Trade, Grain and Diplomacy in China's Economic Relations
With the West and Japan 1957-1963

By Chad James Mitcham

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ABSTRACT OF THESIS

This PhD thesis discusses Chinese trade and financial relations with Canada, Australia, Britain, Japan, France, West Germany, Mexico, Argentina, and the Netherlands in the context of the Beijing government's domestic economic problems and policies and also the US-led trade embargo against China over the period 1957 to 1963. By focusing on key trade negotiations and agreements between the Chinese and these non-Communist nations the thesis demonstrates the importance of these contacts in terms of the grain, agricultural, and petrochemical sectors of the Chinese economy. The thesis also shows the vital importance of this particular period of Chinese trade diplomacy with non-Communist nations. Trade diplomacy precipitated a 'credit race' among participants in the Chinese market and led to the breakdown of US-led trade controls against China. Despite China's grave economic situation, its negotiators were able to exploit competition among suppliers arising from surpluses and overproduction in non-Communist countries.

In making use of recently declassified government archives in Canada, Australia, Britain and the US, the thesis examines a topic and period which has received little attention from historians and reaches several new conclusions. First, the 1961 to 1963 Chinese purchases of Western grain were a continuation of 'test purchases' which began in early 1958 in response to serious food shortages and famine that had begun to develop in 1957-58. These 'test purchases' were terminated during the Great Leap Forward from mid-1958. But in late 1960 Chen Yun, Zhou Enlai, and Li Xiannian became the chief architects of a new and expanded grain import policy which was also supported and encouraged by the PLA leadership. Secondly, beginning in April 1961, cash purchases were succeeded by the granting of medium-term credits of increasing duration which were instrumental in arresting deaths from starvation by early 1962, thus allowing the Chinese to implement economic policies aimed at 'readjustment'. Thirdly, beginning in autumn 1961, both the Chinese and US governments became internally divided over the possibility of negotiating Sino-American grain sales. The US government continued to be under pressure from the US 'China Lobby' and the Taiwanese government to maintain a firm stance against those calling for changes to US 'China policy'. With the conflict in Vietnam showing signs of worsening, the US government continued inflexibility with respect to the trade embargo against China increasingly caused friction in US-allied relations and contributed to the near breakdown by late 1963 of the US led controls on exports of non-military goods to China. Fourthly, it was necessary to relate China's need for grain imports to its determination in 1962-63 to improve its agricultural productivity on the basis of importing fertiliser, and equipment and technology required for fertiliser production. Fifthly, medium-term and long-term credits obtained to facilitate purchases of grain and fertiliser production equipment and technology respectively were instrumental in stabilising China's economic situation and vital to developing improved trade relations with non-Communist interests.

The first chapter discusses Chinese grain shortages and the Chinese economy between 1953 and 1963. Chapters two through eight focus on the Chinese-Western grain trade while the final chapter discusses Chinese purchases of chemical fertiliser and chemical fertiliser production equipment and related technology which involves the larger question of Chinese economic planning in 1962-63.
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For my parents, my late grandmother and my teachers especially Professor R.B. Smith, Professor Robert F. Ash, Professor Man Kam Leung and Professor T.D. Regehr.
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<tr>
<td>ABB</td>
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</tr>
<tr>
<td>AID</td>
<td>Agency for International Development</td>
</tr>
<tr>
<td>ANIC</td>
<td>Azienda Nazionale Idrogenajone Cumbustibili (ENI Subsidiary)</td>
</tr>
<tr>
<td>AWB</td>
<td>Australian Wheat Board</td>
</tr>
<tr>
<td>BCPIT</td>
<td>British Council for Promotion of International Trade</td>
</tr>
<tr>
<td>CAAC</td>
<td>Civil Air Administration of China</td>
</tr>
<tr>
<td>CCP</td>
<td>Chinese Communist Party</td>
</tr>
<tr>
<td>CCPIT</td>
<td>China Council for the Promotion of International Trade</td>
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<tr>
<td>CEROILFOOD</td>
<td>China National Cereals, Oils and Foodstuffs Import and Export Corporation</td>
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<td>CHICOM</td>
<td>Chinese Communist Government (Term Used by the US Government)</td>
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<td>CHINATEX</td>
<td>China National Textiles Import and Export Corporation</td>
</tr>
<tr>
<td>CHINATHUSU</td>
<td>China National Native Produce and Animal By-Products Import and Export Corporation</td>
</tr>
<tr>
<td>CIA</td>
<td>Central Intelligence Agency (USA)</td>
</tr>
<tr>
<td>CIRECO</td>
<td>China Resources Company</td>
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<tr>
<td>CNIEC</td>
<td>China National Import Export Corporation</td>
</tr>
<tr>
<td>INDUSTRY</td>
<td>China National Light Industrial Products Import and Export Corporation</td>
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<tr>
<td>COCOM</td>
<td>Co-ordinating Committee of the Consultative Group of Governments (Paris Group)</td>
</tr>
<tr>
<td>COSCO</td>
<td>China Ocean Shipping Company</td>
</tr>
<tr>
<td>COFACE</td>
<td>French Governmental Export Credit Insurance Agency</td>
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<tr>
<td>CTB</td>
<td>Commonwealth Trading Bank (Australian)</td>
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<td>CWB</td>
<td>Canadian Wheat Board</td>
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<td>DEA</td>
<td>Department of External Affairs (Australian/Canadian)</td>
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<td>DLP</td>
<td>Democratic Labour Party (Australia)</td>
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<td>DOF</td>
<td>Department of Finance (Canadian)</td>
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<td>DOT</td>
<td>Department of Commerce and Trade (Australia)</td>
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<td>DPI</td>
<td>Department of Trade and Primary Industry (Australia)</td>
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<td>DTC</td>
<td>Department of Trade and Commerce (Canada)</td>
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<tr>
<td>ECIC</td>
<td>Export Credit Insurance Corporation (Canada)</td>
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<tr>
<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>EEC</td>
<td>European Economic Community</td>
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<tr>
<td>ENI</td>
<td>Ente National Idrocarburi</td>
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<tr>
<td>Ex-Im Bank</td>
<td>Export-Import Bank of Japan</td>
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<tr>
<td>FAC</td>
<td>Foreign Assets Control Legislation/Department (division of the US Treasury Department)</td>
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<td>FE</td>
<td>Far East Bureau (US Department of State)</td>
</tr>
<tr>
<td>FO</td>
<td>Foreign Office (UK)</td>
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<tr>
<td>FRG</td>
<td>Federal Republic of Germany</td>
</tr>
<tr>
<td>ICI</td>
<td>Imperial Chemical Industries</td>
</tr>
<tr>
<td>INR</td>
<td>Bureau of Intelligence and Research, US State Department</td>
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<td>ITC</td>
<td>International Trading Corporation (Seattle, Washington)</td>
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<td>IWA</td>
<td>International Wheat Agreement</td>
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<td>JASEA</td>
<td>Japanese Ammonium Sulphate Export Association</td>
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<td>JCEIA</td>
<td>Japan-China Export Import Association</td>
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<td>JCOTLC</td>
<td>Japan-China Overall Trade Liaison Council</td>
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<tr>
<td>JCPSJC</td>
<td>Joint Committee for Promotion of Sino-Japanese Co-operation</td>
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<td>JCTPA</td>
<td>Japan-China Trade Promotion Association</td>
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<tr>
<td>JETRO</td>
<td>Japan External Trade Promotion Organisation</td>
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<tr>
<td>JITFA</td>
<td>Japan International Trade Promotion Association</td>
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<tr>
<td>JPC</td>
<td>Japan Peace Committee</td>
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<tr>
<td>JSP</td>
<td>Japanese Socialist Party</td>
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<tr>
<td>L-T</td>
<td>Liao-Takasaki Trade Memorandum</td>
</tr>
<tr>
<td>LDCs</td>
<td>Less Developed Countries</td>
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<td>LDP</td>
<td>Liberal Democratic Party of Japan</td>
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<td>MACHIMPEX</td>
<td>China National Machinery Import and Export Corporation</td>
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<td>MFN</td>
<td>Most Favoured Nation</td>
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<td>MINMETALS</td>
<td>China National Metals and Minerals Import and Export Corporation</td>
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<td>MITI</td>
<td>Ministry of International Trade and Industry Japan</td>
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<tr>
<td>NCNA</td>
<td>Xinhua / New China News Agency</td>
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<tr>
<td>NITREX AG</td>
<td>(West European) Nitrogen Chemical Fertiliser Export Cartel</td>
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<tr>
<td>NSC</td>
<td>National Security Council (USA)</td>
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<td>Abbreviation</td>
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<td>QNIC</td>
<td>French National Cereals Office</td>
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<td>Public Law (480)</td>
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<td>PLA</td>
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<td>POL</td>
<td>Petroleum, Oil and Lubricant Products (Term Used By Western Allies)</td>
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<td>Sinofract Chartering and Shipbuilding Corp.</td>
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<td>Societa Nationale Metanodetti-Progetti (ENI subsidiary)</td>
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<td>Policy Planning Council (US Department of State)</td>
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<td>USNA</td>
<td>National Archives of the USA, Repository at College Park, MD</td>
</tr>
</tbody>
</table>

***
GLOSSARY

Trade Terms

Cost and Freight (C&F): "The buyer must assume the risk of loss or damage when goods pass the ships rail at the port of embarkation. The seller is responsible for the costs and freight necessary to get the goods to the destination named in the contract."1

Cost Insurance and Freight (CIF): "...basically the same as C&F with the exception that the seller also assumes the risk of loss or damage to the goods during transit until arrival at final destination stipulated in the contract. This term denotes maximum obligation for the seller."2

Free on Board (FOB): "The risk of loss or damage is transferred to the buyer when goods pass the ship's rail. The goods are placed on board a ship by the seller at the port of shipment named in the sale contract."3

WHEAT CROPS AND QUALITY

Australian Fair Average Quality Wheat (FAQ): a system organised by the Chamber of Commerce in each Australian State under which the State wheat harvest was pooled and mixed together. An average annual imperial weighted sample was subsequently extracted, on a percentage basis (excluding inferior samples), which determined the FAQ for that year. FAQ represented a true reflection of bushel weight and the milling value of wheat, rather than its quality for baking. This system was adopted in Victoria in 1891, New South Wales in 1899, and Western Australia in 1905, but was criticised over the years by some Australians on the grounds that it was inadequate because it varied annually.4

Canadian Manitoba Northern Wheat (MN): A hard red spring wheat which was marketed according to grades (such as MN#1, MN#2, MN#3, MN#4, MN#5) that did not vary annually. Of the highest quality and protein content MN wheat cost approximately 25-30 cents per bushel more than the lower grade Australian FAQ wheat. MN wheat was exported throughout the world and blended with soft domestic wheats for all purposes.

Crop Year: A designated twelve month period usually beginning on 1 August and ending on 31 July each year for national and international statistical purposes associated with the harvesting, storing, transporting, distributing, selling and exporting of agricultural produce.

2 Ibid.
3 Ibid.
**Chemical Fertiliser Terms**

Ammonia Sulphate: Composed of approximately 20% nitrogen. Ammonia required in the production of nitrogenous fertiliser can be produced from coal, electricity, natural gas, and petroleum gas. Ammonia is produced much more inexpensively using natural and petroleum gas.⁵

Urea: Produced from ammonia and was most desirable of all nitrogenous fertilisers because of its 46% nitrogen content. Also unlike ammonia fertilisers it is not unstable and in prilled/pelletised form can be applied relatively easily and stored for long periods without losing its potency.⁶

**Weights**

Most of the chemical fertiliser and grain trade figures which I have utilised were converted to metric tonnes from either long tons or short tonnes. Unless stated otherwise chemical fertiliser figures are written in terms of ammonia sulphate. Urea fertiliser is 46% nitrogen rich and consequently worth more per unit weight than ammonia sulphate which is composed of approximately 20% nitrogen. The total nitrogen content of 1,016,000 tonnes of urea fertiliser is equivalent to the total nitrogen content of 2,336,800 tonnes of ammonia sulphate and thus can be considered equivalent in weight.⁷

Chemical fertiliser and grain trade statistics are from UN, and government (and their marketing boards and agencies) annual reports as well as from documents within the files of Western archives which report information provided by private and government traders. Grain trade figures are in trade grain weight - grain which has been husked⁸ and in milled weight - fine grain such as wheat converted into flour.⁹ While grain trade statistics are reported as accurately as possible these figures should be viewed as approximations rather than precise figures. This is because of the highly competitive nature of the grain trade which is also characterised by a considerable degree of secrecy. Available statistics for quantities of grain sold under individual contracts and total grain sales by a nation in a particular year were sometimes revised and reported differently from year to year. This was because grain sale contracts often included option clauses allowing for the shipment of more or less grain which are not exercised until months after contracts are signed. Shipments of grain under a particular contract were sometimes made over two or possibly more crop years, creating problems about where the movements of grain should appear in the export figures. Some grain trade figures are reported by calendar year 1 January to 31 December although international grain traders usually report statistics by crop year. While I have converted grain, flour and chemical fertiliser weights to metric tonnes I often include the cost of these goods in dollars (US, Canadian, Australian) or British pounds per ton.

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⁶ Ibid.


⁹ Ibid.
Conversion figures:
1 yard = .914401 metres
1 short ton = 907.2 kg. or 2,000 lbs.
1 long ton = 1016 kg. or 2,240 lbs.
1 tonne = .984205 tons
1 (long) ton = 1.0160 tonnes
1 cwt. (100 lbs. wheat) flour = .062 tonnes
Wheat and soybean: one tonne is equivalent to 36.7437 bushels.
Corn and sorghum: one tonne is equivalent to 39.368 bushels.
Barley: one tonne is equivalent to 45.9296 bushels.
ACKNOWLEDGEMENTS

Foremost of all I wish to thank my PhD supervisor Professor R.B. Smith who's outlook, kindness, patience, concern, guidance, and support, above any call of duty, have been a source of inspiration - I also thank him for his prompt advise, attention for detail, and willingness to share his wisdom and knowledge while advising me at the various stages of this thesis; Professor Robert Ash for his kindness, patience, suggestions and encouragement; Dr. David Shambaugh and Dr. Kaoru Sugihara, Pam Radford of SOAS; Dr. David Lowe and Kate Darian-Smith of the Institute of Commonwealth Studies who provided important help and encouragement at the outset of my research; A.W. DeMaria assistant executive director, Economics External liaison International Wheat Council; Dr. Ang Cheng guan; Dr. Ilya V. Gaiduk; Professor Shu Guang Zhang.

I am very grateful to the John F. Kennedy Library (Kennedy Foundation) for providing me with a generous grant which enabled me to visit their excellent facility and to chief archivist, William Johnson and Mary Kennefick for their kindness and help during my visit.

Professor Man Kam Leung who introduced me the study of China and the Orient and has always supported my endeavours - for which I am eternally grateful; Professor T.D. Regehr for his patience, perspicacity, and promptness while supervising my MA thesis which served partially as a foundation for this dissertation and also for his continued support and interest; Professor W.A. Waiser; Professor Gary Hanson; Dr. Michael McCulloch; Professor Kent; Professor Kitzan and other members of the University of Saskatchewan History Department who helped during my years there and the Messer Fund for Research in Canadian History for a generous grant;

At other US archives visited, I particularly wish to thank: Milton O. Gustafson and Martin McGann of the National Archives of the United States, College Park, MD repository; Molly Molloy, librarian, Hoover Institution of War, Revolution and Peace, Library, Stanford University; staff of J. Hugh Jackson Business Library Graduate School of Business Stanford University; Regina Greenwell, Lyndon Baines Johnson Library;

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John Pepper and Gillian M. Redmond for their help before and during my visit to the Australian Archives; Valery Helson and Graham Powell, National Library of Australia; Clive Beeson, and Emma Jolley at the Noel Butlin Archives Centre, ANU; and present and former officials of the AWB in Melbourne including Angelique Adler, Robert Cracknell, L.H. Dorman; John Wisher;

In Hong Kong Ayesha Butt and Edward Tam; Low Chin Sin; In Macau Jorge Manuel de Abreu Arrimar director de Biblioteca Central de Macau; Maria Helena Evora, directora de Arquivo Historico de Macau, Instituto Cultural de Macau; in Beijing Hou Pao Ping, Professor Wang Hong Guang; Yang Xiongian;

Although I have avoided relying on oral source material while formulating my conclusions my general understanding of available written research material has benefited from help provided by various former governmental, private trade (or relatives of), media and church officials. I thank them for their patience, kindness and/or hospitality while taking time to answer my questions and providing help: Francis Bator; Dr. Antonio Braga and his sister Angela; Arthur Dornheim; Roy A. Faibish; C.M. Forsyth-Smith; Edward Freid; Rt. Hon. Alvin Hamilton; Carl Kaysen; 'Jimmy' J.D. McGregor; William Miner; William E. Morris; Simon S. Reisman; Basil Robinson; C. John Small; Father Manuel Teixeira; Percy Timberlake; Professor James C. Thomson, Professor Ralph E. Weber as well as others who cannot be named.
I wish to thank my Father and Mother for encouraging, guiding, supporting and believing in me, yet always allowing me to find my own way; my late grandmother who took a great interest in my education; my sister Stephanie and her husband Pat; to my relatives in Saskatoon and Devon; to friends and those who have helped including Mrs Gladys Steeves, Teresa Maini, Dr. John Murray, Sister Yvonne Chiasson, Laurie Landry, Dr. Tim S. Davis.
INTRODUCTION
US Attempts to Restrict Allied Trade With China

This thesis focuses on Chinese trade with various non-Communist countries between 1957 and 1963. By concentrating on key trade agreements during this period I demonstrate how these contacts, economically necessary for both China and their non-Communist trading partners, served to erode US-led trade controls and resulted in increased contacts between China and these nations. While trade competition in the Chinese market was the key to improving economic relations between China and allies of the US, the extension of diplomatic relations to Beijing by Japan and Western allies was not necessary for greater trade. Britain, Denmark, Finland, Sweden, and Switzerland had 'recognised' the Beijing government in 1950, but these nations (apart from Britain) had not received a large share of Chinese contracts with non-Communist countries. Trade diplomacy between Japan, Western allies and China was a highly competitive and gradual process occurring in different phases during the 1950s and 1960s.

US government controls on China trade were officially implemented in March 1950 bringing them into line with those applied to the USSR and Communist nations of Eastern Europe. The Coordinating Committee of the Consultative Group (COCOM), also known as 'the Paris Group', was created in 1949 under the North Atlantic Treaty Organisation (NATO). Composed of fifteen nations - the US, Canada, and Western European countries (excluding Iceland) - COCOM sought to administer uniform control of exports to the USSR and its East European allies. Although not a member, the Australian Cabinet in March 1951 agreed to adhere to COCOM principles. COCOM produced three lists relating to trade controls which were reviewed at regular intervals. (SEE TABLE IN.1)

On 25 June 1950 the Korean War began and the US Treasury subsequently refused to issue export licenses covering any sales to China and North Korea. China's entry into this conflict in October 1950 was followed on 3 December by the US government introducing a complete embargo on trade with China, Hong Kong and Macau. The US government enforced this with two main pieces of legislation: a 1933 amendment to the Trading With the Enemy Act (1917) and the Export Control Act (1949). On 17 December 1950 Foreign Assets Control regulations (FAC) were implemented under which it became illegal for all persons subject to US jurisdiction - including American citizens/residents, US firms and their foreign affiliates - to participate in unlicensed transactions with Chinese or North Korean interests. These regulations also blocked and froze US assets owned by Chinese and North Korean concerns. In early 1951 the US introduced a licensing system preventing the reexport of goods to these areas through other countries. Meanwhile, in July 1950 COCOM
nations had agreed to apply controls on China trade which were comparable to those implemented against Eastern European nations. In 1951 a UN resolution called for member nations to refrain from exporting to China armaments and materials required to produce weapons.

Following Chinese entry into the Korean War, Washington had asked its allies to implement more stringent controls on China trade and in September 1952 ‘Paris Group’ members of COCOM were persuaded to establish the China Committee of COCOM (CHINCOM). CHINCOM included the US, its Western allies and Japan who joined both COCOM and CHINCOM in September 1952. In addition to ensuring that none of the goods on the three COCOM lists were exported to China, CHINCOM administered the ‘China list’ or ‘the China differential’, a more stringent list of embargoed items which applied only to China. It consisted of a wider range of strategic goods than those imposed under COCOM.10 (SEE TABLE IN.1)

<table>
<thead>
<tr>
<th>Lists*</th>
<th>Soviet Union and Eastern Europe</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>List I Embargo</td>
<td>Exports prohibited</td>
<td>Exports prohibited</td>
</tr>
<tr>
<td>List II Quantitative</td>
<td>Exports restricted (Covered exports permitted up to a specified maximum quota)</td>
<td>Exports prohibited</td>
</tr>
<tr>
<td>List III Watch</td>
<td>Exports watched (included exports permitted without restriction, but with information on the extent of movement of such goods exchanged between COCOM members)</td>
<td>Exports prohibited**</td>
</tr>
<tr>
<td>China List</td>
<td>Exports uncontrolled</td>
<td>Exports prohibited**</td>
</tr>
</tbody>
</table>

* The COCOM strategic exports procedure later encompassed: a) the International Embargo List, b) the International Munitions List, c) the International Atomic Energy List and d) the International Watch List.

** However, items from the Watch List and China List could sometimes be exported to China under COCOM/CHINCOM ‘exceptions procedure’. (See text below)

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However, during 1952 the 'Paris Group' also agreed to an 'exceptions procedure' under which member nations could permit the export to China of goods on the 'Watch List III' and, under special circumstances, items on the 'China List' as long as the exporting nations considered that the items would be used for civilian purposes and would not contribute to Chinese military strength. However, throughout the 1950s the US and its allies increasingly disagreed over what should appear on the embargo list. As US Secretary of the Treasury, Douglas Dillon, explained to a US Senate Committee Hearing in 1964, the US government

...have had a concept, shown in the legislation by Congress - that anything that would help to strengthen the economy of the Soviet Bloc was helping them strategically, but the Europeans have never agreed with that. Their concept of strategic is only something that is directly relevant to military strength..."

***

Growing Chinese Interest in Trade With the West and Japan

Following the end of the Korean War, exporters from non-Communist countries began to have difficulties finding export markets. The unprecedented dispersal of new technology and machinery throughout the world since WWII was leading to overproduction in the resource and manufacturing sectors. Agricultural innovations had also led to record grain surpluses. During the 1950s, because the US was the richest and most technologically advanced country in the world, its government was afforded the luxury of choosing which countries it allowed American interests to trade with. Washington provided generous subsidies to American producers blocked from entering a particular market. However, US allies facing domestic underemployment and surpluses as well as American competition in non-Communist markets began to consider trading with Communist nations in order to balance their trade. While supporting American trade controls aimed at preventing Chinese military development, US allies became increasingly sceptical of controls designed to limit Chinese economic development. In essence, the US and its allies, led by Britain, disagreed over the definition of 'strategic' when the term was applied to items which had both civilian and military uses and/or items not directly related to military use.

11 NAA: 1838/280 3107/385, pt.4, memorandum relating to trade controls against China, undated and untitled. Table 1.1 reproduced from this document.

