

CANADA

TREATY SERIES, 1946

No. 20

FINANCIAL AGREEMENT

BETWEEN

CANADA AND CHINA

Signed at Ottawa, February 7, 1946

(Together with an Exchange of Notes)



OTTAWA

EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY

1946

32 756 460
b1632668

CANADA

TREATY SERIES, 1946

No. 20

FINANCIAL AGREEMENT

BETWEEN

CANADA AND CHINA

Signed at Ottawa, February 7, 1946
(Together with an Exchange of Notes)



OTTAWA
EDMOND CLOUTIER C.M.G., B.A., LL.B.
PRINTED TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY

24 156 410
11/22/46

**FINANCIAL AGREEMENT BETWEEN THE GOVERNMENT OF CANADA
AND THE GOVERNMENT OF CHINA**

SIGNED AT OTTAWA, FEBRUARY 7, 1946

AGREEMENT ENTERED INTO THIS SEVENTH DAY OF
FEBRUARY, 1946

BETWEEN :

THE MINISTER OF FINANCE OF CANADA,

hereinafter referred to as "the Minister",

of the First Part,

AND

THE GOVERNMENT OF CHINA,

represented by its Ambassador to Canada, His Excellency Dr. Liu Shih Shun,

of the Second Part:

WHEREAS the Government of China has requested the Government of Canada to make loans to the Government of China to enable the said Government to purchase Canadian-produced goods for export to China;

WHEREAS by Order in Council P.C. 378 dated the fifth day of February, 1946, the Minister has been authorized under The Export Credits Insurance Act to make the loans hereinafter referred to, on behalf of the Government of Canada; and

WHEREAS the Ambassador of China to Canada, His Excellency Dr. Liu Shih Shun, has been duly authorized by the Government of China to execute this agreement on behalf of the Government of China.

NOW, THEREFORE, THIS AGREEMENT WITNESSETH that the parties hereto, in consideration of the mutual covenants and agreements hereinafter contained, covenant and agree each with the other as follows:

1. In this agreement the terms "exporters", "Canadian-produced goods" and "cost of Canadian-produced goods" have the meaning assigned to them by The Export Credits Insurance Act of Canada or any regulations made thereunder.

2. Subject to the terms and conditions of this agreement, the Minister, on behalf of the Government of Canada, agrees to lend to the Government of China, such amount not exceeding Sixty Million Dollars (\$60,000,000) Canadian, as may from time to time be requisitioned from the Minister by the Government of China to enable the Government of China to purchase from exporters and to pay the cost of Canadian-produced goods exported or to be exported from Canada to China.

3. The Minister will pay amounts requisitioned under paragraph 2 of this agreement into the account of the Government of China with the Bank of Canada.

4. The Government of China agrees to expend the moneys received by it by way of loan under this agreement solely for the purpose of purchasing from exporters and paying the cost of Canadian-produced goods exported or to be exported from Canada in accordance with a programme to be agreed upon from time to time by the Canadian Minister of Trade and Commerce and the Canadian Minister of Finance, and by representatives of the Government of China designated by the Ambassador of China to Canada.

5. The Government of China agrees to pay interest at the rate of three per centum per annum on each amount paid by the Minister into the said special account from the date when it is paid into the said special account until the date of consolidation of the debt into a consolidated debt to be evidenced by bonds of the Government of China, as provided for in paragraph 6 of this agreement.

6. The Government of China agrees that the amounts paid by the Minister into the account of the Government of China for the credit of the Chinese Government, pursuant to this agreement, during the period commencing on the date of the execution of this agreement and ending on the thirty-first day of December, 1947, and interest thereon as provided in paragraph 5 of this agreement, shall be consolidated into one amount called the consolidated debt, at the end of the said period, and the Government of China shall thereupon deliver to the Minister bonds of a face value equal to such consolidated debt, which bonds shall constitute valid, binding, absolute and unconditional obligations of the Government of China; the said bonds shall bear interest at the rate of three per centum per annum, payable semi-annually on the 30th day of June and the 31st day of December, and shall mature serially in thirty equal annual amounts of principal payable on the 31st day of December, 1948, and on the 31st day of December in each year thereafter up to and including the year 1977.

7. Any portion of the Sixty Million Dollars (\$60,000,000) Canadian referred to in paragraph 2 of this agreement, which has not been requisitioned by the Government of China in accordance with the said paragraph 2 on or before the 31st day of December, 1947, shall lapse and be no longer payable by the Minister unless the parties hereto mutually agree otherwise.

