

same time, we turned over our Ram tanks to the British and have not yet agreed with them as to what settlement, if any, should be made on this account.) However, I do not suggest that we should endeavour to have this transaction reversed. I am not by any means familiar with all the ramifications of our arrangements, and it may be that Mr. Bryce will point out other complications. However that may be, I do not believe that it is too late for us to change our attitude.

In approaching the United States in the sense suggested, Canada is not, in my opinion, trying to get off lightly. Our strong current cash position in gold and U.S. dollars might lead the Americans to believe that we have done very well. In fact, however, our strong position is based on borrowing from the United States or realizing on U. S. assets which we held at the beginning of the war. Our net indebtedness to the United States, after allowing for our gold and U.S. dollar holdings, is certainly some hundreds of millions of dollars larger, and perhaps \$500 million larger than it was at the beginning of the war. Our total net debt to the United States is now extremely formidable, and further increases of any magnitude must be regarded with apprehension.

Another matter of serious importance as affecting our foreign exchange position is that of direct purchases of U. S. equipment for the Canadian Army or Air Force engaged in the Pacific war. I think that there should be an opportunity of examining the financial implications of such arrangements before we become irrevocably committed. Obviously, the first consideration must continue to be the supplying of our Forces with the type of equipment which is best suited to their needs. But if the U.S. dollar liability involved is very large, I think that the financial aspects of the matter must be discussed with the United States. If the cost of specific war equipment will not exceed an amount which we can manage to pay without materially increasing our debt to the United States, I believe we should make payment. If, on the other hand, cash payment would involve a serious increase in debt, then we should try to arrange a loan of the major items of initial equipment, as well as replacements and supplies in the field, but not on the basis of Lend-Lease.

At first blush, this may sound like a proposition which the Americans would not accept, but a firm attitude on our part might produce the desired results, particularly as the only items I have in mind are fighting equipment for the Pacific war. Our Army is required to operate as an integral part of the U.S. Army. We are not able, and would not be permitted by the United States, to develop our own supply lines and bases, and the United States will not handle our types of equipment. We have no option, therefore, but to use American equipment. Most of our war industry was developed to produce Canadian and British types. We can obtain the necessary equipment and supplies for our Forces for the Pacific war only from the United States as part of the equipment and supplies furnished by the United States to its own Forces. If the United States is not making sufficient purchases in Canada to provide us with U. S. dollars so that we in turn can buy this American equipment, we should not be expected to pay cash to them. But neither should we accept the necessary equipment on Lend-Lease terms. The equipment can be regarded as