The difficulties of maintaining wide-ranging controls on China trade became apparent following the UN's May 1951 decision to implement controls preventing Britain, the colonies and other South-East Asian rubber producers from exporting rubber to China. Rubber was on the initial CHINCOM list, but the Chinese subsequently succeeded in securing adequate replacement supplies of British rubber by reexports through the USSR and by signing a five year rice-rubber barter agreement with Sri Lanka in October 1952. With rice prices rising and rubber prices falling, Colombo was especially grateful to obtain a badly needed, inexpensive source of rice. However, in May 1956 with the Chinese-Sri Lankan agreement up for renegotiation, the British announced that they would make use of the CHINCOM 'exceptions procedure' to enable some rubber to be exported to China. Other South-East Asian rubber exporters, led by Malaya and Singapore, announced that they would also begin to export rubber to China. The Sri Lankans, reluctant to lose their inexpensive supply of Chinese rice, succeeded in negotiating a second rice-rubber barter agreement with China. Trade diplomacy, based on economic requirements of both nations, was an important factor in Colombo's 7 February 1957 decision to extend diplomatic recognition to China. Not only had the Chinese used the rice-rubber trade to expand their political influence abroad, but had demonstrated to American allies that the 'China differential' often caused greater harm to free market economies than to the Chinese economy.

Meanwhile, after the Korean War ended on 26 July 1953, Washington continued to pressure allies to reject Chinese admission to the UN and recognition of the Beijing government diplomatically. It also opposed the removal of 'the China differential'. However, the Chinese, in order to cause tension in the US-led alliance, and ultimately to encourage US allies to extend generous economic and political concessions to Beijing began to promote competition among US allies interested in trading with China. Britain had become the first Western government in January 1950 to 'recognise' the Beijing government, but this had not resulted in the full exchange of Chinese-British diplomatic representation. In 1954 Britain and the Netherlands reached agreements with the Chinese for reciprocal charge d'affaires representation without full ambassadorial status, while in October 1954 Norway extended full diplomatic recognition to China. Also in 1954 British firms signed provisional contracts (to be executed only if trade controls were relaxed) with Beijing for the sale of items such as machine goods which had been sold to China prior to the enforcement of the embargo. The Chinese promised to make larger purchases if the embargo was further

reviewed. 14

On 16 August 1954, the COCOM list, which had reached a
maximum of 266 items, was reduced to 181. 15 The CHINCOM list was not
reduced and thus the 'China differential', was increased. However,
without 'the differential' it was now easier for the Chinese to acquire
embargoed goods by re-export through other Communist nations. As the
Chinese stepped up efforts aimed at industrialisation in 1955 and 1956
they also began to make enquiries with Western and Japanese firms about
purchasing equipment such as power plants, heavy electrical equipment,
scientific instruments, vehicles, locomotives, tractors, chemical
fertilisers, and basic raw materials. The British government, aware of
increasing French and West German equipment and metal exports to China16,
in the summer of 1955 told Washington that 'the China differential'
should be reduced. However, the American government continued to be under
pressure from the US Congress to maintain strict controls on China trade.

Meanwhile, between 1 June 1952 and 5 March 1958, Japanese
business had concluded four trade agreements, of increasing value, with
the Chinese. In late 1954 the Japanese began making use of COCOM
'exceptions procedure' and in 1955 began using it to export increasing
quantities of steel products to China. 17 Also in 1955 the US government
and its allies reached a compromise which allowed 'Paris Group' member
nations, at their discretion, to export certain quantities of goods on
the embargo lists as long as they did not add to the military potential
of the importing nation. 18 In December 1955 Whitehall notified Washington
that in January 1956 it would unilaterally begin a gradual reduction of
controls on trade with China. 19 The US government was unable to convince
the British, who needed to increase exports to balance their trade, to
reverse this decision.

Then on 11 April 1956 the British government announced the
sale of sixty agricultural tractors to China by British firms under COCOM
'exceptions procedure'. The British began to make regular use of this
procedure to sell the Chinese such items as metal, chemicals, and
landrovers. This last transaction occurred in July 1956 and at COCOM, the
US stood alone in opposing the sale although Japan and Canada abstained

14 PRO: FO 371/115107: FC 115/1; undated memorandum by Secretary
of State for Foreign Affairs.
15 PRO: FO 371/158073: M 341/10, undated 'Strategic Controls on
Exports to the Sino-Soviet Bloc'.
17 Timberlake, Percy, The 48 Group: The Story of the Icebreakers
in China, p. 38.
19 PRO: FO 371/120944: FC 1151/36, Board of Trade to Allen:
'Commonwealth Prime Minister's Conference - Trade With China', 20
April 1956 (provides a brief history of the government's position).
from expressing an opinion.\textsuperscript{20}

On 3 October 1956, in response to US representations asking Whitehall and 'Paris Group' members to restrict the use of the 'exceptions procedure' to prevent the trade controls from breaking down, the British Cabinet agreed that for the present time it would move more slowly with the use of this procedure, particularly with respect to goods which were previously on the COCOM list. However the Cabinet also decided to inform Washington that, owing to mounting pressure from domestic industrial interests and opposition members in the House of Commons, the more stringent controls on trade with China could not be maintained indefinitely.\textsuperscript{21} In May 1957 the US government continued to reject British proposals to modify controls on trade with China and on 29 May the British Cabinet decided unilaterally to reduce UK controls to the level set for exports to the 'Soviet bloc'. This decision was announced the next day in the British House of Commons and effectively ended 'the China differential' as the other COCOM nations, with the exception of the US, Canada and Turkey, responded by reducing their respective controls on exports to China.

In 1957-58 a decreased demand for goods led to an alarming rise in industrial overcapacity and employee redundancies in non-Communist countries. US interests were more insulated from the recession owing to their relative prosperity and ability to obtain generous subsidies from the US treasury to enable them to make inroads into world markets. Meanwhile, interests from non-Communist countries began looking for new export markets, especially those in which they did not have to compete with US firms.

At this time the Chinese became more interested in Japanese and West European machinery, steel, chemical fertiliser, and materials needed to carry out plans aimed at rapid domestic economic development. This occurred at the height of US concerns about Chinese-Soviet economic warfare (i.e. strategic buying and selling of goods and commodities with the purpose of disrupting non-Communist markets and trade patterns). That same year US-allied relations were damaged by several cases involving the US Treasury invoking extraterritorial application of American FAC legislation to prevent US subsidiaries in Canada and Europe from concluding trade deals with China. Despite continued US government pressure to resist further reductions in controls on China trade, between 1957 and 1960 American allies became increasingly interested in trading with China.

However, initial moves towards closer Chinese-Japanese and Chinese-Canadian trade relations were interrupted in mid-1958 by the

\textsuperscript{21} PRO: CAB: CM (56) 68th Conclusion, 3 October 1956.
onset of the Great Leap Forward. Since 1955 the Chinese had been importing mainly Japanese fertiliser, steel and machinery in exchange for Chinese agricultural and mineral goods. On 5 March 1958 the fourth private Chinese-Japanese trade agreement since 1952 was signed, under which Japanese steel was to be bartered for Chinese coal and iron ore. The agreement also provided for the establishment of reciprocal trade missions and included the right for both national flags to be flown on mission buildings. When the US and Taiwanese governments complained that the exchange of trade missions was a step towards diplomatic relations, the Japanese Prime Minister responded by announcing that Tokyo would not recognise flying the PRC flag by the Chinese mission as a right. On 2 May a PRC flag was removed from a Chinese exhibition in Nagasaki by a Japanese ‘rightist’ and five days later the Chinese government cut off trade with Japan indefinitely. The ‘Nagasaki flag incident’ demonstrated that the Beijing government continued to maintain that politics and trade were inseparable. Chinese-Japanese trade was not officially resumed until 1962. In 1958 after cutting off trade with Japan, China turned to Western European and Communist countries to obtain industrial goods which were to have been supplied by the Japanese under the lucrative 1958 Chinese-Japanese trade agreement. (See Table IN.2)

**TABLE IN.2**

**Total Exports to China by Country: 1956 to 1960**

(in million US$)

<table>
<thead>
<tr>
<th>Year</th>
<th>Japan</th>
<th>USSR</th>
<th>Canada</th>
<th>Hungary</th>
<th>UK</th>
<th>France</th>
<th>Belgium</th>
<th>Italy</th>
<th>Sweden</th>
<th>Austria</th>
<th>Holland</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956</td>
<td>63.66</td>
<td>762.09</td>
<td>64.90</td>
<td>35.99</td>
<td>63.34</td>
<td>19.94</td>
<td>15.97</td>
<td>10.49</td>
<td>19.94</td>
<td>6.85</td>
<td>12.32</td>
</tr>
<tr>
<td>1957</td>
<td>55.07</td>
<td>617.73</td>
<td>86.42</td>
<td>25.74</td>
<td>58.35</td>
<td>45.93</td>
<td>51.71</td>
<td>31.00</td>
<td>25.69</td>
<td>10.50</td>
<td>4.69</td>
</tr>
<tr>
<td>1958</td>
<td>48.13</td>
<td>630.70</td>
<td>97.00</td>
<td>50.60</td>
<td>128.20</td>
<td>155.24</td>
<td>54.23</td>
<td>38.58</td>
<td>18.02</td>
<td>15.00</td>
<td>14.28</td>
</tr>
<tr>
<td>1959</td>
<td>0</td>
<td>979.06</td>
<td>103.62</td>
<td>40.10</td>
<td>103.51</td>
<td>129.32</td>
<td>45.18</td>
<td>37.40</td>
<td>26.27</td>
<td>18.20</td>
<td>10.67</td>
</tr>
<tr>
<td>1960</td>
<td>19.00</td>
<td>845.16</td>
<td>93.35</td>
<td>38.31</td>
<td>104.51</td>
<td>94.18</td>
<td>58.10</td>
<td>34.82</td>
<td>41.49</td>
<td>12.53</td>
<td>12.35</td>
</tr>
</tbody>
</table>

Source: compiled by author from statistics found in CIRECO's, *Almanac of China's Foreign Trade Relations and Trade* (1984).

***

22 JFKL: Thomson Papers, Box 13, George Denny, 'Japan's China Policy in October 1962; Steering Between the Blocs'. 
Chinese Grain Problems

In 1957-58 the Chinese though stepping up efforts aimed at rapid industrialisation, were concerned about increasingly serious domestic regionalised grain supply problems occurring since 1953. Famine occurred in parts of China in 1958 and spread throughout the country in 1959 and 1960. This was partly because, between 1958 and 1960, the Chinese substantially increased the volume of annual grain exports to pay for increased imports of equipment and materials required for rapid domestic industrial development. (SEE TABLE IN.3)

**TABLE IN.3**  
Chinese Total Imports of Means of Production: 1950-1960  
(Value Unit: US $100 million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Imports</th>
<th>Value</th>
<th>% of Total</th>
<th>Machinery and Equipment</th>
<th>Raw and Intermediate Materials</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Value</td>
<td>% of Total</td>
</tr>
<tr>
<td>1956</td>
<td>15.63</td>
<td>14.32</td>
<td>91.6%</td>
<td>8.37</td>
<td>53.5%</td>
</tr>
<tr>
<td>1957</td>
<td>15.06</td>
<td>13.85</td>
<td>92.0%</td>
<td>7.90</td>
<td>52.5%</td>
</tr>
<tr>
<td>1958</td>
<td>18.90</td>
<td>17.60</td>
<td>93.1%</td>
<td>8.50</td>
<td>45.0%</td>
</tr>
<tr>
<td>1959</td>
<td>21.20</td>
<td>20.30</td>
<td>95.7%</td>
<td>11.20</td>
<td>52.8%</td>
</tr>
<tr>
<td>1960</td>
<td>19.53</td>
<td>18.63</td>
<td>95.4%</td>
<td>9.70</td>
<td>49.7%</td>
</tr>
</tbody>
</table>

*Source:* modified by author from chart found in CIRECO's, Almanac of China's Foreign Trade Relations and Trade (1984), pp.830.

Meanwhile, during the 1950s, record world grain surpluses had developed and competition between the major 'traditional' grain exporting nations (Australia, Argentina, Canada, and the US) had become intense. While the surplus problem was especially serious in Canada, all the grain exporting nations were eager to enter available new markets - those remaining markets untapped by the US through Washington's multi-million dollar government-subsidised surplus disposal programme. Between March and July 1958, in preparation for the launching of 'Great Leap' economic policies, the Chinese made their first substantial purchases of Western grain - from Canada. Between July 1958 and September 1960, as the Great Leap Forward unfolded, these 'test purchases' of grain were interrupted.
However, in late August 1960, after learning that famine conditions existed throughout the country, the Chinese leadership decided to gradually resume imports of Western grain. Between 3 September 1960 and early February 1961, while evaluating market conditions abroad and the economic crisis at home, the Chinese signed contracts to purchase Western grain on cash terms. After exhausting their currency and bullion reserves by early February 1961 the Chinese succeeded in obtaining medium-term credits to facilitate much larger grain and flour purchases (between April 1961 and December 1963) from Canada, Australia, France, West Germany, Argentina and Mexico. These credit facilities were instrumental in China's economic recovery and enabled the Chinese to implement, in September 1961, a long-term large-scale grain import programme. The US government responded by expressing concern about these credit transactions, which they maintained were similar to foreign aid, even though American wheat producers and increasing numbers of US officials favoured exporting American grain to China - with various terms attached.

Also, by 1962-63, China was interested in improving its own agricultural production through increasing imports of chemical fertiliser and chemical fertiliser production equipment, related technology and technical support. In 1962 the Chinese increased imports of Japanese and West European fertiliser and the following year purchased, from Western European firms, the means to construct modern fertiliser plants.

This thesis is concerned mainly with the grain, fertiliser and fertiliser equipment and technology trade between China and non-Communist countries. Attention will be paid to the Chinese economic background (especially agriculture and food distribution) while examining these spheres of trade, but the main focus is on the diplomacy of China's trade with the West and Japan over the 1957 to 1963 period, using Western archives. This topic has not been examined before with the benefit of declassified Western government documents.

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Review of Secondary Source Materials

Existing literature covers several issues, relating to Chinese grain supplies, which are important background to this thesis. Chinese grain production, distribution and consumption figures for the late 1950s and early 1960s are inaccurate. China's State Statistical system collapsed at that time because of statistical fraud associated with pressures to dramatically increase domestic grain output. During the 1980s the Chinese government released revised grain output figures for the 1950s and early 1960s. Chen Liang Yu and Allan Buckwell contend in *Chinese Grain Economy and Policy* (1991) that researchers are left with the option of relying on possibly inaccurate revised Chinese government statistics or utilising estimates compiled by other researchers. However, Kenneth R. Walker's pioneering work on regional Chinese grain production, distribution and consumption provides figures and insights which are more pertinent to my research. Walker's statistics, insights and conclusions are particularly important in light of recently declassified Western documents relating to the Chinese-Western grain trade.23

Unlike previous researchers on this period, Walker contends that the 'Great Leap Forward' famine began in 1958 rather than 1959. Information which I located at Western archives seem to support Walker's position. He clearly details the difficulties the Chinese government faced in ensuring that urban and rural regional food requirements were met. Rapid urban population growth during the 1950s, associated with Chinese policies aimed at rapid industrialisation, placed greater demands on grain producers and the internal transportation system. These government policies, aimed at planting more rice - a crop having the possibility of higher yields than other grains, was of higher protein content, and worth more than other grains when exported - in northern China resulted in shortfalls of traditional staple grains such as wheat. He also states that northerners were increasingly unhappy with these policies which had resulted in them being forced to accept rice shipments from the south to replace wheat. The logical solution, Walker emphasises was to return to the pre-1949 strategy of importing grain and flour to supply the large northern coastal cities.

Another important work relating to the Chinese economy in this period is Nicholas Lardy and Kenneth Lieberthal's (editors) *Chen Yun's Strategy for China's Development: a Non-Maoist Alternative* (1983).

contains translations of Chen’s important speeches relating to the
Chinese economy, and in particular the domestic grain and fertiliser
economies, during the pre and post ‘Great Leap’ period when he was the
chief architect of Chinese economic policy.

An invaluable work which provided me with a clearer understanding
of Chinese economic policy between 1957 to 1963 from the perspective of
the Chinese government is China's Socialist Economy: An Outline History
1949-1984 (1986), by Chinese scholars Liu Suinian and Wu Qungan. Liu and
Wu clearly outline the various phases of official Chinese economic policies

Another very useful translated Chinese work consulted is History
(1991) which was compiled by the Party History Research Centre of the
Central Committee of the CCP. This provides a concise overview and guide
to major events relating to Chinese government decision-making during the
1950s and 1960s.

An excellent English language source relating to China’s own
trade and economy is Bohdon and Maria Szuprowicz’s, Doing Business with
the People's Republic of China: Industries and Markets (1978). This work
provides a sectoral outline and overview of the Chinese economy and
Beijing’s technology purchases. It makes use of CIA research aids and
papers available to researchers through the US Department of Commerce’s
National Technical Information Service (NTIS) at Springfield, VA. Although
these CIA documents are brief and general in nature, they
provide important insights into the Chinese economy and US government
thinking in this area. While operating their private research service in
Washington, the Szuprowiczs scoured foreign and domestic newspapers and
journals, compiling comprehensive sectoral lists of Chinese purchases of
Western technology.

Several published secondary works discuss the Chinese-Western
grain trade. Henry Albiniski’s pioneering work Australian Policies and
Attitudes Towards China (1965) - which makes use of available
unclassified material such as newspaper reports, and the Australian
Hansard - pieces together a remarkably accurate account not long after
the first AWB grain sales to China began. A later article by Albiniski
and Conrad Raabe, 'Canada's Chinese Trade in Political Perspective'(1972)
was perhaps the first to stress the importance of Chinese-Canadian grain
trade diplomacy.24

More attention has been given to the Chinese-Canadian grain trade
and its significance in improving relations between these countries. Unfortunately because researchers have not, until recently, had access

24 Conrad Raabe and Henry Albiniski, 'Canada's Chinese Trade in
Political Perspective', China's Trade With the West: A Political and
Economic Analysis.
to relevant declassified documents relating to the sales, details in these works tend to be imprecise. Also, researchers have not fully considered the importance of the 1958 'test shipments' of Canadian grain, the role of all officials from the various government departments, and what was happening on the Chinese side during the negotiations.

Li Liansheng's MA thesis 'Sino-Canadian Relations and the Grain Trade'(Carleton University, Ottawa, 1985) pieces together non-archival secondary source material to provide a pioneering account of the Chinese-Canadian grain trade. Li's account provides crucial information which I was unable to obtain elsewhere. Prior to working on his MA Li graduated from the Beijing Language Institute and spent seven years in the Chinese Foreign Ministry. When researching history involving Communist nations substantiated oral history can be useful. While conducting his research Li interviewed the Chinese ambassador to Canada, high-ranking diplomats, trade commissioners and delegations from the Chinese Foreign Ministry. Most importantly he was able to interview Chen Zhongmin, deputy manager of CERoilFOOD in August 1984, and Chen Guodong Chinese Minister of Grain between 1955 and 1966 who emphasised that Zhou Enlai had made the decision to buy Western grain in 1960 and been in charge of Chinese grain purchasing in the 1950s, 1960s, and 1970s.

For background on the Canadian economy I utilised Saskatchewan economist Vernon Fowke's classic, The National Policy and the Wheat Economy (1957). This economic history provides a clear overview of the workings of wheat pools, the Canadian Wheat Board (CWB), and the Canadian provincial and federal governments' role in marketing Canadian wheat. A.R. Callaghan and A.J. Millington's The Wheat Industry in Australia (1965) gives an important historical background about the Australian wheat industry unavailable elsewhere. Greg Whitwell and Diane Sydenham's A Shared Harvest: The Australian Wheat Industry 1939-1989 (1991) provides an excellent overview and general history of the Australian wheat industry and AWB operations. A commissioned work to mark fifty years of AWB operations, it avoids discussing in detail controversial issues such as the relationship between Board members, AWB-Australian government relations and the cash and credit grain sales to China during the 1960s. As yet historians have not made use of recently declassified materials to focus their attention on the AWB's operations and the Australian-Chinese grain trade. A thorough analysis may be impossible until documents fully explaining the Reserve Bank's and Commonwealth Trading Bank's roles in financing Chinese-Australian trade during the 1960s become available.

There is a paucity of secondary sources about the role played by the Australian Reserve Bank and Commonwealth Trading Bank in financing Chinese-Australian trade during the 1960s. However, I consulted H.W.
Arndt and W.J. Blackert's *The Australian Trading Banks* (1977) for general background relating to their formation and operations, despite the fact that details about the financing of the Chinese-Australian grain trade are not discussed.

At the outset it was particularly useful to read Dan Morgan's *Merchants of Grain* (1979) which, despite being based primarily on secondary sources and interviews, was the first book written about the major international grain trading firms and their role in world events. Morgan correctly emphasises the need for much more research in this area because

> ...Multinational scholarship of the kind required for enquiry into a subject like the grain trade is still in its infancy. The focus of historical research still seems to be on individual countries and their rulers rather than the world and its resources...not that scholars have necessarily been derelict in their pursuits. Rather, the world and the way we look at it has changed faster than the scholarship..."

Even today historians appear to continue to overlook the growing importance that resources and commodities have played in sustaining rapidly-growing populations in postwar history. Scholars of the 'cold war' period have not fully addressed the importance of trade in commodities and resources in bridging the gap between Communist and non-Communist nations. This, despite the fact that relevant government records, such as those pertaining to Chinese purchases of foreign grain during the 1950s and 1960s, have been declassified in recent years.

Two exceptions deserve attention. Wayne Broehl's *Cargill Trading the World's Grain*, (1992) and *Cargill Going Global* (1998) provide details about the operations of Cargill's international grain trading operations. Broehl had access to the papers of the MacMillan family, who own Cargill, and those of the firm itself. However, almost no mention of China is made despite the fact that Cargill has been very active in this market. Broehl's interesting work, like most officially-commissioned histories, avoids controversial topics. Brewster Kneen in *Invisible Giant Cargill and its Transnational Strategies* (1995) also mentions the paucity of information relating to Cargill's very active role in the Chinese market although even Kneen may be unaware of this US firm's efforts to sell Canadian grain to China in 1958. Kneen's work is useful in understanding Cargill's history and evolution from grain trader in the American market to one of the five major international grain trading firms. He provides insights into how Cargill, like many multinational firms, traded throughout the world avoiding various taxes, restrictions and controls through a web of affiliates and subsidiaries.

The lack of secondary source material relating to the world fertiliser economy is even more glaring than the dearth of secondary

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source information relating to the world grain trade. Perhaps the only English language source pertaining to this subject is Mirko Lamer's *The World Fertilizer Economy*. While this work provides useful background to my research, it was published in 1957 and thus does not cover the formation of the West European NITREX cartel and the growth of ENI's exports. With respect to the Chinese fertiliser economy, I consulted Liu Jung-chao's *China's Fertilizer Economy*. Published in 1970, this excellent work utilises English, Dutch, Russian, Japanese and Chinese non-archival sources. Liu discusses competition between the independent fertiliser producers and the Japanese and West European cartels in the Chinese market during the 1950s and 1960s. He also discusses some of the Chinese purchases of Western fertiliser production equipment during this period.

