

deficits on the part of the Board. Accordingly, it is necessary to explore means whereby high grade Canadian wheat could be made available to China at competitive prices without affecting the level of current Board asking prices.

7. It is therefore proposed that the Canadian Wheat Board should be authorized to continue their negotiations on the basis of a gift of a limited quantity of high grade wheat and the sale of a much larger quantity of wheat to China. The combination of gift and sale would be such as to reduce the overall cost of Canadian wheat to China to a level competitive with wheat sold by Australia and further supplies of wheat which Australia is in a position to make available at an early date.

8. The actual amount of the gift of wheat would depend upon the quantities which may be negotiated on a competitive price basis. The minimum quantity of wheat involved in the negotiation should be 500,000 tons (18.6 million bushels), in which case the gift segment would be \$3.35 million. The gift segment would increase proportionately as the quantity increased. For one million (37.3 million bushels) the gift segment would involve \$6.7 million, which would be the maximum contemplated in the negotiation. The gift segment in respect to the foregoing quantities is based upon a maximum overall price reduction of 18 cents per bushel on the quantities of No. 2 Northern Wheat taken by China. In the negotiations, however, the Canadian Wheat Board would endeavour to make the smallest possible price concession consistent with maximum quantities.

9. In consideration of the Treasury making available funds ranging from a minimum of \$3.35 million to a maximum of \$6.7 million for a gift of wheat to China, the Canadian Wheat Board undertakes to effect a reduction in its inventory of wheat on July 31, 1961, sufficient to reduce the liability of the Treasury under the Temporary Wheat Reserves Act for the crop year 1961/62 by the amount of the funds made available to the Canadian Wheat Board to finance the payment for the said gift of wheat to China.

10. In appraising this proposal it should be noted:

- (a) For a Government expenditure from \$3.35 million to \$6.7 million, as much as 18.6 to 37.3 million bushels of wheat may be exported to China.
- (b) Under the Colombo Plan or a relief program, such as UNRWA, the same volume of assisted exports would cost the Government 10 times as much or from \$34.0 to \$67.0 million; under this proposal there is no ultimate cost to the Treasury.
- (c) The urgent demand situation in China affords a timely opportunity to develop by means of this transaction our immediate and longer term marketing interests in this particular market.
- (d) Since the Chinese Government has long held that they do not require external aid to meet the needs of their people, it may be assumed that they would regard a transaction of this nature as being purely commercial, involving no element of external aid whatever; hence, assuming that the offer is acceptable to the Communist Chinese authorities, no significant political advantage for Canada could be expected to accrue from a substantial gift of wheat to the Chinese people. Indeed, it is probable that the latter would be unaware that a gift had been made. Moreover, if attendant publicity in Canada were to overemphasize the disastrous food situation in China, this would undoubtedly be most unwelcome to the Communist Chinese authorities.
- (e) If the gift of wheat were made it could be provided through the China Resources Company and this would involve no question of recognition by Canada of the present régime.
- (f) It would be the intention to let the United States and Australian authorities know about the transaction at an appropriate stage.