

PROPOSED SALE OF GRAIN TO COMMUNIST CHINA  
(Previous reference February 2)

14. *The Minister of Agriculture* said the China Resources Company had tentatively proposed to buy about 190 million bushels of wheat and 47 million bushels of barley from Canada over a 2½ year period, if flexibility in payment arrangements could be negotiated and subject to several other conditions. Subsequently, this offer had been confirmed by the government of the Chinese People's Republic. This transaction would involve grain exports to a value of about \$400 million. The wheat would be Grades 2 and 3.

Farm income in Canada had been declining over the past decade while industrial incomes had been rising, and this proposed sale would go far toward the elimination of Canada's surplus of stored grain. It would stimulate the entire national economy. The government of Canada might save as much as \$50 million in grain storage charges.

The strongest argument against the proposal was the fact that a communist country was involved. The United States would have probably no objection if the transaction were a cash sale like the previous sale, but this proposal involved credit for a term of up to 180 days. If necessary, the Bank of China would be prepared to guarantee payment.

An explanatory memorandum was circulated. (Joint Memorandum, Ministers of Agriculture, Finance and Trade and Commerce, March 9 – Cab. Doc. 119-61.)

15. *Mr. Hamilton* went on to say that he had received a telegram from Australia stating that Communist China was also negotiating with that country. Australian ports, however, could not move the quantities involved, and therefore Communist China would probably be depending upon receipt of supplies from Canada. They would probably agree to shipment from ports on the St. Lawrence in addition to West Coast ports. The Australian authorities had enquired as to the Canadian attitude on sales to Communist China. The urgency of the negotiations was probably related to the recent crop failure in that country, but it should be noted that deliveries over a period of 2½ years were involved.

16. *During the discussion* the following points were raised:

(a) The transaction represented the greatest opportunity that Canada had been given in many years to dispose of its grain surplus, and would provide a great stimulus to the national economy.

(b) The proposal should be further investigated to ascertain that the grain would not be misused, for example to build stockpiles in anticipation of military operations. Some Canadian grain would probably be sent by the Chinese to Southeast Asia. The possible value of a guarantee from the Bank of China should also be assessed.

(c) The sale would hamper the efforts the government of Canada had been making to eliminate the premium on the Canadian dollar in the United States. Any relief provided by the Supplementary Budget had now been exhausted, and the premium was again easing upward.

(d) Neither opposition party was likely to criticize this proposal because they would alienate the farm vote if they did so.

(e) The U.S. should be informed but not "consulted." Some Ministers said that the extension of credit by Canada to Communist China might cause serious concern in the U.S., and might lead to retaliation, e.g. in defence sharing or in the form of a reduction of U.S. capital investment in Canada. On the other hand, the U.S. was making arrangements for a gift of 1.4 billion bushels of grain to Pakistan, a Commonwealth country, and had not consulted Canada. The proposed sale to China would help the U.S. to dispose of its grain surplus by reducing competition from Canada. Perhaps the best course would be to mention the negotiations in general terms informally to the U.S. Secretary of Agriculture next week.