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**Biographies, Autobiographies, Memoirs, Participant Accounts, and Commissioned Histories**

In former Australian Wheat Board (AWB) general manager C.J. Perrett's papers, held at the National Library of Australia (NLA), was a manuscript entitled *A Record of Constitutional Developments, Policies and Operations of the Australian Wheat Board 1939-1965* (1966), one section of which discusses in some detail the 1961-1963 Chinese-Australian grain sale negotiations. This work can be categorised as a memoir or participant history as Perrett orchestrated much of the Australian negotiations with the Chinese on behalf of the AWB. This work is especially important because in many ways Perrett took most of the responsibility and criticism for the sales, especially when credits were extended to the Chinese. Without Perrett's input, events relating to the Chinese-Western grain deals would have unfolded quite differently. Perrett's manuscript provides various firsthand insights into these negotiations, although unfortunately he has not included footnotes and details are sometimes imprecise.

Political scientist Patrick Kyba's excellent work, *Alvin: a Biography of the Right Honourable Alvin Hamilton P.C.* (1989), gives an interesting, but brief summary of the Canadian negotiations and sales. Kyba has used archival material but sometimes has relied on information collected from oral sources which has led to his including some details which are slightly imprecise. His work provides important insights into the inner workings of the Diefenbaker government and the life and career of Alvin Hamilton, Canadian Minister of Agriculture between 1961 and 1963 and a central figure in the first Chinese-Canadian thirty month credit grain agreement and subsequently a leading promoter of trade as a means to improving relations between nations (especially between Canada and
Portions of this thesis grew out of research that I did for my MA thesis, 'The Right Honourable Alvin Hamilton's Peace Through Trade: The 1961 Sino-Canadian Grain Agreement' (University of Saskatchewan, 1994). To my knowledge, my work was the first on this topic to make use of declassified Canadian government documents. Over the 1992 to 1994 period I visited the National Archives of Canada (NAC) in Ottawa on several occasions and made use of documents obtained from the Right Honourable John G. Diefenbaker Centre in Saskatoon. During this period I also had the good fortune to interview Alvin Hamilton on several occasions and received access to his personal papers. Because my MA thesis focussed on Hamilton's role in the 1961-1963 cash and credit sales and their importance to the Canadian and Chinese governments I only briefly mentioned the 1957-58 sales. Also outside the scope of my MA thesis was a detailed description of the vital work of officials from the Canadian Wheat Board (CWB), Department of Trade and Commerce (DTC) and Department of External Affairs (DEA) in Chinese-Canadian grain sale discussions and negotiations over the 1957 to 1963 period.

During the mid-1980s the CWB authorities asked William Morriss to write an official history, Chosen Instrument: A History of the Canadian Wheat Board: The McIvor Years (1987), to commemorate fifty years of CWB operations. He was granted access to the Board's archives. While Morriss's original manuscript contained a chapter on Canadian-Chinese grain sales, the CWB blocked its publication because it was deemed politically too sensitive. Board officials arranged for me to meet Morriss at which time I was able to read the chapter on these particular sales. Documents Morriss used in writing this chapter seem to be unavailable elsewhere and give the reader an indication of inner workings and approaches taken by the Board to both the Chinese and Canadian governments.

My understanding of US China policy was aided greatly by reading James C. Thomson's article, 'On The Making of U.S. China Policy, 1961-9: A Study in Bureaucratic Politics'. As special assistant to Chester Bowles (the Under-Secretary of State between April and December 1961 and later the President's representative and advisor on African, Asian and Latin American Affairs between December 1961 and June 1963) and then as special assistant in the Bureau of Far Eastern Affairs during 1963, Thomson gained an excellent understanding of US policymaking during the Kennedy administration. During this time he was a leading advocate of the need for changes in US China policy. Despite being involved in US policymaking firsthand he is able to step back and look at the bigger picture and to translate his understanding into a concise article which

serves as a useful guide for researchers studying relevant US government documents.

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Archival Materials

Western archives contain a considerable amount of information relating to the Chinese economy and China’s foreign trade during the 1950s and 1960s which have only recently been made available to researchers. Declassification of these documents now allows scholars to undertake much more thorough research on these topics. By using a wide range of recently declassified Western source materials I have attempted to place Chinese trade relations with individual non-Communist nations within the wider multilateral perspective. Despite financial and time constraints while conducting my PhD research, I was able to explore valuable primary source materials in the archives of Canada, Australia, the US and Britain. Although I have avoided relying on oral source material while formulating my conclusions, my general understanding of available written research material has also benefited from help provided by various former government officials, private trade representatives (or their relatives), and representatives of the media and church. (SEE ACKNOWLEDGEMENTS AND BIBLIOGRAPHY)

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Canadian Archives and the Role of the Canadian Wheat Board (CWB)

Despite being unable to gain access to the CWB's archives and the Board's records held at the NAC's Winnipeg branch, I found many important primary source documents pertaining to the Chinese-Canadian grain sales, 1958-1963 and their context in Canadian governmental policymaking, in declassified files of the Canadian Department of Trade and Commerce (DTC) and Department of External Affairs (DEA) at the National Archives of Canada (NAC) in Ottawa. These files relate to discussions and decisions made by the Cabinet and the various Canadian Departments regarding the Chinese-Canadian wheat sales and contain many memoranda and correspondence of CWB, DTC and DEA officials. The main source of information concerning these negotiations is contained in Record Group (RG)#20 – the files of the DTC. I was also fortunate to have had access to the personal papers of C.M. Forsyth-Smith, Canadian trade commissioner in Hong Kong between 1956 and 1962. Forsyth-Smith did much of the groundwork leading up to the 1958 sales and was involved in the early stages of these negotiations. Forsyth-Smith and DEA official John
Small (also stationed at the Canadian Trade Commission in Hong Kong) also did considerable groundwork for the much larger cash and credit sales between 1961 and 1963 and played a vital role in the negotiations for the first thirty month Chinese-Canadian grain agreement, signed in April 1961.

The CWB was involved in the 1958 sales as these cash transactions were carried out mainly by Canadian firms, agents of the Board. After the private firms negotiated the contracts the CWB scheduled the delivery of grain to the private firms for shipment to the China. Between 1961 and 1963 the Board participated in negotiations for actual contracts for cash and credit grain sales. I was unable to obtain access to the CWB's own archives and practical considerations ruled out research at the NAC's Winnipeg branch, where some CWB records are held. However, I was invited to visit the CWB's excellent library where I found several relevant articles on the grain trade not available elsewhere. The CWB's policy is to deny all researchers access to its archives, with the exception of the Board's commissioned historian, William Morriss.

The first CWB had operated briefly between 1919 and 1920. After 1920 farmers and various Canadian Federal and Provincial governments worked together to stabilise the domestic wheat economy through wheat pools, freight subsidies and guarantees to cover bank advances. In 1935 after four years of Depression and with a federal election only three months away, the Bennett government created the second CWB under Federal statute. The 1935 CWB was different from the 1919 Board in that participation by the farmers was not compulsory: they could sell their grain on the open market or to the Board. Under the Canadian Wheat Board Act the Board was authorised to fix a price annually, at the start of each crop year, for wheat delivered to the Board. This price was approved by Order in Council. If the wheat sold to the Board was in turn sold on world markets at a price lower than the annual fixed price, Ottawa paid the difference. If the wheat was sold at a higher price, then interim and final payments were made to the farmer - in addition to the fixed initial payment.

CWB operations fell under the jurisdiction of the Minister of Trade and Commerce except during the period October 1960 to April 1963 when the CWB reported to Alvin Hamilton, Minister of Agriculture. Hamilton had only accepted this portfolio on the understanding that the CWB be under his jurisdiction. With its headquarters in Winnipeg, during the 1960s the Board had an office in London, England, and CWB operations were handled by non-elected officials appointed by Order in Council. CWB appointments included the chief commissioner, an assistant chief commissioner, commissioner(s), and a comptroller-secretary.

As a marketer of Canadian wheat, flour, oats and barley (as
opposed to a direct seller) the Board negotiated only government to government sales, long-term agreements (such as the United Kingdom wheat agreement) and transactions with Communist countries. Although the general terms and amounts of sales contracts were negotiated by Board officials, the grain was shipped by various 'agents' - private grain companies listed with the Board. The CWB supplied grain to its agent firms which in turn delivered the grain to the buyer. It was up to the purchaser to negotiate an agreement with one of the agents, registered with the CWB, to handle exports from the Pacific, St. Lawrence or Atlantic ports. For cash sales the CWB would simply deliver the grain to the private firms, who would negotiate sales and obtain the best possible price for the grain. As part of the sales contract the agent would receive a commission on each bushel of grain sold - usually not exceeding 8 cents per bushel. The agent also underwrote cash sales on behalf of the CWB, providing credit guarantees to the banks. The private firms involved were often Canadian subsidiaries of the major international grain trading companies.

To facilitate a CWB credit sale to a foreign country a Federal governmental guarantee was required either under the Exports Credits Insurance Act (section 21) or by the more unorthodox procedure under which the Minister of Finance could use his authority under section 11 of the Canadian Wheat Board Act "...to guarantee bank loans to the...(CWB to carry) out its operations under the Act."

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Australian Archives and the Role of the Australian Wheat Board (AWB)

The most important Australian primary sources relating to the Chinese-Australian cash and credit grain sales between 1958 and 1963 are in the files of Australian government departments at the National Archives of Australia (NAA) at Mitchell A.C.T. Here AWB correspondence, and memoranda are available within the files of the Australian DEA, which are presently under the Department of Foreign Affairs and Trade (A1838); and those of the Department of Commerce and Trade (A1313 and A1310); the Department of Primary Industry and Energy (A1804, A609 and A611); and the Department of the Prime Minister and Cabinet (A463, A1209, A8648).

Also useful to my research were the detailed records found in the personal papers of AWB general manager C.J. Perrett held at the National Library of Australia (NLA). These include letters, memoranda, minutes, diaries, correspondence, and photographs relating to Perrett's involvement in the grain trade with China. Other papers held there are those of former Minister of Trade Sir John Crawford; of former Minister of Trade Sir John McEwen; and of former Prime Minister Sir Robert Menzies.

As with the CWB, the AWB does not provide researchers access to its own archives. In fact, AWB officials told me that they were unsure of what became of their archival records after the Board's library was closed. Greg Whitwell and Diane Sydenham presumably had access to AWB records while researching their commissioned history of the Board's operations: A Shared Harvest: The Australian Wheat Industry 1939-1989 (1991). The AWB did help me contact several former Board officials for interviews.

With its headquarters at Melbourne the AWB was an 'autonomous' organisation deriving its authority from the Wheat Stabilization Act (18 December, 1948) - under which "The Minister for Primary Industry may give direction to the Board concerning the performance of its functions and the exercise of its powers, and the Board shall comply." However, whether or not the Australian government had statutory authority over the Board in all matters was subject to interpretation and debate. In contrast to the relationship between the CWB and the Canadian government, the Australian government was eager to distance itself from AWB's grain sales to China. Although the Menzies government was interested in the possible economic benefits of trading with China, it was reluctant to support Australian-Chinese grain sales enthusiastically (especially on credit terms) for fear of losing political support from foreign and domestic interests which opposed trade with China.

Although the elected Australian government did not actually provide a government guarantee to facilitate the 1961-1963 credit sales,
financing was carried out by the Commonwealth Trading Bank (CTB) and the Reserve Bank of Australia - both long-time government associate banks. The CTB was established at Sydney in 1911 as a trading/savings bank and only became a major trading bank after 1945. The CTB had become the Australian Central bank in 1924, acting as a reserve bank to assist trading banks. During WWII the CTB was granted extensive powers, including the power: to fix exchange rates, interest rates, and license private banks. Under the Commonwealth Bank and Banking Act of 1945 the Labour government extended the CTB's WWII powers, despite opposition from the private banks. Then in 1953 the CTB was separated from the Commonwealth (Central) Bank and as an official Australian government bank, with no private shareholders, the CTB operated in all Australian states. Between 1951 and 1959 the CTB capital in the form of accumulated reserves was bolstered by infusions derived from Central Bank profits.28

In 1959 the Commonwealth (Central) Bank was reestablished under the new name of The Reserve Bank of Australia but...

... was stripped of all its former commercial and savings bank subsidiaries except the Rural Credits Department, whose main function was to provide short-term finance to marketing authorities (such as the AWB) and...therefore...(was) regarded as virtually a department for government business. The new Act provided for the Reserve Bank to be housed in separate buildings and to recruit separate staff; but in all other respects, including control by a Governor and Board, the Central Bank's constitution remained unchanged...29

Simultaneously the Commonwealth Banking Corporation was established (which included the CTB, The Commonwealth Savings Bank and the Commonwealth Development Bank) to handle commercial and savings interests formerly handled by the Commonwealth (Central) Bank. As a 'semi-official' government agency with extensive powers the CTB was only indirectly accountable to the elected government. Nearly forty years after the initial AWB-PRC credit grain sales I was unable to locate a single CTB document relating to these transactions. Despite the fact that declassified secret DEA documents are available for research purposes, details relating to the financing of the sales remain classified.

Because of marketing problems associated with the outbreak of WWII, on 21 September 1939 the Australian government established a temporary Wheat Board which took over from grain merchants and growers co-operatives in marketing Australian grain. It was granted monopoly power in the domestic and foreign marketing of Australian wheat and wheat flour; barley was handled by the Australian Barley Board (ABB). In the 1960s the AWB seldom utilised private international firms to sell grain, as most sales were conducted on a C&F or CIF basis. AWB chartering was

29 Ibid. p.152.
done either through the Australian Chartering Committee in London, or through the Baltic Exchange, of which the Board was a member. In the early 1960s the AWB was composed of fourteen members who were appointed by the Minister of the DPI. A majority of nine members represented the wheat growers - two from each New South Wales, Victoria, South Australia, Western Australia, and one from Queensland. There was also a Board chairman, general manager, the commercial representative, the employees representative, the finance member, and the flour mill owners representative. There was also an assistant AWB general manager, a senior AWB executive assistant and Board secretary who were not actual voting AWB members.

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British Archives

Information about British equipment sales to China 1961-1963 was found mainly at the Public Records Office: in British Foreign Office files and Cabinet minutes and memoranda. These files also contained information about Chinese food shortages, the Chinese economy and Chinese-Western grain sale negotiations - which is particularly valuable because Britain and the Netherlands were China's only major non-Communist trading partners to maintain embassies at Beijing. British embassy staff in the Chinese capital worked closely with British consulate officials at Shanghai and with contacts in British business and banking circles who continued to maintain offices at Shanghai. This network, which worked closely with British interests in Hong Kong, was probably second to none in collecting information about China's agricultural, economic and business conditions including Chinese foreign trade and business activities in Hong Kong and Macau. These files helped me obtain a better understanding of Chinese trade relations with non-Communist countries and Britain's leading role in the deterioration of the US trade embargo against China during the 1950s and 1960s. I also relied on these files for information pertaining to Chinese purchases of British aircraft, related spare parts and technical services in December 1961; and of a complete 'state-of-the-art' ammonia production plant, related technology and engineering services in autumn 1963.

British Foreign Office files also contain important information about the pioneering role of the '48 Group', a privately sponsored

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association representing British firms actively involved in China trade, in reopening the Chinese market. With respect to this topic I also consulted The 48 Group: The Story of the Icebreakers in China (1994) written by Percy Timberlake one of the initial executive members of the group. Both Timberlake's work and British Foreign office files provide insights into the competition in the Chinese market between the '48 Group' and the (British) government-sponsored 'Sino-British Trade Council'; and the effect of this competition on British government policy.

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American Archives

US government printed sources include Department of State Bulletin and Foreign Relations of the United States (FRUS). Relevant volumes of FRUS represent "...the official documentary historical record of major foreign policy decisions and significant diplomatic activity of the...US Government."32 While compiling FRUS, staff of the Office of the Historian (Bureau of Public Affairs, US State Department) have had access to most 'retired' State Department files, to the White House and NSC files, and to the personal papers of key officials held at the Presidential Libraries. They also had direct, though sometimes selective, access to documents of the Department of Defence, Joint Chiefs of Staff, and CIA. These documents provide a useful overview of major issues, before the researcher delves into more detailed material at the National Archives. In my case the relevant volume - Foreign Relations 1961-1963, Vol.XXII 'Northeast Asia'- was compiled in 1992 and published in 1996, after I had completed my research in the US archives. Fortunately I found a considerable amount of information there that is not contained in this volume. However, several documents contained in FRUS proved to be important to my topic.

I also consulted daily and weekly reports from the US Consulate in Hong Kong held in the National Archives of the United States (USNA), College Park MD. Senior US archivist Milton O. Gustafson's paper 'Diplomatic Records on China in the National Archives' is a valuable guide. Useful files were found in the Department of State record group (RG#59), which are divided into four time periods. Central Foreign Policy Files include the records of the Central Decimal File for the years 1960-1963 and the Subject-Numeric File for 1963 and the 1964-1966 period. Information found in these files provides details about Western trade deals with China and the Chinese government and economy.

32 FRUS, Vol. XXII, 1996, p.III.
US State Department documents are an especially important source of information about Chinese trade with non-Communist nations because of the vast amount of intelligence about China supplied by 'China watchers' attached to the US consulate general in Hong Kong. During the late 1950s and throughout the 1960s more US government officials worked at this diplomatic post than at most American embassies. Business/trade representatives and government trade commissioners from non-Communist countries regularly briefed US consulate officials in Hong Kong about their negotiations with the Chinese. Chinese informants in the colony, defectors, refugees fleeing the Mainland, as well as foreigners returning from China, also provided the US consulate in Hong Kong with important information. Apart from intelligence reports, telegrams, diaries, letters and memoranda relating to the Chinese economy. These files also contain many CCP policy statements, documents, speeches and a wealth of Chinese newspaper articles translated by officials at the US consulate in Hong Kong.

The USNA was an especially important source of information relating to grain and flour exports to China by France, West Germany, and Argentina. It was also a vital source of information concerning British equipment sales to China. The CDF and S-NF Files also contain many telegrams, economic and intelligence reports from American embassies and consulates around the world about the Chinese economy, trade negotiations and equipment transactions between China and non-Communist countries. Also, although I was unable to visit Japanese and West European archives to obtain information about Chinese purchases of Japanese, West German, Dutch, and French chemical fertilisers, complete fertilisers and petrochemical production plants, I gleaned much relevant information on these sales from State Department Files.

A few documents pertaining to possible Chinese interest in negotiating a grain sale agreement with American firms were also found in US government files. An important source of the State Department’s information was Jose Maria Braga who was acting as middleman in negotiations between private US traders, a Bank of China official in Hong Kong, an advisor to the CCP government and various 'unofficial' Chinese contacts. Braga was well qualified for this role as during WWII he had purchased grain for the KMT government and dealt with officials who probably ended up in the CCP grain purchasing hierarchy after 1949. By chance, when visiting the NLA in Canberra, I discovered Braga’s personal papers which provided more insights into his interesting life and family.

history. His papers contain a wealth of information about the histories, economies and relations of Hong Kong, Macau, and China, in notes and published works. However, special permission was required from the Braga family in order to obtain access to these papers. His family had become concerned by the manner in which some researchers, who had previously gained access to his archival papers, borrowed their father's ideas and works without giving him due credit. The Braga family nevertheless graciously allowed me to have access to his papers which enabled me to gain important insights into the historical complexities of business, economic and political life in Hong Kong and Macau.

The John F. Kennedy Library (JFKL) and the Lyndon B. Johnson Library (LBJL) were crucial sources of material relating to US policy on China. The National Security Files (NSF) and personal papers of key officials and advisors were vital in this respect (including papers of McGeorge Bundy, Carl Kaysen, Roger Hilsman, Arthur Schlesinger Jr., James C. Thomson Jr.). NSF files for the 1961 to 1963 period are in fact the working files of McGeorge Bundy, special assistant to the President for National Security Affairs. Within the countries series, subjects series, and meetings and memoranda series useful information was found. Also valuable for my research were the country files within the Presidents Office Files, which are part of John F. Kennedy's papers.

The Kennedy Library was my main source of information on possible US-Chinese grain sales in 1961-62. At the JFKL I also found a small amount of information, not available elsewhere, relating to Chinese purchases of Australian and Canadian wheat. Both the JFKL and the LBJL provided useful CIA and Department of State intelligence reports and estimates on the Chinese economy, agriculture, grain and fertiliser availability, on China's balance of payments, and on the US trade embargo against China. Prior to visiting the US Presidential libraries I spent considerable time searching for relevant declassified US government documents available on microfiche through the Declassified Document Reference Collection (DDRC) and the Declassified Document Quarterly Catalogue (DDQC). These include some of the more important documents in the context of US policy formulation, most of which can also be viewed at the USNA and US Presidential libraries. In addition CIA research papers, reference aids and maps, pertaining to various aspects of the Chinese economy were obtained from the Library of Congress in Washington, from the NTIS of the US Department of Commerce at Springfield, VA; and from the Hoover Institution of War, Revolution and Peace, Library, Stanford University. These papers address issues such as Chinese grain and fertiliser production and the construction of fertiliser plants in China. While these papers are sometimes brief and general in nature they provide insights into CIA thinking on the various topics.
The United States of America Congressional Record also proved to be a useful source of information on the US government's position on requests by US interests to export grain to China. Also consulted were various Hearings of US Congressional Committees.

In following the approach to my research outlined above, it became apparent that it is impossible to gain a clear understanding of Chinese trade relations with individual non-Communist countries in isolation from one another and without referring to wider trading patterns. Chinese trade with Japan and the West between 1957 and 1963 should be viewed not only in terms of China's requirements and the Beijing government's decision-making, but also in terms of Japanese and Western government China policy and rivalries Western nations in the Chinese market which by late 1963 seriously eroded the embargo. The wealth of recently declassified material available at Western archives, which has received little attention from Western researchers has provided new insights and clearer understanding of the 1957 to 1963 period in Chinese trade diplomacy with the West and Japan.

I must emphasise that I am not a Sinologist and this thesis is not about economics from the Chinese perspective. Apart from translated secondary source material and works on the Chinese economy by Western scholars, I have relied on recently declassified Western archival material to gain insights into the Chinese bureaucracy and Chinese-Western trade during the 1950s and 1960s.

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CHAPTER 1

Chinese Grain Shortages and Economic Background (1953-1963)
Chinese Government Policy and Domestic Food Shortages 1953-1956

The Chinese government's First Five Year Plan introduced in 1953, set very ambitious industrial expansion targets which were to be supported by increases in agricultural production. In the spring of 1953 government grain supplies were insufficient to meet rising demand which led to the most serious national grain crisis since 1949. As a result, in November 1953 the Beijing government introduced a unified purchase and supply programme under which private grain trading was eliminated.1 (SEE CHART 1.1)

Floods in 1954, followed by an unusually severe winter in southern China and excessive government procurement of grain from the countryside caused a second national grain shortage between autumn 1954 and summer 1955. Serious food shortages occurred just prior to harvesting the first Chinese crop in spring 1955. Since this resulted in widespread opposition to the Central Purchase and Supply Scheme, the government reduced pressure on the peasants for grain transfers. Chinese Minister of Agriculture, Liao Luyen, admitted the seriousness of the situation in March 1955 and warned that existing agricultural institutions were inadequate to sustain ambitious industrialisation efforts. Then in August the Chinese government admitted that in some areas, collection cadres had been too enthusiastic and that peasants had overstated their needs, or had not cooperated on deliveries, or had to have grain supplied....In areas which had been distressed by floods, the distribution of relief grain had been slow....They...(saw) a noticeable increase in grain buying in the urban areas caused by unnecessary fears...about supplies.2

In 1955 longtime Shanghai resident Chen Yun, who as Vice-Premier and director of the Fifth Bureau, Office of Finance and Economics, spoke to the National People's Congress about the grain supply crisis.3 On 25 August 1955 the State Council promulgated measures to supply sufficient grain to urban areas and regulate buying and selling of grain in the countryside.4 Apart from promising to stabilise the grain market over the next three years, the government began returning grain procured in 1954 to the countryside. However, these measures were still inadequate.

