

Murray and W/C Ryrie gave some information regarding the manner in which the proposed course of action related to the types of transfers that were involved in their Departments, but none of the comments suggested that we should not take this action or that the broad lines of argument are inconsistent with the facts. There was some discussion about the applicability of the argument to initial equipment for the Army and capital equipment for the Air Force. It was recognized that an exception had to be made in respect of the initial equipment of tanks, for which payment had already been made to the U.S. Mr. McIntyre made a number of comments in the light of his discussions in Washington regarding the prices and means of settling for the tanks obtained as initial equipment. He emphasized, amongst other points (before Mr. Ilsley came in), that in most cases the profits of renegotiation of contracts go to the Treasury rather than to the contracting Department in the U.S., and that consequently the advantages of renegotiation cannot be reflected in the charges made for individual items on Lend-Lease or otherwise. Apparently only where the renegotiation affects only one contract under which production is currently taking place does the change in price redound to the benefit of the contracting Department and result in a change in the prices quoted.

Mr. Ilsley raised a number of questions as to how the suggested course of action would appear from the American point of view. Mr. Towers and I both endeavoured to point out that these possible American charges could be met quite reasonably.

Mr. Towers, in answer to a question, suggested that if the Americans were reluctant to accept the course of action suggested, Canada should be prepared to take a fairly strong attitude on this, believing that the course proposed is a just and reasonable one.

It was noted that Mr. Robertson would be going to Washington to see Mr. Clayton about other matters on July 9th, and it was hoped that he could take up this matter at that time. (This will require fast action to obtain clearance from Cabinet here and make any necessary drafting changes. It will also require fast clearance with the U.K.) It was also suggested and agreed that Mr. Pearson should be given an opportunity at the earliest possible time to see a draft of this suggested memorandum and make any comments or suggestions he can about it.

In regard to the substance of the message, it was noted by Mr. Bryce that some alteration would have to be made in the third paragraph to take into account the records that are available in regard to the transfer of aircraft. Mr. Towers suggested that it would be well to review the last two lines of the message and if possible make such alterations as would enable Canada to obtain some American equipment for its forces operating with American forces in the Pacific without necessarily having to purchase it. Mr. Ross in this connection said that he had been endeavouring to make arrangements with the War Department under which Canada would not purchase any initial equipment for its Pacific forces, but would pay for equipment which it consumed, lost or destroyed in operations. He said he had already put forward a proposal of this kind to the Americans and was awaiting their answer on it.