

With reference to the fourth paragraph of NATO Paris' 318, no evidence has become available in Hong Kong to substantiate speculation that the Soviet Union has been asked for, or has offered, aid, either in the form of commodities or foreign exchange. An interesting sidelight on this question occurred during our negotiations here with the China Resources Company on the question of Canadian grain shipments to China. Throughout our discussions the Chinese have urged and endeavoured to obtain earlier shipments of Canadian grain. Part of the Canadian inability to deliver earlier to the Chinese has been caused by the Soviet Union's sudden decision to take up its 200,000 tons of wheat under the Soviet-Canadian agreement and this was not done until after the news broke that the Chinese had representatives in Canada who were discussing grain purchases. This in itself suggests that the Soviet Union was looking after its own interests, with no consideration for socialist brethren in China. In addition, at one session with the Chinese here, when they were urging earlier Canadian grain deliveries, we mentioned that the Soviet Union had just taken up its option on Canadian grain in advance of Chinese purchases and suggested that the Russians might be willing to consider a Chinese request to allow their 200,000 tons to go immediately to China, to be replaced at a later date from the Chinese purchases. This suggestion was received icily and we were left in no doubt whatsoever that such an idea bore no relation to reality. So much for socialist co-operation and mutual benefit!

The question of how the Chinese can pay for over two million tons of Canadian and Australian grain, as well as nearly a million tons of fertilizer recently purchased which, combined with shipping costs, will require roughly Can. \$200 million in foreign exchange, is a very pertinent one. The Bank of China manager in Hong Kong who, although he works for a Communist organization, is a rank capitalist and millionaire in his own right with children studying in both Canada and the United States, some time ago indicated to us that Communist China would be asking for credit terms before long, despite the fact that the China Resources officials regularly emphasized that they would pay cash for all grain and other purchases and that credit would be of no interest to them. In my opinion, the Chinese will be able to pay for the current grain and fertilizer purchases from their own resources. This, however, will likely have the effect of cleaning out their foreign exchange reserves and enforcing a cutback in industrial imports. In this way it would appear that they can scrape by without falling into serious financial difficulties. However, this is not the whole story as the Chinese have now intimated to us that purchases from Canada may be contemplated over the next two years and they are requesting assistance in programming for such a long term basis.

This information is to be regarded as strictly for the Department. Its release even to other Governmental departments could have extremely harmful effects. The Department of Agriculture's public announcement of the Canadian grain sale to China without Chinese concurrence broke a firm agreement entered into with the Chinese negotiators and has had most unpleasant repercussions for us at this office and for the Canadian Wheat Board. The Chinese would almost certainly have agreed to the announcement within a short space of time when they had concluded their shipping arrangements but the premature release of the information raised freight rates and, consequently, the cost of our wheat to China. The Chinese have made the point that had Canada sold on a c.i.f. basis and [had] China released such information we would have suffered a corresponding loss and would have been equally incensed. Whatever we may think of Chinese Communist principles and practices, their record on such matters has been impeccable with few exceptions. Furthermore, in Canadian grain trade practice it is not customary to release such commercial information until it appears in our statistics long after the event. For example, if the Wheat Board released similar information on sales to the United Kingdom, without question British buyers such as the Rank organization – our largest customers – would cease purchasing from Canada. If the Canadian action in this case had merely made the work of this office more difficult we would not complain. The