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3 NAC: RG#20: Vol.818, File 10-33, pt.2: to Canadian trade commissioner, Hong Kong, 19 September 1955, from American consulate general, Hong Kong: Current Background, 'New Measures for Grain Distribution in Communist China' No. 354, 7 September, 1955, based on translated newspaper articles; and Current Background, No. 339.
CHART 1.1

Chinese System of Internal Grain Distribution and Foreign Trade

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Rural Sector:
Supply Sources:
- a) Production
- b) Stock, Reductions

Demand Factors:
- a) Direct Consumption
- b) Livestock
- c) Rural Industry
- d) Stock Increases

Ministry of Food
Resale to Rural Areas | Exports | Sale to Urban Industrial Sectors
---|---|---

Urban Industrial Sector:
Supply Sources:
- a) State Procurements
- b) Suburban Reduction
- e) Stock, Reductions

Demand Factors:
- a) Direct Consumption
- b) Livestock
- e) Industry
- d) Stock Increases

Ministry of Foreign Trade and China's foreign trade system especially China National Cereals, Oils and Fats Imports and Exports Corporation (CEROILFOOD) and its Hong Kong affiliate firms.

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(1) Gross government purchases from rural areas
(2) Resale to rural areas
(3) Sales by Ministry of Food to urban/industrial sector
(4) Exports
(5) Imports

In the 1955-56 grain year, harvests improved and in many regions the grain supply stabilised although the peasants still demanded that government procure less grain. In that year the Chinese bought small amounts of Western grain through private traders and reexports via Communist countries (SEE TABLE 1.1) Later (in 1962) Chen Yun admitted that actual Chinese grain output figures between 1953 and 1957 were lower than announced owing to inflated estimates in 1957. During 1955 and early 1956 provincial leaders became increasingly critical of the adverse effects on domestic agricultural and industrial production caused by centralised Soviet style economic development policies. In the summer and autumn of 1956 the government announced measures to decentralise agricultural planning. In 1956 the grain supply situation again deteriorated as unanticipated rapid urban population growth led to grain sales greatly exceeding government purchases and directives from Beijing called for reduced urban grain rations.

Kenneth Walker's *Food Grain Procurement and Consumption in China* (1984) demonstrates that between 1953 and 1957 most of China's provincial grain surpluses were either exported, transferred to grain-deficient provinces, or sent to Shanghai, Tianjin, and Beijing - cities requiring over 3.1 million tonnes of grain annually. Shanghai's population was estimated to have risen, owing largely to migration, by 1.8 million between 1949 and 1957, to 7.2 million. At the beginning of 1958 the Chinese government intended to keep Shanghai's population at 7 million, but several months later decided to reduce this number by another one to two million.

Shanghai's grain requirements were met by transferring surpluses from the central Chinese provinces of Hubei, Henan and Jiangxi. Beijing and Tianjin could not rely on grain from northern China as this region also depended on grain from elsewhere, and after 1956 grain transfers from Manchuria and the Northwest were insufficient to feed these two cities. Grain transfers from Hubei, Henan and Jiangxi to feed Beijing and Tianjin's populations strained the domestic transportation system; moreover, grain was often unavailable or unsuited to regional tastes. In early 1958, food supplies and distribution became an important factor in the Chinese government's interest in reducing Shanghai's population by one or two million.

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6 Walker, *Food Grain Procurement and Consumption in China*, pp.60-64.
9 Ibid.
During the 1950s rice exports provided the Chinese government with a vital source of currency to finance equipment and material imports for industrial development. Although rice was of lower protein content than wheat, it was worth more when sold abroad and produced higher yields than other grains. Beginning in 1956 the Chinese government pressured peasants in northern provinces to plant more rice and other high-yielding (in terms of weight) crops instead of 'traditional' crops. Chinese experiments in Shandong in 1957 showed that wheat occupied 33% of the sown area and produced 27% of the region's output; while rice, on 1.8% of the area sown, accounted for 3.9%.\textsuperscript{10}

These experimental policies were unsuccessful, partly because proper irrigation was unavailable and farmers lacked experience in rice growing. More importantly, people living north of the Chang Jiang preferred to eat the primary products of their region - wheat and soybean with lesser quantities of corn, millet and sorghum - whereas south of the Chang Jiang people produced and consumed rice, almost exclusively. (SEE MAP 1.1) In 1957 peasants in the northern region opposed reductions in wheat, gaoliang and millet sown areas. Liu Shaoqi and other moderate officials also opposed the scheme, maintaining that it was an unalterable law of nature that northern China produce wheat, millet and maize and southern China rice.

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\textsuperscript{10} Ash (collector and editor), \textit{Agricultural Development in China}, pp.151-158, 164.
Wheat*, Rice and Other Major Grain Sown Areas of China

1. Late-opening winter wheat (Hebei, Shandong, Inner Mongolia).
2. North China Plain wheat, soybean, corn (Shandong, Hebei, Henan).
3. Late-opening winter wheat (Shaanxi, Shaanxi).
4. Early-opening winter wheat, rice (Eastern Jiangsu, Zhejiang, Anhui).
5. Early-opening winter wheat, rice (Yunnan).
6. Early-opening winter wheat, double-crop rice (South China).
7. Spring wheat**, soybean, corn, double-crop rice (Northeast China).
8. Spring wheat (North China).
9. Spring and winter wheat (Northern Xinjiang).
10. High-altitude spring wheat (Xizang).

* Wheat occupied approximately 20% of China’s food growing land and was the second most important Chinese crop. Winter wheat farming occurred in China mainly between 30 and 40 degrees while nearly two thirds of total wheat production and wheat cultivated area occurred in the North China Plain region. Nearly 50% of the wheat sown area and production was found in the Central and Southern provinces. The remaining regions of China specialized in Spring wheat production.

** Winter wheat - wheat which is sown in the autumn

*** Spring wheat - wheat which is sown in the spring

Sources: Combined and modified from 'Agricultural Regions', CIA MclLer, VA and NTIS, 800615 (S4065) 5-86; Virgil A. Johnson, Haley L. Bommer Jr. (editors), Wheat in the People's Republic of China, Committee on Scholarly Communication with the People's Republic of China Report No. 6, National Academy of Sciences, Washington, D.C., 1977, p.23
In January 1957 the CCP 'Central Small Group for Economic Work', headed by Chen Yun (which also included the Hubei born Minister of Finance and Politburo member Li Xiannian; and former Finance Minister and alternate Politburo Member Bo Yibo) was established to oversee economic administration. Chen Yun, now a member of the Standing Committee of the Political Bureau and after having recently been appointed Minister of Commerce was charge of Chinese agricultural and economic policy. He was keeping a close watch on Chinese grain stockpiles and became concerned when these reserves, totalling 21.69 million tonnes in June 1956, fell to 18.49 million tonnes by July 1957. In 1957 he predicted that, if this trend continued, by 1961 stockpiles would be exhausted. In March 1957, in a pamphlet published in Beijing, Cao Xuntai and Li Hai stated that conditions of the exhausted Chinese economy were similar to those experienced in 1953 and suggested that if China could over several years, keep a reserve of 50 million tons of grain it would be able to cope with unforeseen accidents. Also in March 1957 Chen Yun announced a two-thirds reduction in Chinese pork and edible oil exports, while one-sixth of funds previously allotted for total investment in 1957 would now go to light industry to make available more consumer goods. Then during the first week of May Chen reduced urban food consumption and increased prices for agricultural commodities, making more money available to peasants for consumer products. In the summer of 1957 the government had trouble procuring enough grain for the cities because, as the agricultural sector grew, peasants exerted pressure for increased grain rations.

Serious regional food shortages probably began to develop in early 1957. Unsubstantiated reports that a famine occurring between Shandong and Guangdong had caused a flood of refugees to the Guangdong-Hong Kong border region appeared in Time magazine in May and August 1957. Then on 4 November Time reported that between May and July, China had been hit by the worst flooding in "recorded history". The floods were followed by a drought which was especially bad in Anhui, Henan, Hunan, and Shandong. The article stated that the Beijing government had recently admitted that if substantial rainfall did not occur soon a famine would

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12 Mentioned in China News Analysis, No. 199, 4 October 1957.
13 'Communist China, the Loosened Rack', Time, 13 May 1957, pp.33; 'Red China Flood and Famine', Time, 5 August 1957;
14 Ibid.
15 Ibid.
result before February 1958.\textsuperscript{16} While \textit{Time} was correct about the seriousness of Chinese food shortages in 1957, its emphasis on natural disasters and the collectivisation movement as the cause was misleading.

However, \textit{Time}'s reports of serious Chinese food supply problems in mid-1957 are paralleled by evidence from Chinese sources. On 4 July 1957, several months before being purged, Henan's First Party Secretary criticised the central government for requesting grain transfers from Henan.\textsuperscript{17} Beginning as early as mid-July and continuing into October Chinese newspapers stated that grain production was not keeping up with growing domestic and export requirements.\textsuperscript{18} An editorial of 30 August warned that during: "this coming autumn harvest, if we cannot contrive a way for the state to buy more grain, we are heading for a future full of troubles."\textsuperscript{19}

The Chinese Ministry of Food blamed redistribution, lack of frugality and blind optimism of officials and collective farmers since the end of 1956 for the problems. Newspaper reports also stated that Hunan, Hubei, Jiangsu, Anhui, Zhejiang, Henan, Guangxi, Guangdong and Jilin faced grain flow problems associated with the hiding of grain, falsification of reports, selling of grain on domestic black markets, over-consumption of grain (including the practice of consuming more grain than the individual ration allowed for) and poor weather conditions.\textsuperscript{20} Other reports suggested that during 1957 the cities had received too large a portion of available grain and suggested that urban procurement of grain from the rural areas be reduced.\textsuperscript{21} Between the autumn harvests of 1956 and 1957, 570,000 peasants had moved to the cities. Such rapid urban population growth\textsuperscript{22} as well as excessive government investment contributed to regional Chinese grain shortages. A \textit{People's Daily} article on 27 November 1957 warned that

\begin{quote}
If the rate of increase in urban population exceeds the...
\end{quote}

\begin{quote}
...economic growth...\textit{(rate), we shall be forced to employ certain funds which could have been used for capital construction for catering to the needs of the cities with respect to housing, food and other living problems. This will
\end{quote}

\begin{footnotes}
\footnote{\textsuperscript{16} 'Red China Flood and Famine', \textit{Time}, 5 August 1957; 'Red China Famine on the Way?', \textit{Time}, 4 November 1957.}
\footnote{\textsuperscript{17} Ash (collector and editor), \textit{Agricultural Development in China}, pp.151-158, 164.}
\footnote{\textsuperscript{18} Appearing mainly in \textit{People's Daily (Beijing)} cited in: 'The Food Problem, The Great Discussion', \textit{China News Analysis}, No. 204.}
\footnote{\textsuperscript{19} Ibid.}
\footnote{\textsuperscript{20} Ibid.}
\footnote{\textsuperscript{21} \textit{China News Analysis}, No.199, 4 October 1957 (the \textit{Shanghai Liberation Daily} of 8 October 1957 reported that Shanghai residents received 32 catties of grain per month per person)
\footnote{\textsuperscript{22} Lardy and Lieberthal, \textit{Chen Yun's Strategy}, pp.xxii, 67-72,146-147.}
\end{footnotes}
weaken our industrial construction.\textsuperscript{23}

Then on 24 September at the Third Plenary Session of the Eighth Central Committee of the CPC, held in Beijing Chen Yun gave a speech entitled ‘Pay Attention to Grain Work’ in which he emphasised to the CCP the importance of achieving a proper balance throughout China in the procurement, rationing and export of grain in Chinese economic development. The speech urged the Chinese government to immediately adopt measures aimed at developing the domestic chemical fertiliser industry and chemical fibre industry to resolve China’s food and clothing problems and as a necessary basis for further development. During these Committee meetings the revised draft of the National Programme for Agricultural Development between 1956 and 1967 was approved in principle. Chen’s position was supported by Li Xiannian, but by November 1957 Chen and Li’s financial coalition had lost influence to those in favour of Great Leap Forward economic policies. From November 1957 to autumn 1960 Chen Yun continued to participate in economic policymaking in a reduced capacity.\textsuperscript{24}

The ‘Great Leap Forward’ slogan was first mentioned in a People’s Daily editorial on 13 November 1957 which urged the Chinese to repudiate right conservative ideas and “make a great leap forward on the production front.”\textsuperscript{25} With the introduction of measures aimed at agricultural decentralisation national grain procurement began to fall, and in autumn 1957 the Chinese government regained control over grain production and supply.\textsuperscript{26}

Previously classified Chinese government statistics reveal that China’s total wheat and soybean output decreased substantially in 1957 and 1958 while rice production decreased in 1958. After a drop in maize and miscellaneous grain output in 1957, production figures for these grains were unavailable for the next three years [kaoliang and millet production figures are also unavailable from 1958 to 1961. (SEE TABLE A1.1 in APPENDIX TO CHAPTER 1)].

In late March or early April 1958 the Ministry of Agriculture in Hebei held a conference on increasing wheat production and introduced

\textsuperscript{25} CCP Central Committee, History of the Chinese Communist Party, pp.268.
\textsuperscript{26} Walker, Food Grain Procurement, pp.63-65.
a wheat production plan for Hebei, Henan, Shandong, Shanxi, Shaanxi and Gansu - the major winter-wheat producing provinces. It aimed at increasing 1958 wheat yields to 25 million tonnes - up 50% over 1957. Chinese Agriculture officials maintained that difficulties associated with wheat production in 1957 included the lack of manure and irrigation, frost north of the Huai River, rust and insects in the south.

It was also in March 1958 that the Chinese signed contracts covering their first substantial purchases of Western grain - the first of a sequence of grain contracts signed with Western firms between March and July 1958. On 14 April, Canadian trade commissioner in Hong Kong, T.M. Pope, commenting on Chinese press articles, observed that

The mere fact that the...(wheat) target was increased so considerably...is sufficient evidence that wheat is in short supply and that recent purchases from Canada were made only to meet these shortages.27

On 13 May 1958 a Reuters report from Beijing quoted a Ministry of Agriculture official as saying "...wheat is generally coming up very well. But roughly 10 to 15 per cent of the crop is not up to standard and this is a serious problem."28

At the Second Session of the Eighth National Congress of the CPC, held in Beijing between 5 and 23 May 1958, the policy of 'going all out' was adopted. It aimed to reverse China's backward economy as soon as possible "...in disregard for the objective laws governing economic development."29 Between February and June Zhou Enlai, who along with several members of Chen Yun's 'Central Small Group for Economic Work' opposed policies aimed at rapid economic development, lost influence. While Mao, on 9 June, rejected Zhou's offer to resign the next day, following a reorganisation, Chen Yun's 'Central Small Group for Economic Work' was replaced with 'the Central Financial and Economic Group'. Although still headed by Chen, the new group's powers were greatly reduced as Mao had requested that it be granted only advisory powers. On 18 June at a meeting of top economic officials (which included the recently downgraded Chen Yun), Mao told Bo Yibo that the grain problem had been solved.30 The following day the East China region held a meeting aimed at agricultural coordination and raising per-capita grain output from 500kg to the unrealistic level of 750kg (China's per capita grain


30 Teiwes and Sun, China's Road to Disaster, pp. xxi, 105-108, 157.
output in 1998 was only about 410 kg). It called for a ‘Great Leap’ in agriculture.\textsuperscript{31}

On 21 July 1958 as the Great Leap Forward began to gather momentum Chinese imports of Western grain ended suddenly. The 21 July signing of the tenth contract to purchase Canadian grain (since Chinese imports of Western grain began in March 1958) was the final Chinese-Western grain contract until 3 September 1960 - when it was clear that the Great Leap Forward had failed. On 22 July 1958, the day after signing the final contract to purchase Western wheat in the 1958 series, the Chinese news agency \textit{Xinhua} published excerpts from the Chinese Ministry of Agriculture’s crop report. Entitled "1958 Harvest 'Unprecedently Good' Says Ministry", it reported that average wheat yields per hectare were 71% higher than in 1957 and at least two million tons greater than that of the...\textit{(US)...Hundreds of reports of high wheat yields...from...throughout China) have opened the minds of all the Chinese people and convinced of their error the sceptics and the conservatives, who regarded the increase in farm output as either impossible or a very slow process. Efforts should be made to improve the farm implements used on wheat land, strengthen field work and overcome all sorts of natural calamities to ensure an even better harvest next summer.\textsuperscript{32}

Most researchers agree that the worst consequences of the Great Leap Forward policies occurred between 1959 and 1961 when twenty to thirty million Chinese perished in a widespread famine. However, surprisingly little attention has been given to the fact that regionalised food shortages gradually worsened between 1953 and 1956 and seem to have become serious in 1957. This grain shortage of 1957 appears to have resulted in approximately 1.9 million ‘excess’ deaths in 1958.\textsuperscript{(SEE TABLE A1.2 in APPENDIX TO CHAPTER 1)} This point is made by Kenneth Walker and Robert F. Ash who emphasise that in 1958 almost one million ‘excess’ deaths occurred in Sichuan, with another 124,000 ‘excess’ deaths in Gansu.\textsuperscript{33} Recently declassified documents from Western

\textsuperscript{33} Ash (collector and editor), \textit{Agricultural Development in China}, pp.106-111. Walker and Ash’s estimate that 18.5 million people died between 1959 and 1961 and suggest that the famine began in 1958 with approximately another 1.1 million deaths in that year. These figures correspond closely to one recent set of Chinese figures see: TABLE A1.2 APPENDIX TO CHAPTER 1.

Western demographers have estimated as many as 30 million excess deaths occurred between 1959 and 1962 which falls short of yet another Chinese estimate which emphasises that between 1959 and 1961 approximately 40 million people died of starvation. See: ‘Revealing the Concealed History of the Chinese Communist Party, Remember the
archives which relate to Chinese ‘test purchases’ of Western grain during the first half of 1958 provide an important new dimension to understanding Chinese government policy and the early stages of the Great Leap famine.

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Background to Chinese Wheat and Flour Import Strategy and Overview of Grain Purchases During the 1950s

The Chinese began importing Western wheat and wheat flour to coastal cities in the early 1900s and this practice continued until 1949. Approximately 80% of these imports were shipped to Shanghai to be milled before much of it was transported to Tianjin and sold.34 Traditionally, the Chinese also imported rice for southern coastal populations. In China’s rural areas grain was often in short supply. The government, recognising that the cost of transporting grain by rail was higher than costs associated with transporting industrial goods by rail, decided that it was more economical to have foreign wheat shipped by sea to China’s northern coastal cities, where wheat was a dietary staple.35 This practice allowed the interior to either keep locally produced grain for consumption or make surpluses of rice and soybean available for export.

Between 1949 and 1952, the newly-established Communist government purchased relatively small quantities of foreign grain, but hoped to avoid relying on these purchases over the long-term. However, throughout the 1950s the Chinese increased rice exports to finance equipment and material purchases. Thus annual Chinese imports of foreign wheat, rice and flour resumed in 1953 and increased slowly until 1958. (SEE TABLE 1.1) This trend reflected the growing problem of regionalised food shortages which resulted in famine conditions developing in some areas in 1958. Although China was a net grain exporter between 1955 and 1957 Chinese statistics demonstrate that during those years rice accounted for between 64% and 86% of all Chinese grain imports. However, in 1958, when China imported the most grain since before 1949, rice accounted for only 14% of total Chinese grain imports - wheat comprising 67% of the total. (SEE TABLES 1.1 and 1.2) This sudden change was a landmark decision by a group of Chinese officials, led by Chen Yun, to reimplement China’s pre-1949 strategy of importing wheat, flour and maize to cover northeastern

Lessons of the Three Year Disaster’, Looking Back on History, 2 July 1996.


TABLE 1.1

[in tonnes (trade grain weight) and % of total grain imports]

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Cereals</th>
<th>Wheat</th>
<th>Rice</th>
<th>Maize</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>67,973</td>
<td>-</td>
<td>57,915 (85%)</td>
<td>-</td>
</tr>
<tr>
<td>1951</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1952</td>
<td>102</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1953</td>
<td>14,834</td>
<td>13,818 (93%)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1954</td>
<td>30,481</td>
<td>27,332 (89%)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1955</td>
<td>185,124</td>
<td>21,947 (12%)</td>
<td>139,402 (86%)</td>
<td>-</td>
</tr>
<tr>
<td>1956</td>
<td>151,594</td>
<td>22,963 (15%)</td>
<td>116,541 (77%)</td>
<td>12,193 (7%)</td>
</tr>
<tr>
<td>1957</td>
<td>169,477</td>
<td>50,701 (30%)</td>
<td>107,700 (64%)</td>
<td>11,075 (5%)</td>
</tr>
<tr>
<td>1958</td>
<td>227,086</td>
<td>151,218 (67%)</td>
<td>32,107 (14%)</td>
<td>42,572 (19%)</td>
</tr>
<tr>
<td>1959</td>
<td>2,032</td>
<td>-</td>
<td>-</td>
<td>2,032 (100%)</td>
</tr>
<tr>
<td>1960</td>
<td>67,059</td>
<td>39,321 (58%)</td>
<td>28,043 (42%)</td>
<td>-</td>
</tr>
</tbody>
</table>

TABLE 1.2

Annual Chinese Cereal Imports: 1957 to 1960 -
According to Chinese State Statistical Bureau Figures
[in tonnes (trade grain weight) and % of total]

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Wheat*</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1957</td>
<td>166,800</td>
<td>49,900</td>
<td>(30%)</td>
</tr>
<tr>
<td>1958</td>
<td>223,500</td>
<td>148,300</td>
<td>(66%)</td>
</tr>
<tr>
<td>1959</td>
<td>2,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1960</td>
<td>66,000</td>
<td>38,700</td>
<td>(59%)</td>
</tr>
</tbody>
</table>

*No further breakdown by variety of grain provided.

shortfalls. Northeastern Chinese who traditionally preferred these grains had become very dissatisfied, between 1955 and 1958, when they were made to dramatically increase their rice sown areas and consume rice transferred from other parts of China or imported from abroad to cover shortfalls in local production. Between 10 March and 21 July 1958 the Chinese signed: ten contracts to purchase a total of 114,624 tonnes of Canadian wheat, one contract to purchase 254 tonnes of Canadian flour, three contracts covering the sale of 10,668 tonnes of Australian wheat and wheat flour, and two contracts covering the sale of approximately 20,000 tonnes of South African maize. A detailed account of the 1958 Chinese-Western grain contract negotiations appears in chapter 2. However, these 'test shipments' were halted in 1958-59 and 1959-60 during the Great Leap Forward. In August 1960 when Chinese leaders realised that the 'Great Leap' had failed they agreed to gradually resume the 1958 'test shipments' of grain. Although the volume of grain imported by the Chinese in 1958 was considerable it was tiny in terms of Chinese domestic grain output and requirements and in comparison to the huge quantities purchased under Chinese-Western contracts beginning in December 1960.

