the later years. The lump sum payment of \$38.6 million made on August 14 and the annual repayment at the rate of \$30 million will result in the final and full redemption of the loan on December 1, 1958.

Having in mind the interests of the two countries and the payments difficulties of the post-war world, the arrangements provided in the new agreement for the final repayment of the loan were considered by both the United Kingdom and Canadian governments to be mutually satisfactory.

Mr. Macdonnell: I should like to make a few general comments, but I think I shall reserve them until second reading and content myself today merely with asking the minister a few questions.

There is one general observation however I should like to make now. When one thinks back to 1942 and to the readjustment of 1946, one cannot help reflecting on the conditions of those days and the almost unbelievable burdens which the British were bearing in 1942 and to which, happily, we contributed so much relief. When you come to consider the years since the war, the British have had a pretty grey existence, and they have struggled in a way which I am sure we all admire beyond words to pay their way, re-establish their credit and eventually emerge with strength in peacetime as great as the strength they showed in war.

I should like to ask the minister these questions. In the first place I should like to know how much in total is being paid by the