8. It is mutually agreed by the parties hereto that if the Government of China fails to deliver bonds as hereinbefore provided at the end of the period referred to in paragraph 6 of this agreement, or fails to redeem any of the bonds on or before maturity, the whole amount of the loan shall thereupon become due and payable.

9. It is mutually agreed by the parties hereto that payments by the Government of China shall be in Canadian dollars or fine gold at the option of the Government of China. The value of fine gold shall be calculated on the basis of the buying price for gold of the Canadian Foreign Exchange Control Board (or successor agency) on the date of its delivery. During such period as foreign exchange regulations in Canada require that exports from Canada to China result in the sale of a specified foreign currency to an Authorized Dealer of the Canadian Foreign Exchange Control Board (or successor agency) and permit Canadian importers of goods from China to make payment therefor in such specified foreign currency, any Canadian dollars used by the Government of China to effect payments under this agreement shall be acquired by the sale to an Authorized Dealer of the Canadian Foreign Exchange Control Board (or successor agency) of such specified foreign currency at the published official buying rate, or in such other manner as may be mutually agreed upon by the Government of China and the Minister.

1946. No. 20

10. The Minister agrees that the Government of China shall have the right to redeem any or all of the bonds prior to their maturities at par plus accrued interest if the Government of China tenders payment in fine gold or Canadian dollars acquired in the manner provided in paragraph 9 of this agreement.

In witness whereof the parties hereto have caused these presents to be signed on the day and year first above mentioned.

Witness:

DAVID M. JOHNSON.

J. L. ILSLEY,

Minister of Finance of Canada.

P. KIANG.

LIU SHIH SHUN,

For the Government of China

APPENDIX

EXCHANGE OF NOTES (FEBRUARY 7, 1946) BETWEEN CANADA AND CHINA RELATING TO THE FINANCIAL AGREEMENT SIGNED FOR THEM AT OTTAWA, FEBRUARY 7, 1946.

I

The Canadian Minister of Finance to the Ambassador of China

OTTAWA, February 7, 1946.

Dear Sir,

At the time of signing today with you the agreement for the provision of a credit of \$60,000,000 to the Government of China under the Export Credits Insurance Act, I desire to place on record our understanding regarding certain points in connection with the use of the credit and about purchases which China will make in Canada, to be financed by Canadian dollars acquired from the sale of gold or foreign exchange convertible into gold.

In paragraph 4 of the agreement it is specified that the Government of China will expend the moneys received by it under this agreement for the purpose of purchasing Canadian-produced goods in accordance with a program to be agreed from time to time by the Canadian Minister of Trade and Commerce and myself on the one hand, and by representatives of the Government of China on the other. In this connection I wish to place on record that it is our understanding that \$25,000,000 of the \$60,000,000 provided in the credit will be reserved for the purchase of supplies and equipment which had been requested by China from Canada as Mutual Aid, other items in production in Canada at September 1, 1945, which are surplus to Canadian requirements, and also certain items of used industrial equipment which China had sought to purchase from Canada, together with the costs of reconversion and completion of such equipment for Chinese use and its preparation for shipment.

The remaining \$35,000,000, it is understood, will be available for purchasing equipment, supplies and services desired by the Government of China in Canada for reconstruction and other post-war purposes, items of which are to be agreed from time to time with the Canadian Departments of Trade and Commerce and of Finance, as specified in the agreement. I have noted your request to be permitted to use the credit in paying the cost of transporting goods from Canada to China in Canadian ships. At present our legislation and the regulations under it do not make this use of the credit possible, but the legislation and the regulations may be changed in this regard, and if that is done my colleague, the Minister of Trade and Commerce, and I will be prepared to give sympathetic consideration to the inclusion in the program of the costs of shipping goods to China in Canadian Vessels.

I wish also to record that I am prepared to agree to the redemption, under paragraph 10 of the agreement, of the bonds to be given in accordance with the agreement, out of any Canadian dollars accruing to the Government of China from current account transactions between Canada and China. I am also prepared to agree to the use in the repayment of the credits advanced under the agreement, or for redemption under paragraph 10 of the agreement, of Canadian dollars acquired by China from the International Monetary Fund or the International Bank for Reconstruction and Development. I wish also to confirm our understanding that the Foreign Exchange Control Board (or its successor agency) will sell to China Canadian dollars in exchange for United States dollars, at the official rate in force on the day of the transaction, for the purpose of making repayments of the credit provided under the agreement signed today.