***

China's Foreign Trade System as Seen From Hong Kong

Chinese purchases of Western wheat, begun in 1958 and resumed in late 1960, were orchestrated indirectly through the Chinese Ministry of Foreign Trade's purchasing apparatus which included important 'affiliate' operations in Hong Kong, Guangzhou and Macau. The Western archives indicate how this worked in practice from the point of view of Canadian and Australian trade negotiators.

The China Resources Company (CIRECO)

CIRECO was a Hong Kong-based firm which, along with its Hong Kong affiliates, acted as purchasing and selling agents for the Chinese government's trading corporations. It also worked closely with associated Chinese banking and business interests in Hong Kong and Macau and had its headquarters in the Bank of China building - which also housed the bank's Hong Kong office. (SEE CHART 1.2)

CIRECO was controlled directly by the Ministry of Foreign Economic Relations and and was an important element in Chinese foreign trading operations for several reasons. First, because it frequently dealt with Westerners and was thus familiar with Western ways, it was

CHART 1.2

Chinese Trade System and the Role of Hong Kong and Macau

State Council of the People's Republic of China

- State Planning Commission

Ministry of Foreign Trade

- China Council for the Promotion of International Trade (CCPIT) - Similar to a Chamber of Commerce for International trade (branches in major Chinese cities, headquartered in Beijing)

- State trading corporations (headquarters for each city in Beijing with branch offices in Shanghai, Taibei, and Guangzhou)

- CIRCO
  - Chinese exchange of goods
  - For importing major Chinese goods
  - Exporting products to foreign countries

- CHINATEX
  - Chinese Chamber of Commerce
  - Similar to the Chamber of Commerce for Industrial Trade (branches in major Chinese cities, headquartered in Beijing)

- BNCHEM
  - Business and Commercial Exchange
  - Trade with foreign countries

- INDUSTRY
  - Industry and Trade
  - Interregional trade

- MINMETALIA
  - Mineral and Metal Industries
  - Trade with foreign countries

- CHINATEX
  - Chinese Chamber of Commerce
  - Similar to a Chamber of Commerce for Industrial Trade (branches in major Chinese cities, headquartered in Beijing)

- CIRCO
  - Chinese Chamber of Commerce
  - Similar to a Chamber of Commerce for Industrial Trade (branches in major Chinese cities, headquartered in Beijing)

- CRHCO
  - Chinese Chamber of Commerce
  - Similar to a Chamber of Commerce for Industrial Trade (branches in major Chinese cities, headquartered in Beijing)

- CHNFOOD
  - Chinese Chamber of Commerce
  - Similar to a Chamber of Commerce for Industrial Trade (branches in major Chinese cities, headquartered in Beijing)

Bank of China

- Macau Chinese Chamber of Commerce
  - Various Macau businesses worked closely with the Chamber
  - While the chairman of the Macau Chinese Chamber of Commerce was appointed by the Governor of Macau, he was greatly influential by the Chinese government in Beijing. He served as the chief director of the Chamber in 1950 and remained a key figure in the organization in the 1950s and 1960s. He was one of the main representatives of the Chinese government and was one of three individuals who controlled the Macau end of the Hong Kong-Macau gold trade syndicate. The Chamber played a key role in the organization of the Shanghai Trade Fair.

- Nga Fung Hong Ltd
  - One of the major banks in the Bank of China

- STILLOBD
  - One of the major banks in the Bank of China

- CIRCO affiliates:
  1) York Soon Hong Ltd
  2) Ng Fung Hong Ltd
  3) New Tung Co (GYCOMP)
  4) Nga Fung Hong Ltd

Hong Kong General Chinese Chamber of Commerce, controlled directly by the Chinese government and linked to Chinese business interests in Hong Kong, actively supported and initiated the Shanghai Trade Fair.
well suited to act as a 'go-between'. Secondly, CIRECO could act as a buffer in case of contractual problems with Western traders, insuring that Beijing was not held directly responsible. Thirdly, in negotiations CIRECO could use its intermediary position as a stalling technique, insisting that it must contact its principal in Beijing. Fourthly, CIRECO officials tended to possess either British passports or Hong Kong identity cards which enabled them to travel freely without any adverse political or diplomatic implications for a host country. Finally, at the highest levels it was staffed by successful former private businessmen who maintained many contacts throughout the world and who had also proved their loyalty to the upper echelons of the Chinese leadership. Top CIRECO executives maintained close contact with the trading corporations in China, probably through assistants in these corporations with whom they had worked in private business prior to 1949.

Although CIRECO approached Beijing with offers of goods they felt the Chinese corporations might wish to purchase, it was unusual for CIRECO to receive requests from Beijing for quotations on items from Western suppliers. Thus, it was essential for foreigners hoping to export goods to China to have an extremely competent trade commissioner in Hong Kong who could foster good relations with CIRECO. Those who had not previously done business with the Chinese and sought to obtain an invitation to the Guangzhou Trade Fair wrote to CIRECO. CIRECO and the chairman of the Hong Kong Chinese General Chamber of Commerce distributed invitations to Western businessmen who had previously built up trade ties with the Chinese.37

Between 1957 and autumn 1960 Zhang Bing was CIRECO’s general manager. CIRECO's chief assistant general manager, who orchestrated actual negotiations with Western grain traders, was L.C. Bu who spoke English quite fluently and had visited Canada as a private businessman prior to 1949. He was CIRECO's top negotiator in Chinese-Western trade deals and was described as more flexible and objective than other Communist officials as well as fully Westernised - able to understand the Chinese through the eyes of a European.

Bu's trusted assistant was Liu Liang, who also held a Hong Kong identity card, and in 1960 was manager of CIRECO's Industrial Products Department. Other top CIRECO negotiators in 1960 were assistant general manager You Dunhua, who possessed a Hong Kong certificate, and Yang Lu-liang, a British subject. Yang was a staff member of the Hua Yuan Co. (GYCOMP) the Hong Kong trading agents for China National Products

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37 The preceding five points are based on interviews with former trade representatives and government officials and Canadian and Australian archival documents; see: NAA: A1804/28 201/12/1, pt.1 to Australian DOT, from Patterson, Australian trade commissioner in Hong Kong: ‘Marketing and Export of Australian Produce to China’, 1 February 1961.
Import and Export Corporation (PROCHINA). Other high-ranking CIRECO officials who participated in grain negotiations included CIRECO assistant manager You Hosong; and Xu Bangfai, manager of CIRECO’s Industrial Products and Minerals Department, who spoke English fluently.

When trading with the West CIRECO worked closely with the Guangzhou Trade Fair and Chinese government trading corporations including CEROILFOOD and the Bank of China.

***

Guangzhou Trade Fair

The first Guangzhou Trade Fair was held in 1957, and subsequent fairs bi-annually from 15 April to 15 May and from 15 October to 15 November. They provided Westerners with an opportunity to examine Chinese export goods and establish contact with representatives of Chinese corporations interested in importing Western goods. The Autumn Guangzhou Trade Fair coincided with the period when the Chinese government planned its import schedule for the coming year. Officials hoping to do business in China could not afford to miss the autumn Fair because, for the Chinese, December and January were discussion periods during which they sought to decide the most reasonable prices for goods they hoped to import while determining how much currency would be needed to pay for imports.\(^3^8\)

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\(^3^8\) NAA: A1804/28 2011, to Australian DOT; from Patterson, Hong Kong: 'Marketing and Export of Australian Produce to China', 1 February 1961.
China National Cereals, Oils and Foodstuffs
Import and Export Corporation (CEROILFOOD)

CEROILFOOD, one of the seven major Chinese government trading corporations under the Ministry of Foreign Trade, handled China's purchasing and sales of cereals, food and related goods. (SEE TABLE 1.3). Most import purchasing was controlled by head office, but between 1957 and late 1960 branch offices were often able to purchase goods without referring to head office. In late 1957 Western government trade officials noticed that there was considerable confusion within China's vast centralised purchasing bureaucracy, not only between branches but between corporations. Corporation representatives were sometimes unsure about which type of commodity their corporation was responsible for purchasing.39 Between May and August 1957 Chinese newspaper reports revealed that Party-member heads of departments within the Ministry of Foreign Trade knew little about trade and depended on non-Party member subordinates. Excessive bureaucracy was seen to have caused inefficiency, lack of adequate pricing structures and system for ordering goods and thus delays in transactions. In late 1957 there was a movement to merge administrative sections of import corporations and reduce staff by one half.40

Between 1949 and late 1960 directors of the Chinese trading corporations were CCP members who had previously been labour leaders, 'leftist intelligensia' and minor KMT government officials. Their main role was keeping the operations of the corporations consistent with party policy and Communist doctrines. Corporation directors lacking actual business experience, relied on their assistant managers and office staff - often Shanghai natives belonging to the former capitalist class and not CCP members - to manage the actual trading operations.41 Until 1960 Soviet advisors attached to the corporations encouraged as much trade with the USSR or other Communist nations as possible.

39 Forsyth-Smith personal papers, to DTC, Ottawa, from Forsyth-Smith, Hong Kong, 29 November 1957.
**TABLE 1.3**

The Seven Major Chinese State Trading Corporations

<table>
<thead>
<tr>
<th>Corporation</th>
<th>Branches/Hong Kong Agent Firms</th>
<th>Goods Imported and Exported</th>
</tr>
</thead>
<tbody>
<tr>
<td>CERILMFOOD - China National Cerese Oils and Foodstuffs Import and Export Corporation</td>
<td>Beijing*, Nanjing, Tianjin, Jinan (Dalian) Luda, Xiangning, Fuzhou, Zhangzhou, Shanghai (2), Changsha, Guangzhou and Qingdao (2). Hong Kong Agent Firms: exports-Ming Fung Hong Co., (NGFUNG) imports-CIRICO.</td>
<td>Cereals, edible vegetables and animal oils and fats, vegetable and animal fats for industrial use, oil seeds, nuts, eggs, feeding stuffs, salt, edible livestock and poultry, meat and meat products, egg and egg products, fish, fruit and fruit products, aqua and animal products, cured goods of various kinds, organ, sweets, wines, liqueurs and spirits, dairy products, vegetables and condiments, home flour noodles, grain products, nuts and dried vegetables, etc.</td>
</tr>
<tr>
<td>CHINATEX - China National Textiles Import and Export Corporation</td>
<td>Beijing*, Shanghai (2), Tianjin, Qingdao, Guangzhou (2) and (Dalian) Luda. Hong Kong Agent Firms: exports-Asia China Ex. Co., imports-CIRICO.</td>
<td>Synthetic fibre, fibre fabrics, raw cotton, raw wool, cotton cloth, cotton, yarn, silk, silk filament yarn, silk, artificial and man-made garments, cotton piece goods, woolen piece goods, knitted, blankets, coverings, chiffon, hemp, knitted piece goods, linens, gauzmens and weaving apparels, tablecloths, draperies, work and embroidery.</td>
</tr>
<tr>
<td>SINOCHEM - China National Chemicals Import and Export Corporation</td>
<td>Beijing*, Shanghai, Tianjin, Guangzhou, and (Dalian) Luda. Hong Kong Agent Firms: exports and imports - China Resources Company (CIRICO)</td>
<td>Rubber, rubber products, petrochemical, petroleum products, chemical fertilizers, insecticides, fungicides, pharmaceuticals, medical apparatus, instruments and supplies, chemical raw materials, dyestuffs, pigments, papers, printing inks.</td>
</tr>
<tr>
<td>MINMETALS - China National Metal and Minerals Import and Export Corporation</td>
<td>Beijing*, Shanghai, Tianjin, Guangzhou, (Dalian) Luda, Qingdao, Nanjing, Fuzhou, and Fuzhou. Hong Kong Agent Firms: exports and imports - China Resources Company (CIRICO).</td>
<td>Steel plates, sheets and piping, sections, tubes and special steel, railway materials, metallic products, pig iron, ferro-alloys, non-ferrous metals, precious metals, ferrochromium, ferro-titanium, ferro-nickel, non-ferrous and precious metals, and products, coal, open hearth, cement, hardware, etc.</td>
</tr>
<tr>
<td>CHINA-THUSA - China National Metals Produce and Animal By-Products Import and Export Corporation</td>
<td>Beijing*, Guangzhou (2), Shanghai (3), Fuzhou, Xiannan, Tianjin (1), Hangzhou, Nanning, Changsha, (Dalian) Luda, Qingdao (2), Nanning, Wofangao and Boliha. Hong Kong Agent Firms: exports and imports - Tek Soon Hong Ltd. (STILLON)</td>
<td>Tin, coffee, cocoa, tobacco, hait fibre, tea, feeding stuffs, timber, forest products, rubber, essential oils, roots and dyes and vegetables, precious metals and medical products, seas foods, leather, feathers, down, edible livestock, hair, wool, rabbit hair, woods, coffee, tea, cocoa, tobacco, rubber, paints, leather, wool, sheep, cattle, goats, etc.</td>
</tr>
<tr>
<td>INDUSYREY - China National Light Industrial Products Import and Export Corporation</td>
<td>Beijing* (3), Shanghai (2), Tianjin (2), Guangzhou (2), (Dalian) Luda, Qingdao, Fuzhou, and Hangfong. Hong Kong Agent Firms: exports and imports Hua Yan Company (GYCOM).</td>
<td>Paper and boards, general machinery, machinery, musical instruments, sporting goods, toys, advertising supplies, building materials and electrical apparatus, audio and video equipment, photographic equipment and supplies, fish nets, nets, leather things, leather products, pottery, porcelain, human hair, wool, pearls, jewelry, jade carving, lacquered, plated articles, watches, etc.</td>
</tr>
<tr>
<td>NACIMPEX - China National Machinery Import and Export Corporation</td>
<td>Beijing*, Shanghai, Tianjin, Guangzhou, Qingdao and (Dalian) Luda. Hong Kong Agent Firms: exports and imports - China Resources Company (CIRICO).</td>
<td>Machine tools, presses, lathes, machines, forging machines, dies, electronic engines, linear engines, steam turbines, boilers, mining machinery, forging machinery, compression and pumping, lift, elevators and hoists, windmills, fans, transport machinery and motor vehicles (and parts), vessels and marine equipment, agricultural machinery and implements, printing machines, textile machines, building machines, building machinery, road and plant-making machinery, machinery for light industries, tools and saws, mechanical and optical instruments, machine tools, precision instruments, machine tools, industrial plants and technical equipment, etc.</td>
</tr>
</tbody>
</table>

* Head Office


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Both CEROILFOOD and CIRECO worked closely with the Bank of China, Beijing's exchange control authority which handled China's reserves of foreign exchange and financial aspects of Chinese trade operations. It was subordinate to the State Council though it was a joint public/private corporation. By 1959 it had branches in India, Pakistan, Britain, Malaya, Singapore, Burma, Indonesia and Hong Kong. One of the bank's thirteen sister banks was the Nan Tong Bank which handled Chinese financial interests in Macau. During the 1950s and 1960s the Hong Kong branch of the Bank of China had a manager, seven sub-managers and three assistant managers - most of whom had been successful private businessmen prior to 1949. The financial aspects of the Chinese grain purchases were orchestrated by K.C. Jay (a.k.a. K.C. Choi or Xie Qizhu), a sub-manager of the Hong Kong branch and a millionaire businessman who began working in the Bank of China prior to 1949. He possessed the authority to negotiate financial aspects of Chinese trade deals, often drawn up by CIRECO but requiring approval from Beijing.

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Failure of the Great Leap Forward

On 22 July 1958, the day after the final Chinese-Western grain contract was signed, Xinhua published excerpts from a Chinese Ministry of Agriculture report which claimed a 71% increase in wheat yields in 1958 over the previous year and encouraged farmers to overcome various natural disasters to improve harvests the following year.

However, as Walker emphasises, the 'Great Leap Forward' was primarily responsible for decreased grain production after 1958. Widespread natural disasters were a contributing factor, but secondary to policies that led to the reduction in sown areas, technical mismanagement associated with deep ploughing, close planting, and water conservation work. Previously classified revised Chinese government grain output figures show this fall in total wheat and grain production and sown areas. (SEE TABLE A1.1 IN APPENDIX TO CHAPTER 1). Walker stresses that, although Chinese grain output fell drastically between 1958 and 1960, the authorities transferred ever larger amounts of grain to feed the growing urban population and to export abroad. Large increases in grain and agricultural exports during this period (SEE TABLE 1.4) were crucial to Chinese efforts to pay for more imported equipment such as automobiles, lorries, jeeps, bulldozers, and materials such as steel,
### TABLE 1.4

**Total Annual Chinese Exports of Cereals**  
**Agricultural and Sideline Products: 1957 to 1960**  
(in million tonnes, 100 million $US and %)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Cereals Exports</th>
<th>Total Rice Exports</th>
<th>Total Soybean Exports</th>
<th>Total Misc.* Grain Exports</th>
<th>Value (100 million $US)</th>
<th>% of Total Exports</th>
<th>Value $US</th>
<th>% of Total Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1957</td>
<td>2.09</td>
<td>.529</td>
<td>1.14</td>
<td>.156</td>
<td>640</td>
<td>40.1%</td>
<td>503</td>
<td>31.5%</td>
</tr>
<tr>
<td>1958</td>
<td>2.88</td>
<td>1.39</td>
<td>1.22</td>
<td>.065</td>
<td>703</td>
<td>35.5%</td>
<td>733</td>
<td>37.0%</td>
</tr>
<tr>
<td>1959</td>
<td>4.15</td>
<td>1.77</td>
<td>1.72</td>
<td>.530</td>
<td>850</td>
<td>37.6%</td>
<td>875</td>
<td>38.7%</td>
</tr>
<tr>
<td>1960</td>
<td>2.72</td>
<td>1.07</td>
<td>1.11</td>
<td>.372</td>
<td>575</td>
<td>31.0%</td>
<td>785</td>
<td>42.3%</td>
</tr>
</tbody>
</table>

metal and chemical fertiliser required to carry out the 'Great Leap'.

However, government pressure to raise grain output caused farmers and government officials to falsify production statistics. Despite the fact that nearly one million Chinese people died of starvation in 1958 Chinese grain production statistics indicated that domestic production was rising and thus in late July 1958 it was decided that further imports of Western grain were unnecessary. From then on production statistics were increasingly falsified, prompting State Statistical Bureau chief, Xue Muqiao, a supporter of many of Chen Yun’s policies, to warn the Bureau’s meeting in Beijing in April 1959 that

The precision of statistical data, like the precision of economic work in general, should approach as closely as possible to reality. At present the gap is too wide....In the midst of mass movements the statistical departments...must use scientific statistical methods and must reflect truly real objective conditions.

Xue was relieved of his post in September 1959 following a CCP meeting in mid-August during which agricultural output statistics were ‘revised downward’ and those critical of the CCP’s general position were branded ‘rightist opportunists’.

Not until May 1960 did the Chinese government learn that grain reserves had almost been depleted and slowly begin to accept the seriousness of the famine which had begun in 1958 and spread throughout the country in 1959 and 1960. This realisation led to the Chinese leadership’s late August 1960 decision to gradually resume imports of Western grain to meet the domestic crisis. Over the following months the Chinese government evaluated conditions and introduced first a temporary, followed by a long-term grain import programme, as well as various economic reforms to aid recovery. Nevertheless, conditions between 1958 and 1962 had resulted in the deaths of at least 20 million people. (SEE TABLE A1.2 in APPENDIX TO CHAPTER 1)

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42 CIRECO, Almanac of China’s Foreign Trade Relations and Trade (1984), pp.932-943.
43 Teiwes and Sun, China’s Road to Disaster, p.62.
45 Ibid.
Overview of Chinese Trade and Economic Strategy: 1960 to 1963

Transition to All-round Readjustment': June to September 1961:

The CPC Central Committee Political Bureau’s enlarged meeting at Shanghai between 7 and 17 January 1960 forecast another ‘Great Leap Forward’ in 1960 and set excessive steel and grain output goals “...Due to (the) overestimation of the so-called excellent situation in the wake of struggle against Right deviation...” However, in May 1960 the Chinese government began receiving reports of depleted grain stockpiles and serious famine throughout China. At the Political Bureau of the CPC Central Committee meeting at Shanghai between 14 and 18 June Mao admitted that mistakes had been made in carrying out the Great Leap Forward, but the excessively high 1960 production targets were not changed. Because of this economic crisis, the withdrawal of Soviet aid on 16 July 1960 amounted to economic sanctions.

In late August 1960, around the time that PLA troop rations along the Hong Kong border were halved, the Chinese leadership decided to gradually reimplement a grain import strategy. The precise structure of this programme would be based on further investigations during the subsequent weeks into conditions and requirements in China. This decision resulted in the PRC becoming a net grain importer for the first time and over the long-term. The Chinese made small purchases of Western grain between 3 September and 14 December 1960. Then on 15 December the Chinese government decided to implement a temporary large-scale grain import policy. Between 15 December and 22 April 1961 the Chinese purchased large quantities of Canadian and Australian grain on cash and credit terms.

In response to the crisis, in late August 1960 Li Fuchun and Zhou Enlai proposed a new economic policy of ‘readjustment, consolidation, filling out and improvement.’ The Party leadership group of the State Planning Commission then submitted the “Report on Control Figures for the 1961 National Economic Plan” which outlined a new economic strategy based on the principles of “readjustment, consolidation, filling out and raising standards.” It was first examined and approved by Zhou Enlai before being approved by the Central Committee on 30 September 1960. Between 30 September 1960 and February 1962 the Chinese government gradually reached a consensus with respect to this policy. At the Ninth Plenary Session of the Eighth Central Committee of

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48 See footnote 11 in chapter 3.
49 Teiwes and Sun, China’s Road to Disaster, p.216.
the CPC in Beijing between 14 and 18 January 1961 Li Fuchun, Minister in charge of the State Planning Commission, presented a report which called for the state, beginning in 1961, to devote two to three years to policies aimed at readjustment, consolidation, filling out and raising standards. Then

In view of the serious dislocation of the proportions in the national economy and the grave difficulties resulting from the 'great leap forward,' the session...stress(ed)...the need to adhere to the principle of taking agriculture as the foundation of the national economy, the need for the entire Party membership and the people to go all out to develop agriculture and grow grain crops, and the need to curtail capital construction and reduce the growth rate of heavy industry. The session formally adopted the...principle of 'readjustment, consolidation, filling out and raising standards' to be implemented in the national economy...51

However, conditions throughout China had not been fully evaluated by this juncture and there remained considerable disagreement within the Beijing leadership over the seriousness of economic conditions. A consensus had been reached on the necessity of readjusting agriculture, although those following the 'leftist' line continued to favour rapid industrial development and construction.

