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

*Memorandum from Secretary of State for External Affairs
to Cabinet*

[Ottawa], August 23, 1947

A request has been received for the sale of and export to China of 174 military aircraft and 35 airframes together with the necessary armament and ammunition.

The amount of money involved as the purchase price of the aircraft would be approximately \$2,500,000. The amount to be derived from the sale of the required armament and ammunition cannot be estimated because availabilities are not known.

On April 16, 1947 the Cabinet made the decision that henceforth Canada should maintain a complete embargo on all export of arms to China. Since that time the internal situation in China has greatly deteriorated and a full scale civil war is in progress.

Reports from Washington indicate that the United States have now lifted their embargo against the shipment of arms to China. Apparently it is the United States' intention not to permit the complete downfall of the Nanking Government.

It is proposed that payment for these aircraft will be made out of the Canadian credit granted China, of which \$21.6 million remain unencumbered.

Under the loan agreement with that country it is stipulated that Chinese Government purchase Canadian dollars from Canada with United States' dollars (or gold) to the amount of 20 per cent of all drawings under the loan. Canada has agreed that it would be permissible for purchases made by private Chinese individuals to count as a credit against this 20 per cent requirement. This credit is now so large that it would not be necessary for China to supply United States' dollars and therefore the sale of these aircraft will not increase our holdings of that currency.

However, China has agreed to make payment in United States' dollars for all expenses to be incurred in the conditioning of the aircraft. It is estimated that this would amount to between two and three million dollars. In addition, they will undertake to pay the cost of the armament and ammunition in United States' dollars.

I consider that the benefit we would derive from this amount of United States' dollars would not be sufficient to offset the political objections to this transaction, and I therefore recommend that this sale be not approved.