1946. No. 20

I wish also to record that it is the intention of the two Governments that a certain proportion of the Canadian dollar requirements of China shall be covered by the purchase from Canada of Canadian dollars for gold or foreign exchange convertible into gold. To implement this intention, it is understood that the Government of China will during or at the end of each half year, during which the credits referred to in this letter are being drawn upon, acquire Canadian dollars by the sale to Canada of gold or foreign exchange convertible into gold in an amount not less than twenty per cent of the amount of the credit drawn during each such half year. It is understood that the Canadian dollars so acquired will be used to meet the current requirements of China in Canada, including purchases of the Government of China or its agencies and including Canadian shipping services and marine insurance charges. Any purchases of Canadian dollars for gold or foreign exchange convertible into gold during the first half of 1946 prior to the signing of this agreement shall be regarded as coming within the amount of such required purchases during the first half of that year. These agreed purchases of Canadian dollars for gold or foreign exchange convertible into gold shall be reduced by an amount equal to the Canadian dollar equivalent of any United States dollars or other foreign exchange convertible into gold paid by Chinese importers for imports from Canada during each half year in question, provided that the Government of China supplies satisfactory evidence of such payments and they are verified by the Foreign Exchange Control Board of Canada. In case the amount of such Chinese imports from Canada in any half year exceeds the required purchases of Canadian dollars for that period, the excess shall be carried over to the succeeding half-year period or periods.

I would appreciate it if you would confirm the understanding set forth above, and also if you would inform me from time to time of the representatives of the Government of China who will agree with the Departments of Trade and Commerce and of Finance upon the program of purchases to be covered under this agreement.

Yours very truly,

J. L. ILSLEY,

Canadian Minister of Finance.

II

The Ambassador of China to the Canadian Minister of Finance.

OTTAWA, February 7, 1946.

Dear Sir,

I take pleasure in acknowledging receipt of your letter of today's date relative to the agreement signed today for the provision of a credit of \$60,000,000 to my Government under the Export Credits Insurance Act, in which you were good enough to place on record our understanding regarding certain points in connection with the use of the credit and about purchases which China will make in Canada, to be financed by Canadian dollars acquired from the sale of gold or foreign exchange convertible into gold.

In the name of my Government I wish to confirm the understanding referred to above. I shall be pleased to inform you from time to time of the names of my Government's representatives who will agree with the Departments of Trade and Commerce and of Finance upon the program of purchases to be covered under this agreement.

Yours very truly,

LIU SHIH SHUN,

Ambassador of China.

I wish also to record that it is the intention of the two Governments that a certain proportion of the Canadian dollar requirements of China shall be met by the purchase from Canada of Canadian dollars for foreign exchange convertible into gold. It is understood that the Government of China will during the first half year of 1946 acquire Canadian dollars by the sale of gold or foreign exchange convertible into gold in an amount not less than twenty per cent of the amount of the credit drawn during each such half year. It is understood that the Canadian dollars so acquired will be used to meet the current requirements of China in Canada, including purchases of Government of China or its agencies and including Canadian shipping and marine insurance charges. Any purchases of Canadian dollars for foreign exchange convertible into gold during the first half of 1946 to the extent of this agreement shall be regarded as having been made in the first half of that year. These purchases of Canadian dollars for gold or foreign exchange convertible into gold shall be reduced by an amount equal to the Canadian dollar equivalent of the purchases of Canadian dollars or other foreign exchange convertible into gold from the United States for imports from Canada during the first half year of 1946. It is understood that the Government of China supplies satisfactory evidence of such purchases and that the foreign exchange convertible into gold for such purchases shall be carried over to the succeeding half year period of 1946.

I would appreciate it if you would confirm the understanding set forth above and also if you would inform me from time to time of the requirements of the Government of China, who will agree with the Department of Trade and Commerce and of Finance upon the program of purchases to be covered by this agreement.

Yours very truly,
J. I. HESLEY

Canadian Minister of Finance

II

The Ambassador of China to the Canadian Minister of Finance
Ottawa, February 7, 1946

The Ambassador of China to the Canadian Minister of Finance
Ottawa, February 7, 1946

I have the honor to acknowledge receipt of your letter of today's date in relation to the agreement signed today for the purchase of a certain amount of Canadian dollars under the Export Credit Agreement in which the Government of Canada has agreed to give an undertaking regarding certain purchases of Canadian dollars for gold or foreign exchange convertible into gold in connection with the use of the credit and about purchases of gold or foreign exchange convertible into gold by the Government of China for the purpose of meeting its requirements for the first half year of 1946. I shall be pleased to inform you from time to time of the progress of the agreement and of the purchases of Canadian dollars for gold or foreign exchange convertible into gold by the Government of China for the purpose of meeting its requirements for the first half year of 1946.

Yours very truly,
Ambassador of China