After making large emergency grain imports on cash terms between 15 December 1960 and early February 1961, the Chinese had nearly depleted their currency and bullion reserves. While efforts were made to utilise currency rationally, medium-term credits were desperately needed to facilitate further large imports of grain, chemical fertiliser, and materials and equipment to recover from the crisis. In early 1961 the Chinese government drew up a list of items - in order of importance and urgency - which it needed to import:

First, food; second, chemical fertilizers, insecticides and fat; third, commodities which could be exported after processing in order to earn foreign exchange and chemical raw materials, fourth, industrial raw and semi-finished materials (mainly copper, aluminium, rolled steel, rubber and petroleum) and sophisticated technology as well as materials and equipment needed for national defence.52

Beginning in late April 1961 the Chinese were successful in meeting their grain and flour import requirements by negotiating various transactions with Western interests facilitated by medium-term credits. However, despite the large volume of grain imports since autumn 1960, grain stockpiles remained depleted in the summer and autumn of 1961.53

At the CPC Central Committee working conference in Beijing between 21 May and 12 June 1961 Chen Yun - who had recently been

52 Liu and Wu, China's Socialist Economy, pp.295-296.
reappointed to his former position in charge of economic planning and was one of the main figures behind the emergency imports of Western grain—officially proposed spending up to half of China's foreign exchange earnings on grain imports. He believed this would facilitate the restoration of domestic production in three to five years.\textsuperscript{54} He emphasised that these essential purchases should probably be limited to less than 10 billion yuan (5 million tonnes) because of the shortage of foreign exchange and limited transport capacity.\textsuperscript{55} Chen's enthusiasm for such a programme was probably spurred on by the fact that in April and early May 1961 the Chinese had signed a long-term grain agreement with Canada and a large grain contract with Australia—both facilitated by medium-term credits. During Chen's key speech to the conference, on 'An Important Task That Has a Bearing on the Overall Situation', he recalled how domestic grain shortages in 1953, 1957 and 1959 were caused by the excessive growth of urban population and emphasised the need to send as many city residents as possible to the countryside. The Conference subsequently formulated the "Nine-Point Method on Reducing Urban Population and Grain Sales in Cities and Towns" under which 20 million urban residents were to be transferred to the countryside between 1961 and 1963 so that they could participate in agricultural development. Those remaining in the cities would be mainly skilled industrial workers. Inhabitants of the major northeastern coastal cities, including Beijing, Shanghai, Tianjin, Qingdao, and Dalian subsequently received imported grain, while urban grain procurement from the inland provinces was reduced. Northern coastal ports—particularly Shanghai—received most.\textsuperscript{56} Average urban grain consumption was reduced by 10\% to 15\%\textsuperscript{57}, yet urban areas usually received significantly higher per capita grain rations than rural areas. Larger cities, such as Beijing, Shanghai and Tianjin, Wuhan and Guangzhou, received more rations than smaller cities. Walker

\textsuperscript{54} Ash (collector and editor), \textit{Agricultural Development in China}, p.128.

\textsuperscript{55} 'An Important Work That Relates to the Overall Situation', translated in Lardy and Lieberthal (editors), \textit{Chen Yun's Strategy}, p.145.


\textsuperscript{57} See footnote 21.
concludes that Chinese imports of Western grain
...in 1961 and 1962 were only 2.7 percent of national grain
output but they were nevertheless equal to 55 percent of the
average annual provincial grain...(transfers to the urban
areas) in the period 1953-1957. Here lies their significance.
They amounted to approximately 14% of all urban requirements
and were more than adequate for the combined needs of Peking,
Tientsin and Shanghai...

Not until September 1961 at the CPC Central working conference in Lushan
(Jiangxi) did the Chinese government decide to implement an expanded
long-term grain import policy based on Chen Yun’s recommendations.59
Also as Fu Xing, vice-director of CEROILFOOD, told Dick Wilson,
editor of Far Eastern Economic Review, in 1964, by importing relatively
inexpensive, high protein wheat (compared to rice) for northern Chinese
consumption the Chinese government could export surplus lower protein
rice and soybean to Asia and Africa for a profit. The caloric value of
whole grain wheat is about 330 calories per 100 grams while milled rice
yields 363 calories per 100 grams.60 In 1964 Chen Ming told Wilson that
imported wheat was used
...to regulate the varieties of the food supply in...(China)
to make seasonal regulations of food supply according to
seasonal requirements.
...If we import wheat, we can export soybean and rice and
other processed food grain.... Rice and soybean...(prices are)
higher than for wheat. This is a good means...of making money....61

Wheat imports between 1960 and 1962 were for immediate emergency
consumption, but beginning in 1963-64 the volume of Chinese wheat imports
and rice exports increased considerably.(SEE TABLE 1.5) A USDA
publication in 1965 stated that the Chinese could buy wheat for around
$70 per ton and sell milled rice for $120 per ton.62 However, prior to
that point Beijing was unable "...to increase their agricultural exports
to anything like the level of their grain imports..."63 Nevertheless,
Chinese government statistics reveal that efforts were being made to
implement such a policy. As Chinese grain production began to recover in
1962 wheat sown areas decreased while rice sown areas increased.64 (SEE

59 Liu and Wu, China’s Socialist Economy, p.294.
60 Dick Wilson, 'Interview With Chen Ming: Third Bureau Director,
Ministry of Foreign Trade, Beijing', FEER, 21 May 1964. Cited in Feng-
Hwa Mah, 'Why China Imports Wheat', China Quarterly, January/March,
1971.
61 Wilson, 'Interview With Chen Ming: Third Bureau Director,
Ministry of Foreign Trade, Beijing', FEER, 21 May 1964.
62 Feng-Hwa Mah, 'Why China Imports Wheat', China Quarterly,
64 Planning Office of the Ministry of Agriculture, Livestock and
Fisheries, Nongye jingji ziliao (1949-1983) [materials on the
agricultural economy (1949-1983)] (1983), (translated and provided to
TABLE 1.5

**Chinese Annual Grain Imports and Exports:**
1960 to 1966 - Total and Individual Variety
[in tonnes (trade grain weight)]

<table>
<thead>
<tr>
<th>Year</th>
<th>Wheat Imports</th>
<th>Maize Imports</th>
<th>Rice Imports</th>
<th>Total Grain Imports*</th>
<th>Rice Exports</th>
<th>Soybean Exports</th>
<th>Total Grain Exports**</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>.04</td>
<td>-</td>
<td>.03</td>
<td>.07</td>
<td>1.07</td>
<td>1.11</td>
<td>2.72</td>
</tr>
<tr>
<td>1961</td>
<td>3.90</td>
<td>.09</td>
<td>.36</td>
<td>5.81</td>
<td>.43</td>
<td>.41</td>
<td>1.35</td>
</tr>
<tr>
<td>1962</td>
<td>3.54</td>
<td>.50</td>
<td>.17</td>
<td>4.92</td>
<td>.46</td>
<td>.26</td>
<td>1.03</td>
</tr>
<tr>
<td>1963</td>
<td>5.60</td>
<td>.22</td>
<td>.10</td>
<td>6.00</td>
<td>.68</td>
<td>.41</td>
<td>1.49</td>
</tr>
<tr>
<td>1964</td>
<td>5.40</td>
<td>.28</td>
<td>.16</td>
<td>6.60</td>
<td>.76</td>
<td>.59</td>
<td>1.82</td>
</tr>
<tr>
<td>1965</td>
<td>6.10</td>
<td>.10</td>
<td>.18</td>
<td>6.40</td>
<td>.98</td>
<td>.65</td>
<td>2.42</td>
</tr>
<tr>
<td>1966</td>
<td>6.22</td>
<td>.03</td>
<td>.20</td>
<td>6.43</td>
<td>1.50</td>
<td>.65</td>
<td>2.89</td>
</tr>
</tbody>
</table>

* Other grain imports (apart from wheat, maize, and rice) are included in this figure, but are not mentioned by this Chinese government source (See Source below)

**Includes grain only defined as 'miscellaneous cereals' by this Chinese government source.

TABLE A1.1 in APPENDIX TO CHAPTER 1) The Chinese used rice to barter for materials such as rubber which they required or could reexport in exchange for other items such as machinery. Wilson, utilising a Chinese source, also suggests that a portion of wheat imports from 1963 onwards was probably kept as a domestic grain reserve.65

During his speech, ‘An Important Task That Has a Bearing on the Overall Situation’, at the CPC Central Committee working conference in May and June 1961, Chen Yun stated that industry should provide greater support for agriculture, especially with respect to the production of chemical fertiliser, tractors, and drainage and irrigation equipment. The meeting decided that, along with placing less emphasis on heavy industry, the steel production target would be reduced by over one third. Party members and cadres wrongly punished in the anti-rightist campaign were to be rehabilitated.

During the summer of 1961 the Secretariat of the CPC Central Committee also sent eleven work teams to study the operations of factories, industrial enterprises and mines in medium to large cities. At the CPC Central Committee working conference in Lushan between 23 August and 16 September the ‘Directive on the Question of Industry at Present’ was adopted. The directive pointed out that, contrary to recommendations made over a year earlier, production quotas had not been cut back and thus readjustment policies were not working. Over the following three years industry was to focus on "readjustment, consolidation, filling out and raising standards".66

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65 China News Analysis, No. 199, 4 October 1957.
Decisive Stage of All-Round Readjustment: January 1962 to December 1962

By early 1962 the Chinese had recovered from the worst consequences of the 'Great Leap'. While serious economic problems continued, apart from 100,700 abnormal deaths in Sichuan in 1962 there were few other excess deaths associated with the famine in China in that year.\(^6\)\(^7\) Previously highly classified Chinese government statistics show that domestic harvests of various grains began to increase in 1962. As the large shipments of Western grain and flour continued to arrive, beginning in 1962 the Chinese reduced the area of land sown with wheat and increased the rice sown area.\(^1\) (SEE TABLES A1.1 A1.2 APPENDIX CHAPTER 1) At the CPC Central Committee working conference in Beijing between 11 January and 7 February Liu Shaoqi, on behalf of the CPC Central Committee, blamed the economic crisis in part on natural causes, but mainly on policy errors since 1958. Liu then stressed that "...1962 was the most crucial year for readjustment of the national economy....We must make the best use of it."\(^6\)\(^8\) The conference stressed the need to promote centralisation and unified leadership and marked the beginning of the 'decisive stage of all-round readjustment'.

Between 21 and 23 February 1962 Liu Shaoqi presided over an enlarged meeting of the CPC Central Committee in Beijing to discuss the 1962 budget and Chinese economy. Chen Yun's speech addressing these issues won unanimous approval of the other Standing Committee members. He countered

the 'Left' deviationist views of some senior cadres who still blindly maintained that the economic situation was 'excellent' and that the economy could be quickly developed on a large scale after some slight readjustments were made....(He also stated) that the economy was in...(dire) straits.\(^6\)\(^9\)

After taking stock of the seriousness of the economic situation, it was agreed that "it was imperative to fix a period for readjustment and recovery so as to readjust the economy in all spheres by taking agriculture as the foundation needed."\(^7\)\(^0\)

On 7 March Chen Yun told a meeting of the 'Central Committee of the Central Financial and Economic Group'

...that when administering the annual plan, attention should be paid, first of all, to making good arrangements for agriculture and the market which had a vital bearing on urban people's daily lives and should be made an important policy of our nation....Drastic

\(^6\) Article translated for author: 'Chinese Government Population Research: Deaths From Starvation During the Post Great Leap Forward Period', Open Magazine (Hong Kong), January 1994.
\(^6\) CCP Central Committee, History of the Chinese Communist Party, p.296.
\(^6\) Liu and Wu, China's Socialist Economy, pp.282-284.
\(^7\) CCP Central Committee, History of the Chinese Communist Party, p.297.
changes should be made with regard to targets for heavy industry and capital construction, and all-round arrangement, instead of one-sided emphasis on steel output, (and) should be made with a view to achieving overall balance.\textsuperscript{71}

On 19 April the Central Committee appointed Chen Yun head of the 'Central Financial and Economic Group', a position which put him in charge of economic and financial matters. Between 7 and 11 May in Beijing a working conference of the Standing Committee of the Political Bureau of the CPC Central Committee was held to discuss the 'Report on Examining the Readjustment Plan for 1962' which was prepared by the 'Central Financial and Economic Group'. Presided over by Liu Shaoqi, the conference adopted measures

\ldots for readjusting the national economy, such as further curtailing the scale of industrial production and construction, greatly reducing the number of workers, and staff and the urban population, strengthening the agricultural front, increasing agricultural output and the production of daily necessities, ensuring market supply and curbing inflation.\textsuperscript{72}

These measures were implemented immediately following the conference and between May and August 1962 the urban population was reduced by ten million residents.

Between January and August 1962 policymakers, hoping to raise agricultural output, were also involved in increasingly intense debates over the future role of production incentives in the rural communes and the role of technology in raising chemical fertiliser output. Although this thesis does not explore the politics of Chinese decision making making recent research demonstrates that Mao played a continuing role throughout the 1958 to 1963 period.\textsuperscript{73} At the Tenth Plenary Session of the Eighth Central Committee of the CPC in Beijing between 24 and 27 September Deng Zhihui's proposal (presented between 9 and 11 July) regarding household responsibility under strict production contracts was defeated by Mao who reaffirmed the importance of class struggle. While this marked a shift back towards the 'leftist' line of the 1950s Mao also accepted the general principles of the economic readjustment plan, reminding the conference "\ldots Do not slacken economic work because of class struggle; put work above everything else."\textsuperscript{74} Thus, a new equilibrium, lasting three years, was established between Liu Shaoqi and Zhou Enlai's economic development strategy on the basis of science and technology (imports of equipment from Japan and Western Europe) and Mao and Kang Sheng's insistence on the maintenance of 'socialism' in the running of agricultural communes and agricultural enterprises. In the middle was the

\textsuperscript{71} Ibid. p.298.
\textsuperscript{72} Ibid. p.299.
\textsuperscript{73} Teiwes and Sun, China's Road to Disaster, pp.213-229.
\textsuperscript{74} CCP Central Committee, History of the Chinese Communist Party, p.302.
PLA which benefited from the former without being damaged by the latter.

By the end of September 1962 the CCP line was established under which economic relations with the West and Japan would be pursued in the interest of Chinese industrial development. Between 20 October and 22 November the pursuit of this line was interrupted by the crisis in relations with India resulting from the China-Indian border war, but by December a cease-fire allowed the Chinese to continue pursuing Liu and Zhou's economic development strategy. Meanwhile, on 9 November 1962 the Liao-Takasaki (L-T) memorandum was signed, which was followed by preparations to expand Chinese-Japanese trade. It was then necessary to coordinate plans to make chemical fertiliser available for widespread use with a wider economic plan, which was being formulated by early 1963. The Chinese planned to implement a long-term chemical fertiliser import scheme and purchase complete equipment, technology (patients), and related services to produce nitrogenous ammonia (from natural gas) and urea (from ammonia).

The Next Phase: The Import of Technology and Industrial Development

In 1962-63, as the Chinese-Soviet dispute intensified, it became apparent that the Soviets would no longer supply the Chinese with vital machinery and technology. Exploitation of regional coal, gas and new oil finds would enable the Chinese to produce inexpensive chemical fertiliser if the necessary technology could be imported from elsewhere. The interrelated equipment included mining equipment, ammonia and urea production equipment, oil refinery and petrochemical equipment, special steels and steel piping production equipment to produce fertiliser production equipment, plants, and pipelines. Coal reserves, the key requirement for fertiliser production during the 1950s, were mainly in northern China and had to be transported to fertiliser production plants throughout the Chinese mainland. However, recent natural gas and oil discoveries made it possible to produce relatively inexpensive fertiliser in areas where there were insufficient deposits of coal, thus lowering costs and eliminating the need to transport coal long distances.

While China's military weapons research and development - a top priority - had made significant strides, its technological base lagged far behind that of Western nations, partly because of a shortage of highly trained scientists and engineers. In mid-1962 Beijing decided to start importing Western and Japanese "technical data designs and prototypes of reliable equipment, new instrumentation, apparatus and critical raw materials." Under a ten year plan begun in 1963, Beijing,

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through the State Scientific and Technological Commission, oversaw scientific and technological developments. This commission had approximately forty divisions. Research was carried out by technical ministries with jurisdiction over their central research academies and subordinate institutes, some of which were attached to industrial plants and the Chinese Academy of Sciences.76

The Chinese hoped to acquire the most recent technology and training which had taken Westerners many years to develop at a great expense. Ironically, a good portion of this technology had been developed in the US - or at least developed from the patents of similar US innovations. Due to overcapacity in Western industry, industrialists were eager to sell the Chinese recent technology on credit terms, even though Beijing planned to use the imports for domestic mass prototype copying.77

N.T. Wang identifies four other advantages of Beijing's policy of importing Japanese and Western complete plants and related technology: 1) foreign specialists helped at the outset to determine the proposed projects' feasibility; 2) the specialists guaranteed that the parts of the project would fit together; 3) foreign technicians made trial runs and taught domestic workers how the equipment functioned; 4) the foreigners would depart after the plant was 'on-line' and Chinese employees were trained - leaving the Chinese in control.78 Thus, the import of Western and Japanese technology and training was in keeping with Beijing's policy of self-reliance.79

In 1981 Chinese economist Xue Muqiao remembered that Mao...all along stood for learning from the advanced science and technology of other countries on the basis of self-reliance. In 'On the Ten Major Relationships'... (Mao) said: 'Our policy is to learn from the strong points of other nations and all countries....In the natural sciences we are rather backward, and here we should make a special effort to learn from foreign counties....It was with Soviet aid that we laid the initial basis for industrialization in the period of the First Five Year Plan. Later, Mao...personally approved the plan to import several dozen sets of foreign equipment (from Japan and the West), particularly chemical fertilizer and petrochemical equipment.80

Before approaching Western firms for substantial credits to buy

76 Ibid.
78 N.T. Wang, China's Modernization and Transnational Corporations, p.69.
the equipment, Beijing prioritised its 'shopping list', taking into account its limited foreign exchange.

The Chinese planned to make available more land for grain production by planting less cotton. The demand for cotton would be reduced by importing six modern textile production facilities between 1963 and 1966. Five of these facilities could not be purchased until the domestic petrochemical industry was expanded. The initial plant was to be a vinylon textile production plant. It was vital to develop quickly a domestic synthetic textile industry for at least three reasons: to reduce the need for domestically-grown cotton, which in turn would make available more arable land for grain production; to reduce textile imports81; and to step up China's export drive, which had already begun, in South-East Asia. Chinese textiles exported to various countries in this region were expected to provide badly needed foreign exchange to pay for grain and technology from the West and Japan.

A cellulose fibre production facility was to be purchased first because surplus petroleum needed to feed polymer production was unavailable in 1963. The Chinese hoped that, over the short-term, the cellulose fibre industry, which utilised waste materials such as cotton and wood pulp, would increase textile output.

Next on Beijing's 'shopping list' were three related chemical fertiliser production facilities (and related equipment and technology) - two to produce ammonia from gas and the other to produce urea from ammonia. Third on the list was refinery equipment and technology because of the importance of petroleum in attaining self-sufficiency. POL (petroleum, oils, and lubricants) was vital to the transportation system, and to the PLA. Petroleum refining and steel production yielded gas to produce ammonia for fertiliser.

This thesis does not focus on technology and Chinese industrial development. Its object is to explore the role of imports of grain, chemical fertiliser, fertiliser production equipment and related technology between 1957 and 1963 in the wider context of China’s economic development and trade relations. The vital importance of the Chinese-Western grain trade in this regard will be demonstrated.

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APPENDIX TO CHAPTER 1

TABLE A1.1
Total Sown Area and Output Statistics for the
Various Chinese Food Grains: 1955 to 1963
(in million hectares, million tonnes)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total wheat sown area</th>
<th>Total wheat output</th>
<th>Change in wheat sown area over the previous year</th>
<th>Change in total wheat output over the previous year</th>
<th>% change in total output over the previous year</th>
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</thead>
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<tr>
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<td>1957</td>
<td>27.54</td>
<td>23.65</td>
<td>.27</td>
<td>-1.15</td>
<td>-1.6%</td>
</tr>
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<td>1958</td>
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</tr>
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</tr>
<tr>
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<td>1</td>
<td>6.4%</td>
</tr>
<tr>
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<td>23.77</td>
<td>18.5</td>
<td>-3.0</td>
<td>1.95</td>
<td>11.8%</td>
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<th>% change in total output over the previous year</th>
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<td>% change in total output over the previous year</td>
</tr>
<tr>
<td>------</td>
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<td>---------------------------------------------------</td>
<td>-----------------------------------------------------</td>
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**TABLE A1.2**

**Total Annual Deaths and Abnormal Deaths in the Chinese Provinces: 1957 to 1963**

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<th>Anhui</th>
<th>Henan</th>
<th>Shandong</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>total deaths</td>
<td>total abnormal deaths</td>
<td>total deaths</td>
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<tr>
<td>1957</td>
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<tr>
<td>1958</td>
<td>1,781,800</td>
<td>936,000</td>
<td>415,800</td>
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<tr>
<td>1959</td>
<td>3,282,000</td>
<td>2,436,200</td>
<td>570,100</td>
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<tr>
<td>1961</td>
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<td>688,000</td>
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<tr>
<td>1961</td>
<td>618,500</td>
<td>231,700</td>
<td>380,000</td>
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</tr>
<tr>
<td>1962</td>
<td>363,600</td>
<td>0</td>
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<td>total 1957-1963</td>
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<tr>
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<tr>
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<td>290,600</td>
<td>0</td>
</tr>
<tr>
<td>1958</td>
<td>396,900</td>
<td>(37,500)</td>
<td>295,900</td>
<td>9,000</td>
</tr>
<tr>
<td>1959</td>
<td>621,900</td>
<td>186,500</td>
<td>466,000</td>
<td>173,500</td>
</tr>
<tr>
<td>1960</td>
<td>785,900</td>
<td>351,500</td>
<td>670,300</td>
<td>383,400</td>
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<tr>
<td>1961</td>
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<td>1962</td>
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<td>434,400</td>
<td>670,400</td>
<td>286,900</td>
<td>570,200</td>
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<td>Fujian</td>
<td>Zhejiang</td>
</tr>
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<td>------</td>
<td>-----------</td>
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<tr>
<td>1957</td>
<td>268,500</td>
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<td>1958</td>
<td>331,800</td>
<td>2,400</td>
<td>214,000</td>
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<td>1959</td>
<td>405,100</td>
<td>105,700</td>
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<td>73,700</td>
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<td>1960</td>
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</tr>
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<td>405,400</td>
<td>76,000</td>
<td>443,700</td>
<td>234,500</td>
</tr>
<tr>
<td>1962</td>
<td>362,000</td>
<td>0</td>
<td>216,400</td>
<td>0</td>
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<tr>
<td>total 1957-1963</td>
<td>329,400</td>
<td>448,300</td>
<td>219,200</td>
<td>370,400</td>
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<table>
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<th>Year</th>
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<th>Heilongjiang</th>
<th>Shaanxi</th>
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<tr>
<td>1957</td>
<td>209,500</td>
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<td>21,000</td>
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<tr>
<td>1958</td>
<td>213,400</td>
<td>(3,000)</td>
<td>27,900</td>
<td>11,900</td>
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<td>1959</td>
<td>253,000</td>
<td>36,600</td>
<td>40,200</td>
<td>24,200</td>
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<td>1960</td>
<td>320,100</td>
<td>103,700</td>
<td>103,600</td>
<td>87,600</td>
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<td>1961</td>
<td>232,800</td>
<td>16,400</td>
<td>26,900</td>
<td>10,900</td>
</tr>
<tr>
<td>1962</td>
<td>223,400</td>
<td>0</td>
<td>11,100</td>
<td>0</td>
</tr>
<tr>
<td>total 1957-1963</td>
<td>216,400</td>
<td>156,700</td>
<td>16,000</td>
<td>134,600</td>
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<table>
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<tr>
<th>Year</th>
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<th>Ningxia</th>
<th>Inner Mongolia</th>
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</tr>
<tr>
<td></td>
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<td>total abnormal deaths</td>
<td>total abnormal deaths</td>
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<tr>
<td>1957</td>
<td>112,000</td>
<td>0</td>
<td>199,100</td>
<td>0</td>
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<tr>
<td>1958</td>
<td>115,000</td>
<td>(14,000)</td>
<td>188,100</td>
<td>(9,400)</td>
</tr>
<tr>
<td>1959</td>
<td>174,000</td>
<td>45,000</td>
<td>211,100</td>
<td>13,600</td>
</tr>
<tr>
<td>1960</td>
<td>137,000</td>
<td>8,000</td>
<td>239,400</td>
<td>41,900</td>
</tr>
<tr>
<td>1961</td>
<td>169,000</td>
<td>20,000</td>
<td>208,300</td>
<td>10,800</td>
</tr>
<tr>
<td>1962</td>
<td>144,000</td>
<td>0</td>
<td>195,900</td>
<td>0</td>
</tr>
<tr>
<td>total 1957-1963</td>
<td>129,000</td>
<td>73,000</td>
<td>197,500</td>
<td>66,300</td>
</tr>
</tbody>
</table>


***
CHAPTER 2

Chinese-Western Grain Trade 1949-1957 and China's 1958 'Test Purchases' of Canadian and Australian Wheat and Flour
World Grain Situation in the 1950s

Beginning in the early 1950s, the major wheat exporting nations, which had dramatically increased output in the immediate postwar years, because of innovations in crop science and machine technology, found selling their wheat surpluses increasingly difficult. Postwar demand for grain by rebuilding nations had begun to diminish. Then, during the late 1950s, American agricultural surplus disposal policies allowed the US to make inroads into 'traditional' export markets of other major grain exporting nations. The passing of the Mutual Security Act in 1953 and Public Law (PL) 480 in 1954 provided the US government with millions of dollars from the Federal Treasury to subsidize wheat exports.

