

matter, however, is more serious. It has shaken Chinese confidence in Canada and jeopardized future Canadian sales, the prospects for which, as noted above, are excellent in the long term. The present contract with the Chinese, as has been suggested in Canada, is not a "one shot" proposition if we operate circumspectly. Canadian grain has certain built-in advantages over grain from other sources and sells itself at a premium price in many markets. In China's case, this is not so and it has taken a great deal of hard work on the part of the Canadian Wheat Board and this office to convince the Chinese that they should buy from Canada at a price higher than the Australian price. A major assist in achieving this end has been the urgency of China's need. But if the Chinese lose confidence in Canadian ability to honour a firm agreement or to treat commercial information on a normal commercial confidential basis, you may be sure that they will turn to other suppliers who can inspire such confidence, the moment they are in a position to do so. In the interests of long term sales to China – of both wheat and other commodities – which now appear bright, it seems a small price to pay.

Yours very truly,

C.J. SMALL

P.S. Since the above was dictated the Chinese officials here have given their first hint of possible interest in credit terms for purchases of Canadian grain subsequent to the deliveries under the present contracts.

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*Note du sous-secrétaire d'État aux Affaires extérieures  
pour le secrétaire d'État aux Affaires extérieures*

*Memorandum from Under-Secretary of State for External Affairs  
to Secretary of State for External Affairs*

CONFIDENTIAL

[Ottawa], March 2, 1961

WHEAT SALES TO COMMUNIST CHINA

We have been told by the Deputy Minister of Trade and Commerce that conversations which an official of the Canadian Wheat Board has been having within the past few days in Peking have indicated the possibility of very large additional sales of wheat to Communist China. As you will recall, the Wheat Board had previously sold 750,000 tons of wheat to Communist China. The Wheat Board reports from Peking indicate that additional sales of as much as two million to three million tons might be made "if suitable financing could be arranged." It is, of course, this latter condition which presents a problem, since presumably the Chinese have in mind some form of governmental credit, probably for a period of several years.

2. Officials will be discussing this matter within the next day or two with a view to some recommendations, or at least a report, to Ministers. Meanwhile I thought you would wish to know of the possibility that the question of a credit for Communist China may be raised very soon. This would undoubtedly involve difficulties of a political as well as financial character and might present problems for us in our relations with the United States. You may nevertheless feel that the possibility should be examined in view of the important effects which a sale of this magnitude could have on the Canadian economy and especially on the wheat supply position. Incidentally, while a sale on credit terms might be criticized in the United States, the US authorities might nevertheless welcome the fact that such a transaction would