

New equipment to be purchased in U.S.:	
Foundry and Rolling Mill	\$ 500,000.00
Ammunition Manufacturing Equipment	1,884,750.00
Tool Making Plant	<u>750,000.00</u>
	<u>\$3,134,750.00</u>
TOTAL	\$10,650,438.00

The Chinese Government sent six or eight technical officers to Canada to participate in the engineering and development of the plant, and in addition deposited with Canadian Commercial Corporation \$200,000.00 to cover initial costs.

On February 4th, 1947, your Mr. Bryce wrote to Mr. Chow of the Chinese Government Supply Agency at Ottawa, advising that the Department of Finance had not at any time approved the project, and that it was not now prepared to approve it. Mr. Bryce's letter suggested as an alternative the purchase of the tools which were available from War Assets Corporation and an expenditure up to 33 1/3% of the cost of those tools for conversion and modification.

The \$200,000.00 deposited by China has been spent or committed by Canadian Arsenals Limited, acting on instructions from Canadian Commercial Corporation. The work on this project has been under way for over a year. Furthermore, apart from this \$200,000.00, the Chinese have also had the cost of shipping their technical staff to Ottawa and maintaining them here for several months.

I find it very difficult to understand how these involved negotiations could have proceeded to the point where specific requisitions were placed and acted upon without the knowledge and approval of the Department of Finance. I am not informed as to the attitude of the Chinese Government, but should think they would be very reluctant to spend money on tools and the modification of such tools which would not in effect provide operable plants. It would be hard to justify such expenditures at all.

In view of the rather extraordinary position which seems to have developed, I would appreciate your looking into this matter. Perhaps we could have a discussion when you have had an opportunity of acquainting yourself with the facts.

Yours sincerely,
C.D. HOWE