After 1954 most noncommercial American agricultural exports were handled under PL 480, titles I to IV. Title I authorized the sale of surplus US agricultural commodities for foreign currencies to be reinvested by Washington to promote trade and economic development in the purchasing country. Titles II and III made provision for the donation and barter of surplus US food in the US and abroad. Title IV, added in 1959, provided for long-term loans to enable foreign nations to purchase US surplus goods. As Morgan explains PL 480, disguised as a humanitarian programme to help underdeveloped nations and win political prestige, also helped dispose of the American surplus while allowing the US to gain control over world wheat markets. (SEE TABLE 2.1)

As the volume of US exports increased, Canada, Australia and Argentina - the other exporting members of the International Wheat Agreement (IWA) - protested to Washington about American disposal methods which, they maintained, violated the spirit of the accord. The IWA specifically sought to create stability and orderly trade practices on world wheat markets. Other wheat exporting nations lacked the financial resources to compete with American 'concessional' sales financed by the US Treasury. New markets existed in Asia, South America, Africa and Oceania and by increasing 'concessional sales' to these areas the US was able to expand its share of the world wheat export market.

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1 Morgan, Merchants of Grain, p.98.
# TABLE 2.1

**Exports of American Wheat and Wheat Flour**  
[in tonnes (grain: trade grain weight, flour: milled weight)]

<table>
<thead>
<tr>
<th>Type of Exports Under P.L. 480</th>
<th>1958-59</th>
<th>1959-60</th>
<th>1960-61</th>
</tr>
</thead>
<tbody>
<tr>
<td>Title I: Agricultural product sales to friendly nations for local currency</td>
<td>6,202,373</td>
<td>8,180,927</td>
<td>8,904,855</td>
</tr>
<tr>
<td>Title II: donations of foodstuffs for famine relief emergencies</td>
<td>296,647</td>
<td>291,204</td>
<td>830,067</td>
</tr>
<tr>
<td>Title III: food donations for emergencies - to non profit organisations</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Barter sales of wheat and flour for strategic/non strategic goods)</td>
<td>547,028</td>
<td>699,434</td>
<td>928,043</td>
</tr>
<tr>
<td>Donations of wheat and flour</td>
<td>549,750</td>
<td>661,332</td>
<td>824,624</td>
</tr>
<tr>
<td>Wheat and flour exports under section 402</td>
<td>650,446</td>
<td>361,964</td>
<td>968,866</td>
</tr>
<tr>
<td>TOTAL P.L. 480 wheat and wheat flour exports</td>
<td>8,246,244</td>
<td>10,194,861</td>
<td>12,456,455</td>
</tr>
<tr>
<td>Exports in the open market for dollars</td>
<td>3,785,652</td>
<td>3,646,854</td>
<td>5,539154</td>
</tr>
<tr>
<td>TOTAL EXPORTS</td>
<td>12,031,896</td>
<td>13,841,715</td>
<td>17,986,610</td>
</tr>
<tr>
<td>% exports under US government programmes</td>
<td>68.5%</td>
<td>73.6%</td>
<td>69.3%</td>
</tr>
</tbody>
</table>

Under the IWA, as renegotiated in 1959, provision was made for 'concessional sales', enabling 85% of total annual wheat transactions between 1959 and 1962 to be conducted under the terms of the agreement.\footnote{Leslie Wilson, 'Why World Price of Wheat Will Stay Down: New International Pact Will Favour Purchasers', Financial Post (Canadian), 3 February 1962.} After 1959, IWA member nations had to report data relating to concessional sales and surplus disposal, a requirement implemented in order to prevent such transactions interfering with cash sales on the open market or at least pressure exporters to limit disruptive trade practices. However, France, which heavily subsidised its grain exports, resisted participation; and Washington, fully utilising the US Treasury, continued to find innovative methods of exporting grain. Consequently, nations with mounting agricultural surpluses sought to expand exports to Communist nations that were not party to the IWA. By entering these new markets, exporting nations could still fulfill their obligations under the IWA. American allies, unable to understand why the Americans would not ship food to these countries - especially when their residents suffered because of US policy - were increasingly frustrated by seemingly inconsistent US legislation and Washington's continuous pressure on its allies to adhere to American-inspired trade controls. Because of American disposal programmes, nations to which the US refused to export goods became attractive prospective outlets for surpluses of other Western grain suppliers.
Canadian Position on Trading With China During the 1950s

Canada had been China's most important source of grain imports during the 1920s, but had lost this position to Australia after 1930.\(^5\) Between 1949 and 1952 the Chinese imported relatively small quantities of Canadian wheat. (SEE TABLE 2.2) The amounts shipped to China in 1950-51 and 1951-52, valued at approximately $97,000, was sold by Northern Sales Ltd. of Vancouver\(^6\) which was able to make the sale chiefly because Arthur Eveleigh, former general manager in China of Louis Dreyfus and Co., had been connected to the firm since 1948. After 1952 the Chinese did not buy Canadian grain for three years.

Canadian wheat surpluses continued to grow to record levels during the early to mid-1950s (SEE TABLE 2.3) while the US gained the largest share of the world wheat market, a position held by Canada before WWII. The Canadian government usually hoped to export a minimum of 8.165 million tonnes of wheat each crop year. In 1955-56 it exported 8.5 million tonnes, of which 1.2 million tonnes went to Communist nations. Without these sales to Communist countries, Canadian wheat export figures would have been below average. Concerned about the mounting Canadian grain surplus, in 1955 and 1956 the St. Laurent government negotiated several credit wheat sales with Communist countries. (SEE TABLE 2.4) As will be shown, evidence emerged in December 1956 that some of this grain sold to Poland under generous Canadian government credit guarantees was reexported to China.

On 5 July 1955 a friend of Arthur Eveleigh wrote to Canadian Minister of Trade and Commerce, C.D. Howe, offering to broker a Chinese-Canadian wheat deal.\(^7\) Howe's reply on 19 July was that...at present...there is little possibility of selling wheat to China on terms similar to those extended to Poland. Eveleigh should be encouraged in his endeavor to sell Canadian wheat to China but, for the present...his efforts...(should) be directed to cash rather than credit sales.\(^8\)

Nevertheless, in late August 1955 after visiting the USSR, Canadian Minister of Fisheries, James Sinclair, stopped over in Beijing. On 15

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\(^5\) C.J. Woodsworth, *Canada and the Orient*, p.233. Canada first exported flour to China in 1892; then after the Chinese domestic milling industry was established during WWII, the Chinese made annual imports of Canadian wheat. Cited in Li Liansheng, 'Sino-Canadian Relations and the Grain Trade', MA thesis, Carlton University, Ottawa, 1985, pp.27-28.


### TABLE 2.2

**Chinese Imports of Canadian Wheat and Flour:**

**Between 1949-50 to 1951-52**

[in tonnes (trade grain weight)]

<table>
<thead>
<tr>
<th>Crop Year</th>
<th>Total Chinese Imports of Canadian Wheat</th>
<th>% of total Canadian Wheat Exports</th>
<th>Total Chinese Wheat Imports</th>
<th>% Total of Canadian Grain Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949-50</td>
<td>3,849*</td>
<td>.06%</td>
<td>80,000</td>
<td>4.8%</td>
</tr>
<tr>
<td>1950-51</td>
<td>1,607*</td>
<td>.02%</td>
<td>4,000</td>
<td>40%</td>
</tr>
<tr>
<td>1951-52</td>
<td>108</td>
<td>.001%</td>
<td>108</td>
<td></td>
</tr>
</tbody>
</table>

*The 1949-50 and 1950-51 import figures are from Canadian government sources, but Chinese government figures include both figures on the 1950 account. According to Chinese statistics the Chinese did not import foreign grain in 1951.

**Sources:** Dominion Bureau of Statistics, *Trade of Canada: Commodities Exported to Each Country*, (annual reports), CWB *Annual Report* (by year); The 1951-1952 figure is taken from NAC: RG#20: Vol. 818, File 10-33, pt.4: ‘Shipments of Wheat and Flour to China’.
### TABLE 2.3

**Canadian Wheat Supplies and Disposition: 1949 to 1961**

[In million tonnes (trade grain weight)]

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Canadian Wheat Production</th>
<th>Total Canadian Wheat Carryover *</th>
<th>Total Canadian Wheat Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949-50</td>
<td>9.96</td>
<td>3.0</td>
<td>6.1</td>
</tr>
<tr>
<td>1950-51</td>
<td>12.7</td>
<td>5.1</td>
<td>6.6</td>
</tr>
<tr>
<td>1951-52</td>
<td>15.1</td>
<td>5.9</td>
<td>9.7</td>
</tr>
<tr>
<td>1952-53</td>
<td>19.1</td>
<td>10.4</td>
<td>10.5</td>
</tr>
<tr>
<td>1953-54</td>
<td>17.3</td>
<td>16.8</td>
<td>7.0</td>
</tr>
<tr>
<td>1954-55</td>
<td>9.0</td>
<td>14.6</td>
<td>6.9</td>
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<tr>
<td>1955-56</td>
<td>14.1</td>
<td>15.8</td>
<td>8.5</td>
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<td>20.0</td>
<td>7.2</td>
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<td>1957-58</td>
<td>10.5</td>
<td>17.4</td>
<td>8.7</td>
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<tr>
<td>1958-59</td>
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<td>8.0</td>
</tr>
<tr>
<td>1959-60</td>
<td>11.2</td>
<td>14.6</td>
<td>7.5</td>
</tr>
<tr>
<td>1960-61</td>
<td>13.3</td>
<td>14.3</td>
<td>9.6</td>
</tr>
</tbody>
</table>

* Carryover refers to grain not marketed in Canada or abroad the previous year and added towards the current crop year totals.

**Source:** From a table found in the files of NAC: RG#20: Files 20-141-3, Vol. 1943.
TABLE 2.4

Canadian Government Backed Credit Wheat Sales
To Communist Countries in 1955 and 1956
[in tonnes (trade grain weight) and % of total Canadian grain exports]

<table>
<thead>
<tr>
<th>Year</th>
<th>Country</th>
<th>Grain imports and % of total Canadian exports</th>
<th>Contractual terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955-56</td>
<td>Czechoslovakia</td>
<td>348,356 (4%)</td>
<td>25% cash down payment, balance in twelve months. Credits guaranteed by the Canadian government</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1955-56</td>
<td>East Germany</td>
<td>55,247 (0.6%)</td>
<td></td>
</tr>
<tr>
<td>1955-56</td>
<td>Poland</td>
<td>381,205 MN#4 and MN#5 (4.4%)</td>
<td>Shipments beginning ex Vancouver in autumn 1955.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The Canadian government underwrote a $26 million Canadian Export Credit loan insuring 85% of the financing to facilitate the sales. In 1955 terms were: 15% cash down payment with the balance payable in twelve months. In 1956 terms were: 10% cash down payment with balance due in 24, 30 and 36 months.</td>
</tr>
<tr>
<td>1956-57</td>
<td>Poland</td>
<td>259,090 MN#4 and MN#5 (3.5%)</td>
<td>Shipments beginning ex Vancouver in autumn 1955.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The Canadian government underwrote a $26 million Canadian Export Credit loan insuring 85% of the financing to facilitate the sales. In 1955 terms were: 15% cash down payment with the balance payable in twelve months. In 1956 terms were: 10% cash down payment with balance due in 24, 30 and 36 months.</td>
</tr>
<tr>
<td>1956</td>
<td>USSR</td>
<td>402,515 (4.7%)</td>
<td>Three year Soviet-Canadian trade agreement signed in 1956 provided for the USSR to purchase 1.08 to 1.36 million tonnes of grain in annual amounts of 362,800 to 457,500 tonnes.</td>
</tr>
</tbody>
</table>

August L.B. Pearson, Canadian Secretary of State for External Affairs, wired a message for Sinclair to the British embassy in Beijing which read:

Recently there have been frequent press reports of grain shortages in China. Australia...sent a...(delegation) to Hong Kong to negotiate a sale of wheat, but apparently was unsuccessful. The...(CWB) is anxious to find out if there will be any opening for the sale of Canadian wheat this year.9

On 9 December 1955, an official of Rolimpex, the Polish government's grain purchasing agency, told CWB officials that China had purchased, or was purchasing, MN#3 wheat ex Atlantic Canadian ports - Halifax and West St. John - in December 1955 and January 1956 as part of a barter deal that involved peanuts being shipped to Canada.10 Officials of K.A. Powell (Pacific Ltd.), which along with Northern Sales Ltd. (Winnipeg) and East-West Import Company Ltd. (Vancouver) had been competing for the contract, thought that it was part of a three or four way barter deal under which 30,481 tonnes of MN#3 wheat would be sent to China. The Chinese would send 5,080 tonnes of peanuts to Canada and would then send the wheat to Egypt in exchange for cotton.11 Beijing had already ordered $21.6 million worth of Egyptian cotton payable in sterling, and in mid-August the Egyptian leader, Nasser, accepted an invitation to visit China. In December Northern Sales made a booking for the 30,481 tonnes of MN#3 which they said was being shipped to Poland. (SEE TABLE 2.5) This grade of wheat had not been purchased by Poland before; and, when DTC officials asked Northern Sales owner, Charles Swartz, for details Swartz would only say that it was part of a triangular deal.12 On 20 December the CWB's European manager concluded that Poland was acting as an intermediary for China. Rumours originating in Paris the previous week suggested that French flour purchased by Poland was also being shipped to China.13

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### TABLE 2.5

**Canadian Wheat and Flour Exports to China:**
**1948-49 to 1959-60 Crop Years**
[in tonnes (trade grain weight) and as % of total Canadian grain exports]

<table>
<thead>
<tr>
<th>Crop Year (1 August to 31 July)</th>
<th>Amount Exported to China and % of Total Canadian Exports</th>
<th>Total Canadian Wheat Exports - All Nations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948-49</td>
<td>17,989 (.3%)</td>
<td>6,322,120</td>
</tr>
<tr>
<td>1949-50</td>
<td>3,849 (.06%)</td>
<td>6,126,170</td>
</tr>
<tr>
<td>1950-51</td>
<td>1,607 (.03%)</td>
<td>6,556,172</td>
</tr>
<tr>
<td>1951-52</td>
<td>108 (.001%)</td>
<td>9,683,213</td>
</tr>
<tr>
<td>1952-53</td>
<td>-</td>
<td>7,769,976</td>
</tr>
<tr>
<td>1953-54</td>
<td>-</td>
<td>6,939,908</td>
</tr>
<tr>
<td>1954-55</td>
<td>-</td>
<td>6,855,541</td>
</tr>
<tr>
<td>1955-56</td>
<td>29,393* (.3%)</td>
<td>8,496,625</td>
</tr>
<tr>
<td>1956-57</td>
<td>-</td>
<td>7,193,011</td>
</tr>
<tr>
<td>1957-58</td>
<td>117,026**(1.3%)</td>
<td>8,714,347</td>
</tr>
<tr>
<td>1958-59</td>
<td>-</td>
<td>8,014,913</td>
</tr>
<tr>
<td>1959-60</td>
<td>-</td>
<td>7,348,810</td>
</tr>
</tbody>
</table>

* This transaction may have been completed by Northern Sales Ltd., or K.A. Powell (Pacific) Ltd. rather than by the East-West Import Co. Ltd. which had been reported in the newspaper article 'Howe Welcomes Swap of Wheat for Red Peanuts', *Globe and Mail*, 5 December 1955. DTC information suggests these other firms may have made the sale. (see: NAC: RG#20: Vol. 818 File.10-33 pt.1)

**13,608 tonnes of this amount were shipped during the 1958-59 crop year. Canadian grain exported to China in 1957-58 and 1958-59 was shipped in ten cargoes several firms. 254 tonnes (milled weight) of this amount was flour sold by the Maple Leaf Milling Co. which was owned by Canadian Pacific Co. Ltd.

Sources: Annual Reports of the Canadian Wheat Board, Winnipeg, Canadian DTC statistics; Interview C.M. Forsyth-Smith.
In 1956 Canadian grain trading interests became more interested in exporting grain to China to ease the growing surplus problem. However, Howe, the American-born-and-raised Canadian Minister of Trade and Commerce, known for his formidable talents in guiding Canadian economic expansion since 1948, argued "...that sales on credit or for foreign currency would discriminate against and lose old customers." Howe had been reluctant to approve a 1956 trade agreement with the USSR (SEE TABLE 2.4) and had quashed a proposal by the Canadian trade commissioner in Hong Kong for a Canadian trade delegation to travel to China.

In 1955 Progressive Conservative leader, George Drew, had criticised the government for extending credits to Communist nations and blocking debate on the transactions because "...many of us believe that Canadian wheat ought not to go to building up countries such as Poland which has a Communist government." The infamous 'Ming Sung ships incident' which had resulted in the loss of millions of dollars to the Canadian treasury was often cited by opponents of the government's decision to guarantee loans to Communist government trading partners.

However, many Progressive Conservatives disagreed with Drew's criticisms, and John Diefenbaker, a Saskatchewan Conservative, openly supported the promotion of Canadian trade with China. In December 1953 Diefenbaker and ten other Progressive Conservatives had rejected their own party's position to support a Social Credit amendment...advocat(ing) acceptance of payments in sterling if that would promote trade...

In both the 21 June 1957 and 3 March 1958 federal elections the Progressive Conservative Party, now under Diefenbaker's leadership, gained power largely because of their 'Northern Development Policy' and their promise to increase support for prairie farmers.

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15 Blair Fraser, The Search For Identity: Canada Postwar to Present, pp.183-184.
17 In 1946 the Ming Sung Industrial Company, Canadian subsidiary of the Ming Sung Trading Company of Hong Kong, required financing to build nine ships in Quebec. The Canadian government and the KMT Nationalist government of China subsequently agreed to guarantee a loan of $12,750,000 granted by three Canadian banks. However, after delivery to the Far East, the ships disappeared during the Chinese Civil War. The KMT government, the primary guarantor of the loan, and the Ming Sung Trading Corporation then defaulted on their obligations. Prior to 10 December 1952, the Canadian government had made payments of $2,962,977.30 and after this date paid another $11,506,205.76. By 1956, Canada had not been compensated for the payments, despite the fact that Ottawa learned that the assets had been seized by the new authorities in China. See: NAC: Hamilton Papers, Vol. 62, undated newspaper clipping: 'Wheat Sales and Credit Terms', Edmonton Journal, and Canada, House of Commons, Debates, 17 November, 1971, p.9638.
Prior to these elections, the Conservatives sought to address what they considered inadequate Canadian governmental responses to US disposal practices. In mid-February 1957, for example, officials of the Canadian DTC learned that Canadian millers had arranged for US millers to produce flour from US wheat, and place it in Canadian bags, to fill Canadian export orders. US subsidies made this wheat cheaper, while American low-grade wheat had a higher protein content than Canadian wheat. Canadian millers using Canadian wheat were, consequently, having difficulty competing with those selling US wheat as flour under Canadian brand names.19

The Conservatives promised that, if elected, they would introduce unorthodox methods to reduce domestic wheat surpluses. Increased exports were largely the answer to difficulties facing grain farmers and to criticism by those who opposed farm subsidies.

***

Initial Chinese Interest in Purchasing Canadian Wheat Between March 1957 and 6 November 1957

As late as 1 March 1957 the Canadian DTC listed only Cambodia, Laos, Macau, and Vietnam as countries officially falling under the jurisdiction of the Canadian Hong Kong Trade Commission.20 However, in 1956 C.M. Forsyth-Smith was appointed Canadian trade commissioner in Hong Kong and, after learning that the Australian trade commissioner had completed a successful trade promotional visit to China21, he suggested that Canadian trade officials make a similar visit. Although Howe quashed Forsyth-Smith’s proposal, the latter began to focus on the Chinese market.22 An article he published in January 1957 stated that, despite the small volume of Chinese-Canadian trade since 1949 and Beijing's lack of hard currency,

...there is a promising market in China for many of the goods which Canada can supply. Its importance, however, should not be exaggerated and many of the estimates have been too optimistic.23

During 1957 an increasing number of Canadian trade officials and businessmen also became interested in the prospect of more Chinese-Canadian trade.24 The CWB too became intrigued by possibilities in the

19 Canada, House of Commons, Debates, 28 February 1957, p.1730.
20 Ibid., 8 November 1957, p.897.
22 See footnote 15.
Chinese market because of information supplied by Forsyth-Smith and others. At some point between January and April 1957 the CWB sent officials to Hong Kong to meet L.C. Bu and CIRECO officials.\textsuperscript{25}

Between the last week of May and the end of June Bu and Liu Liang of CIRECO, together with three representatives of G.O. Wong and Company of Hong Kong, made an unofficial trade promotional visit to Montreal, Vancouver, Toronto, Quebec City and Ottawa. Despite being agents of the Chinese trading corporations, as Hong Kong residents CIRECO representatives could avoid Canadian immigration restrictions.\textsuperscript{26} Just prior to their departure for Canada, Bu told William Miner, Canadian assistant trade commissioner in Hong Kong, that he was unaware of any serious food shortage in China and Beijing was not considering purchasing foreign grain at that time. However, on 15 May 1957 Miner told CWB officials that Canadian Trade Commission officials in Hong Kong had discussed...(China's) situation...with a number of people....Crop returns have not been as high as expected....Continued exports are cutting into reserves and causing acute shortages in some areas....The agricultural producers cannot support the industrial programme imposed on the nation.

