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*Le directeur de la Direction économique du ministère des Finances
au directeur général de la Corporation commerciale canadienne*

*Director, Economic Division, Department of Finance
to Managing Director, Canadian Commercial Corporation*

Ottawa, May 3, 1947

Dear Mr. Low:

RE AMMUNITION PLANT — CHINA,
YOUR REF. B-4-4B-13, PART 1

I have your letter of April 28† on this subject and have again spoken to the Minister of Finance about it. As you probably know, this general subject has been discussed again recently in the Cabinet, and Mr. Abbott has spoken to Mr. Howe about it separately.

Our Minister continues to feel that he is unable to agree to the inclusion under the program of the Chinese credit of more than an amount equal to 33⅓% of the purchase price of the equipment from War Assets Corporation for inland freight, crating and other services or new material in connection with this item. As the sale price of the equipment to be obtained from War Assets has now been established at \$1,700,000, this means that we are prepared to agree only to a total expenditure under the credit of \$2,266,667 in respect of this item.

I should inform you as well that Mr. Chow, Director of the Chinese Government Supply Agency, has written me asking if we would be prepared to include in the credit program expenditures of approximately \$1,000,000 for the ocean freight to ship this equipment to China, and he says that their decision in regard to the purchase of this equipment may rest on whether or not we can agree to the inclusion of this charge. I am replying to Mr. Chow, on instructions of the Minister, that we are unable to agree to the inclusion of this item.

I should perhaps explain again that the reason for our attitude in this matter is essentially that the Government specifically intended when granting the \$25,000,000 portion of the loan to China, that it should be used in paying for items already owned by the Canadian Government and surplus to its requirements, or which were then in the course of production on orders placed by the Canadian Government. In other words, it was not intended that this credit should be used to finance any substantial amount of expenditures other than those that would take the form of payments to the Canadian Government or its own agencies for goods already on hand or ordered. We are prepared to make a modest relaxation in this principle to the extent of one-third, as indicated above, but we do not feel that it would be reasonable to go beyond that.

As perhaps you know, this whole matter was considered recently by the Cabinet, or Committee of the Cabinet dealing with this matter, and it was decided that we could not agree to the request of the Chinese Government that they be permitted to