

IX.—Washington Surtaxes.

23. The Foreign Office and the delegation are agreed that the levy of the Washington surtaxes should be authorised without further delay. During March, while there was still a Chinese delegation in being, the conference, after six meetings, rejected a Chinese offer to use one-third of the proceeds for debt consolidation, one-third for *li-kin*, and one-third for administrative expenses, and failed to agree on the terms of a resolution authorising the levy of these surtaxes. The Foreign Office considered that any further attempt to agree on "purposes and conditions," would postpone indefinitely the implementing of the Washington Treaty, that an opportunity should be taken of accepting the Chinese offer and of authorising forthwith the levy of the surtaxes without imposing conditions or exacting guarantees.

24. The delegation are opposed to this view on the ground that to grant the Washington surtaxes without conditions would involve the similar grant without conditions of the higher interim surtaxes, and later, tariff autonomy. Pursuing their own line, the delegation agreed with the other foreign delegations—in the absence of the Chinese—on a draft resolution for the levy of the Washington surtaxes to the following effect:—

Out of an estimated surtax revenue of 36 millions, 9 millions to be used for abolition of coast trade duties and allocation of transit pass fees to the provinces (these measures being preparatory to and in the nature of *li-kin* abolition).

Nine millions to be paid by the Customs Administration to the Chinese Government.

Eighteen millions (the balance) to be accumulated by the Customs Administration and earmarked for the unsecured debts.

This is the agreement referred to in section IV, paragraph 10, above.

25. After this agreement had been accepted by the Japanese delegation, and the approval of all the foreign Governments recorded, the Japanese Government made a sudden *volte face* and insisted on amendments deleting the provisions as to coast trade duty and transit pass fees (to which we attached special importance) and impounding three-quarters instead of one-half the revenue for unsecured debts. The way for this *démarche* was prepared by an intensive Japanese press campaign to spread the report that the British were responsible for the breakdown of the conference.

26. In response to this Sir R. Macleay announced at a meeting of foreign delegations held on the 3rd July that His Majesty's Government were of opinion that no useful purpose would be served by the foreign delegates continuing these informal negotiations with a view to reaching a closer degree of agreement at the present stage, and that it would be preferable to await resumption of the conference and formulation of the Chinese proposals.

X.—Present Position.

27. No further progress can be made until the Chinese delegation, which has entirely vanished, is reconstituted. In that event the delegation will, it is presumed, renew the attempt to arrive at an agreement, on the lines set out in section IX, paragraph 24, above, defining "conditions and purposes" in regard to the levy of the Washington surtaxes.

28. The Foreign Office view, however, is that our delegation should adopt the line that we are willing to accept the proposals already made by Dr. Yen (see section IX, paragraph 23, above), and grant the Washington surtaxes forthwith without conditions. The effect of this would be that the surtax revenue would not be subject to the Custodian Bank Agreement of 1912, under which the present revenues are remitted by the commissioner of customs at each port to two foreign custodian banks in Shanghai. The Chinese Government would have to issue their own instructions as to how the new revenue was to be dealt with. Presumably they would order it to be remitted to Shanghai; then if Canton objected and claimed the proceeds of the surtaxes for themselves, the Powers could stand aside and leave Canton and Peking to settle their own differences.

29. The Customs Administration could also stand aside, for the Inspector-General could instruct the Commissioner of Customs at Canton to yield to *force majeure*, and hand over the surtax revenue to the local administration, while