...The authorities seem to be meeting the problem by cutting back on industrialization and food exports and practicing austerity throughout the nation.\textsuperscript{27}

CWB assistant chief commissioner William Riddel maintained that

Unless more favourable crop production is obtained...China must consider either the importation of foodstuffs, including grain, or the cutting or slowing down of its industrial programme.\textsuperscript{28}

When Bu and Liu arrived in Winnipeg in June they were entertained by CWB officials, who again brought up the question of possible Chinese grain purchases. CIRECO officials still insisted that the Chinese were not interested in purchasing Canadian wheat.\textsuperscript{29} However, in early September, officials of the Canadian Trade Commission in Hong Kong began hearing rumours that the Chinese might soon want to purchase Western grain.\textsuperscript{30} Deputy Minister of Trade and Commerce, Mitchell Sharp,

\textsuperscript{25} NAC: RG#20: Vol. 818, File 10-33, pt.2: to Forsyth-Smith, Hong Kong, from DTC, Ottawa, 23 May 1957.
\textsuperscript{26} NAC: RG#20: Vol. 818, File: 10-33 pt.2: to CWB from, DTC, Ottawa, 22 May 1957.
\textsuperscript{27} NAC: RG#20: Vol. 818, File 10-33 pt.2: to CWB from, Hong Kong, 15 May 1957.
\textsuperscript{29} NAC: RG#20: Vol.818, File 10-33, pt.2: from McIvor, CWB, Winnipeg, to L.C. Bu, Hong Kong, 27 September 1957.
responded by instructing Forsyth-Smith to arrange a trade promotional visit to China to investigate the possibility of selling wheat.31

Then on 13 September 1957 H.B Neve, director of the Hong Kong branch of the firm Bank Line, told Forsyth-Smith that officials of the Shanghai CEROILFOOD branch had expressed interest in purchasing Canadian or Australian grain. Bank Line was affiliated with the Minneapolis based grain trading firm of Cargill, and Neve told Forsyth-Smith that

We have an established interest in...(the) grain business through...Cargill interests who will be represented in Canada by either Cargill Grain Company or Tradax (Canada) Ltd....We are probably the only organization with an established office in China...(and) we should be very pleased to cooperate with the...(CWB) through...Cargill interests should business prove practical.32

After receiving this information, CWB Chief Commissioner George McIvor told Forsyth-Smith that he was pleased there was some Chinese interest in purchasing wheat, and would arrange to discuss the matter with Cargill interests.33

On 22 October newspaper reports stated that Canada was hoping to sign a wheat deal with China34 and that same day the Minister of Trade and Commerce, Gordon Churchill, was asked about these rumours in the House of Commons.35 On 1 November Churchill responded by stating that Forsyth-Smith was making an eighteen day 'exploratory trip' to "...uncover opportunities for the sale of additional non-strategic products in China."36 Also on 1 November Prime Minister Diefenbaker told the House that his government supported expanded Chinese-Canadian trade, but would not recognise the Beijing government until "...it expiates its wrong doing under international law...recognition of (China)...would harm Asian countries standing firmly against the on-rush of Communism"37 Before the Canadians' departure from Hong Kong, Churchill told the House that the Chinese government might wish to purchase non-strategic goods such as wheat because

...a serious crop situation has developed in China recently,

32 NAC: RG#20: Vol. 818, File 10-33, pt.1: to Forsyth-Smith, Hong Kong, from The Bank Line (China) Ltd. director Hong Kong, 13 September (discusses details of earlier telephone conversation).
35 Canada, House of Commons, Debates, 22 October 1957, p.239.
36 Ibid., 1 November 1957, p.653.
and there is grave danger of starvation of many...Chinese people....An article in the current issue of Time...deals with that matter....

A representative of the CWB's Frankfurt office who had visited China shortly before the departure of Forsyth-Smith and Pope for the Mainland, later reported that winter wheat planting had

...been...frustrated by heavy droughts...in spring 1958 the wheat crop may only be half of the normal output and...some demand may occur....I am in very close contact with the Peking officials and...we even talked about a trial purchase of a few thousand tons of different wheat qualities in order to have them milled at Shanghai, but...these purchases have been postponed for the time being.

....I have been invited to come to China again in the spring and perhaps can tell you more about the situation in March/April.

***

Canadian Trade Delegation Visits China in Autumn 1957 and Initial Negotiations for the Chinese Purchase of Canadian Wheat

L.C. Bu had arranged the first Canadian governmental trade delegation to the PRC. Tom Pope, a junior Canadian DEA officer and part-time Chinese language student at the University of Hong Kong, and Forsyth-Smith undertook this trade promotion tour, between 6 and 23 November 1957. Their itinerary included stops in Guangzhou, Beijing and Shanghai where they visited CEROILFOOD branches seeking orders for Canadian wheat. On 9 October the CWB had briefed Forsyth-Smith about grain availability, prices, and grades, having already advised the Canadians to

...make no commitments whatsoever to the possibility of credit facilities being available....If the question should arise it should simply be referred to...Ottawa....(The CWB) would be prepared at any time to send a representative to the East for discussions with Chinese officials on possible wheat sales, if an interest in such trade is indicated.

Just after Pope and Forsyth-Smith departed for Guangzhou, Bill Miner, received a visit in Hong Kong from Paul Alderton, the Hong Kong manager of Bunge - an Argentinian-based major international grain trading firm. (SEE CHART 2.1) He had already made several visits to Beijing since October 1956 and may have been involved in the Australian sales to China

38 Canadian, House of Commons, Debates, p.654.
40 NAC: RG#20: Vol.818, File 10-33, pt.2: from McIvor, CWB, to Forsyth-Smith, Hong Kong, 9 October 1957.
41 NAC: RG#20: Vol.818, File 10-33, pt.2: to DTC, Ottawa (forwarded to Forsyth-Smith, Hong Kong) from CWB, 20 September 1957.
CHART 2.1
Bunge Operations

Bunge originated in Holland in the 1700s and was officially founded in 1817

Bunge established in Argentina in the 1870s

During WWII New York/Washington purchasing agencies “blacklisted” Bunge for alleged pro-German sentiment

During the 1950s and 1960s Bunge was one of the five major grain trading firms and Argentina’s largest private firm under Bunge y Borne Ltd., a holding Co. mostly owned by the Borne family (chairman and dominant principal Jorge Borne) interests included:

- Milling: Molinos Río de la Plata (flour mill-Venezuela)
- Jute bagging
- Shipping
- Car manufacturing

- Commodities: grain division offices; in every major European city with headquarters in London
- US subsidiary
- Canadian subsidiary
- Hong Kong (key office in the China grain trade - managed by Paul D. Alderton)

Bunge (Australia) Pty Ltd; flour milling and associated activities at Ballarat, Victoria and Newlands. Fully integrated bakery complex (key subsidiary in importing Chinese textiles and light industrial goods which allowed the Chinese to earn currency to pay for grain.

Sources: Composed by author from information found in Morgan, Merchants of Grain, pp.8,31,37,39, 68,69,70,71,161, 180, 181, 200, 250 and within the files of NAC RG#20 especially 818, file 19-33.
in 1955-56. Alderton had just returned from the Guangzhou Trade Fair where officials of the CEROILFOOD Shanghai branch had asked him for quotations on a small amount of milling grade wheat from France and Canada (MN#1 and MN#2 wheat). He told Miner that

...one reason for their desire to obtain immediate quotations stems from the fact that the Shanghai branch is empowered to trade on its own account while at the...(Guangzhou) Products Fair, but would have to deal through...(Beijing) once they returned to their...(Shanghai) headquarters.43

Miner felt that the interest shown in MN#1 and MN#2 indicated that these Chinese officials were unfamiliar with Canadian wheat: knowledgeable Chinese buyers would want to import lower grades of wheat such as MN#3, MN#4 or MN#5.

On 6 November, when Forsyth-Smith and Pope arrived in Guangzhou, they met Chen Feizhang of CEROILFOOD's Shanghai branch who had been asked by Alderton to contact the Canadians for wheat samples. Chen subsequently told them that his branch had never imported Canadian wheat but now wanted to purchase a trial order of between 1,000 and 2,050 tonnes through Bunge in Hong Kong. Forsyth-Smith felt that Chen initially seemed unaware that Bank Line had also been approached for wheat quotations.44 This initial order was probably to sample the wheat quality for blending with other grain, and in this context to consider prices. Bank Line's Shanghai representative also happened to be in Guangzhou, and, after running into the Canadians, reiterated that CEROILFOOD's Shanghai branch hoped to make a small trial purchase.45

Forsyth-Smith and Pope then left Guangzhou for Beijing where

...discussions with...(CEROILFOOD) were most discouraging, and we were told that China was self-sufficient in wheat and that the Corporation had received no instructions or intimations that imports were required. In Peking, the Corporation people were not inclined to discuss wheat at first, but became...more interested as our discussions wore on. We advised...(CEROILFOOD) of the interest...shown in Shanghai, and were informed that it was unlikely that Shanghai would be making enquiries without direct instructions from the Head Office in Peking....(However, we) later discovered that the Branches of the Corporations have a good deal of autonomy and...(can) import virtually any commodity without the prior consent or even knowledge of their Head Offices.46

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44 Personal papers of Forsyth-Smith: to DTC, Ottawa, from Forsyth-Smith: 'Re: Visit To Mainland China', 26 November 1957.
45 Ibid. and (undated) attached report 'Joint Trade Delegation For Chinese Cereals Oils and Fats'.
46 Ibid.
This may well have been accurate, especially for Shanghai, which the Chinese government was probably handling carefully because it was formerly the "outpost of Western capitalism." 47

After leaving Beijing, the Canadians visited Tianjin where they were told that the local branch of CEROILFOOD did not handle wheat. But in Shanghai officials enthusiastically confirmed that they would place a trial order for between 1,000 and 2,050 tonnes of relatively expensive MN#3 - so they could consider the quality of Canadian wheat. Though Forsyth-Smith explained that the price would be less if they bought a full shipment, CEROILFOOD officials said they did not want to do this yet and that cost and delivery date were unimportant. They gave the Canadians the impression that, if they were pleased with this initial shipment, they would import more Canadian wheat in 1958.

After returning to Guangzhou, en route to Hong Kong, the Canadians were again contacted by Chen Feizhang who said that he had reviewed the information provided by Forsyth-Smith on 6 November and had decided to begin negotiations in Guangzhou with Bank Line and Bunge representatives for the trial order of Canadian grain. Officials of CEROILFOOD's Shanghai branch had decided to negotiate the grain deal in Guangzhou so that the amount of the contract(s) could be added to the total value of trade concluded at the Autumn Guangzhou Trade Fair then underway. 48

On 23 November, before leaving Guangzhou for Hong Kong, the Canadians also met the Shanghai representative of Bank Line who told them that the wheat sale negotiations had been concluded and that the Chinese were waiting for Neve to arrive from Hong Kong the following day to sign the contract. Forsyth-Smith subsequently told Ottawa

...since they are to place a trial order there is at least a reasonable chance of substantial (Chinese) requirements in 1958...It would be...[unwise] to...[publicise] this, as the Chinese are extremely touchy on the question of food supplies, and are anxious to create the impression that there is no food shortage in China.

...It would be worthwhile for a grain exporting company to send a representative to China, probably some time in January. While our interests are being taken care of to some extent by Bunge and Bank Line, both of these companies handle wheat from other sources, and it seems to me preferable to have a salesman interested in Canadian wheat who is prepared to sell Canadian wheat against competition from other supplying countries. 49

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47 NAC: RG#25: Vol.5280, 9030-40, pt.6, to Under-Secretary of State for External Affairs, Ottawa, from Small, Hong Kong,' China Visit By C.M. Forsyth-Smith and C.J. Small 13 May-8 June 1960'.
48 The 1957 Autumn Guangzhou Trade Fair was scheduled to run from 15 October to 15 November but the closing date of the fair had been extended until the end of November.
49 Personal papers of Forsyth-Smith, to DTC, Ottawa, from Forsyth-Smith: 'Re: Visit To Mainland China', 26 November 1957.
Forsyth-Smith also reported that the Chinese were reasonably hospitable despite attempting to discuss political relations and the Western trade embargo against China. He and Pope were able to divert talks from these topics by stressing that they were not authorised to discuss them.\(^5^0\)

During the last week of November 1957 when Neve and Alderton visited Guangzhou, the Chinese were not yet ready to sign the contracts for the sale of 1,000 to 2,050 tonnes of MN#3 wheat. However in late December Neve and Alderton felt that the Chinese would "...still be in the market for substantial tonnages of wheat in 1958 and that the delay in placing this trial order is due to the general confusion in the Chinese bureaucracy."\(^5^1\) Although Bunge was offering French and Argentine wheat the Chinese had only shown interest in Canadian wheat. However, Neve felt that the Chinese were also considering purchasing French wheat. Later, on 28 February 1958, Bank Line in Shanghai learned that the Chinese had purchased 1,000 tonnes of French wheat from Oliver Chine.\(^5^2\) Since before WWII the Chinese had been reluctant to buy French flour or grain because its high moisture content made it perishable when shipped through the tropics.\(^5^3\) Wheat with high moisture content made less flour, was more prone to fungal infection and affected the conditioning process before milling.\(^5^4\)

Meanwhile, on 4 December Churchill told the Canadian House of Commons that the government was ". . . not opposed to trading with any country. . . . If China can purchase our wheat and needs it I do not see why we are not. . . ready to sell." Then on 9 January 1958 he said that the Chinese might soon purchase Canadian wheat.\(^5^5\)

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\(^5^0\) Ibid.


\(^5^3\) NAA: A1838/1 766/1/4, pt.1, from Australian Trade Commission, Hong Kong, to AWB, Melbourne, 3 September 1960.

\(^5^4\) NAA: A1804/28 201/12/1, pt.1, for Secretary of Trade, Canberra from Australian embassy, Paris: 'Wheat', 5 March 1958. On wheat quality see Whitwell and Sydenham, A Shared Harvest, pp. 256-257.

\(^5^5\) Canadian, House of Commons, Debates, 4 December 1957, p.1876 and 9 January 1958, p.3054.
Bunge/East Asiatic Co.(B.C.) Ltd.
Sells Canadian Wheat to China in 1958
(Wheat Contract #1)

On 7 February 1958 the Chinese opened negotiations for the first of ten contracts they would sign between 10 March and 21 July for Canadian wheat, in addition to other contracts covering the purchase of Canadian and Australian flour and South African corn. Four of these contracts (covering 44,859 tonnes) were signed in Hong Kong between 10 and 31 March, while three more (for 36,984 tonnes) were signed in May. The three final contracts were signed between 2 June and 21 July, covering another 33,833 tonnes. (SEE TABLE 2.6)

Negotiations for these contracts began shortly after the National/Provincial Party Conference at Nanning, Guangxi (between 11 and 22 January) where Mao criticised Zhou Enlai, Chen Yun and Li Xiannian for opposing his growth targets. In February Chen Yun was replaced as Minister of Commerce. The first three contracts - for Canadian wheat, Canadian flour and at least one other for South African maize - were signed while Mao was attending the CPC Central Committee working conference at Chengdu (Sichuan) between 8 and 26 March. The signing of these contracts preceded the Ministry of Agriculture's conference in Hebei in late March and early April on increasing wheat production.

Negotiations for the first contract to purchase Canadian wheat began after Bu of CIRECO contacted Bunge's Hong Kong representative on 7 February 1958 urging him to come to the Chinese capital as soon as possible. Although Bu continued emphasising that there was no food shortage in China he added that he had persuaded CEROILFOOD officials to purchase 20,321 tonnes of Canadian wheat as a goodwill gesture.

During difficult negotiating sessions after arriving in Beijing, Alderton noticed Chinese officials were much more hesitant in decision-making and placing orders abroad than they had been during his four previous visits to the Chinese capital (since October 1956). He guessed that this was because of China's foreign exchange position, and possibly also the current rectification campaign. Alderton rejected a Chinese barter deal proposal under which Bunge would purchase Chinese items such as ground nuts, walnuts, fresh fruits and textiles in exchange for a wheat shipment of equal value. However, Bunge's Canadian office agreed to do their utmost to increase the sales of Chinese goods in Canada. CEROILFOOD also asked that a wheat contract be conditional upon final inspection at Chinese ports (with wheat shipments guaranteed to be of no more than 11% moisture content) and that a letter of credit be opened by the London branch of the Bank of China in registered sterling the day

The table below lists the sales of Canadian wheat to China in 1958, along with details of the contracts.

**TABLE 2.6**

**Sales of Canadian Wheat to China in 1958**

<table>
<thead>
<tr>
<th>#</th>
<th>Contract Date</th>
<th>Grain Source</th>
<th>Chinese Agent</th>
<th>Canadian Agent</th>
<th>Quality/Grade</th>
<th>Vessel</th>
<th>Delivery Date</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>#1</td>
<td>10 March 1958</td>
<td>Rango Corp.</td>
<td>CIRECO</td>
<td>Hong Kong</td>
<td>9,052 M#3</td>
<td>9,440</td>
<td>Amstel</td>
<td>3 April</td>
</tr>
<tr>
<td>#2</td>
<td>24 March 1958</td>
<td>Lothar Dewalta, London</td>
<td>CIRECO</td>
<td>Hong Kong</td>
<td>11,716 M#3</td>
<td>10,018</td>
<td>Himmeland</td>
<td>23 April</td>
</tr>
<tr>
<td>#3</td>
<td>26 March 1958</td>
<td>doll like on behalf of C_CALLBACK (deleted)</td>
<td>CIRECO</td>
<td>Hong Kong</td>
<td>12,093 M#3</td>
<td>12,054</td>
<td>Argo Chilliwack</td>
<td>23 April</td>
</tr>
<tr>
<td>#4</td>
<td>31 March 1958</td>
<td>Double Stewart &amp; Co. Ltd on behalf of Lothar Dewalta (London)</td>
<td>CIRECO, Ongphanen Tobacco</td>
<td>Hong Kong</td>
<td>11,887 M#3</td>
<td>11,888</td>
<td>Kelgrin</td>
<td>30 April</td>
</tr>
<tr>
<td>#5</td>
<td>15 May 1958</td>
<td>Hall Brym Ltd on behalf of Roth</td>
<td>CIRECO, Ongphanen Tobacco</td>
<td>Hong Kong</td>
<td>13,200 M#3</td>
<td>11,735</td>
<td>Amstel</td>
<td>23 June</td>
</tr>
<tr>
<td>#6</td>
<td>22 May 1958</td>
<td>Double Stewart &amp; Co. Ltd on behalf of Lothar Dewalta (London)</td>
<td>CIRECO, Ongphanen Tobacco</td>
<td>Hong Kong</td>
<td>13,413 M#3</td>
<td>14,037</td>
<td>Argo Chilliwack</td>
<td>18 June</td>
</tr>
<tr>
<td>#7</td>
<td>26 May 1958</td>
<td>Hall Brym Ltd on behalf of Roth</td>
<td>CIRECO, Ongphanen Tobacco</td>
<td>Hong Kong</td>
<td>10,160 M#3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>#8</td>
<td>9 June 1958</td>
<td>K.A. Prowse (Paddies) Ltd</td>
<td>CIRECO</td>
<td>Trade Delegation, Winnipeg</td>
<td>11,893 M#3</td>
<td></td>
<td></td>
<td>11-13 July</td>
</tr>
<tr>
<td>#9</td>
<td>15 July 1958</td>
<td>McCabe Grain Co. Ltd</td>
<td>CIRECO</td>
<td>Trade Delegation, Winnipeg</td>
<td>9,144 M#3</td>
<td></td>
<td></td>
<td>15 July-4 August</td>
</tr>
<tr>
<td>#10</td>
<td>21 July 1958</td>
<td>Hall Brym Ltd on behalf of Roth</td>
<td>CIRECO</td>
<td>Trade Delegation, Winnipeg</td>
<td>12,700 HOA</td>
<td></td>
<td></td>
<td>5-22 August</td>
</tr>
</tbody>
</table>

**TOTAL AMOUNT SOLD (SHIPPED UNDER THESE 10 CONTRACTS):**

114,624* (Value based on approximately $1 million Canadian)

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* The Royal Bank of Canada was involved in the financing of several of these wheat shipments and at some point between March and June 1958 the bank's President and Chairman, James Maile, visited China. He viewed numerous wheat storage facilities and met with Chinese officials. The Royal Bank of Canada subsequently became involved with China in 1958. The bank was also involved in the financing of wheat shipments involving Hong Kong, which subsequently became engaged in the trade with China.

* The Chinese used the proceeds from the sales to purchase textiles and other goods from Canada.

* Hall Brym was known to have agreed to help the Chinese sell textiles. The bank's involvement in the financing of the wheat shipments was significant.

* The table includes all contracts concluded in 1958, including those that were not completed.

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* Hall Brym was engaged in the trade with China through various agents located in the Pacific region. The company maintained a presence in Hong Kong, which was involved in the trade with China.

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* The Chinese purchased wheat from Canada and sold textiles to Canada. The trade was facilitated through various agents and companies, including the Royal Bank of Canada, which played a significant role in financing the transactions.

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* The table lists all contracts concluded in 1958, including those that were not completed. The Chinese used the proceeds from the sales to purchase textiles and other goods from Canada.

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* Hall Brym was known to have agreed to help the Chinese sell textiles. The bank's involvement in the financing of the wheat shipments was significant.

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* The table includes all contracts concluded in 1958, including those that were not completed. The Chinese used the proceeds from the sales to purchase textiles and other goods from Canada.
1958-59 while the 177,026 tonnes figure represents 1.5% of total 8,714,314 tonnes which Canada exported abroad in 1957-59.

Some leading information from documents throughout R00920 Vol. 816, 10-33 ppa3 5 and 4 include information noted.

after the arrival of the wheat cargo.

Finally Alderton made an offer. After receiving a counter offer from CEROILFOOD, he referred it to officials of Bunge's London office for ratification. They immediately replied that grain sales to China were being reconsidered. He was told to return to Hong Kong to await further instructions and to avoid discussing the matter. Alderton remained convinced that the Chinese would purchase Western wheat in 1958 because the

...food situation is extremely serious....He...spoke to Russians and Chinese...during his latest visit and got the impression that...bread...(is nearly) impossible to obtain...in the principal cities.\(^5\)

Later, Alderton told Forsyth-Smith that when officials of Bunge's London office called him on 17 February they "...were no longer interested in wheat sales to China due to 'some difficulties in their Argentine Office'." When Forsyth-Smith asked

...whether...the difficulties had...been raised at Bunge's New York Office, this appeared to put...Alderton off his guard, and he said: 'I have been instructed to say that the difficulties arise in our Argentine Office, but your guess is correct.'\(^5\)

Alderton also told Forsyth-Smith that he had been "personally implicated", possibly meaning that he had been "blacklisted" by the US government. Later he also told Forsyth-Smith that when he was in Beijing a US government official in Washington called Bunge's New York office asking what he was doing in China. Bunge's New York office was responsible for all the firm's North American operations and the caller 'requested' that Bunge not sell the Chinese wheat from any source. Bunge officials followed Washington's advice.\(^5\)

After learning of the breakdown of Bunge's negotiations with CEROILFOOD, the CWB instructed officials of its own agent firms to direct their offers of 20,321 tonnes of MN#2 wheat to CEROILFOOD Beijing.\(^6\) The Chinese still indicated that they would purchase the wheat as a goodwill gesture but Forsyth-Smith remained convinced that they were desperate for the grain.\(^6\) The Canadians were unable to guarantee moisture content below 14.5% and would not enter into contracts based on inspection upon

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arrival. On 14 February CIRECO's Liu Liang and Xu Bangfai proposed to Forsyth-Smith that a contract to purchase Canadian wheat include a clause that the exporter sell a comparable value of Chinese products in Canada. When Forsyth-Smith said that it was unlikely that any Canadian firm would negotiate a barter transaction Liu and Xu replied that it was not barter trade that they had in mind

...but if some loose arrangement were made by a Canadian exporter to...purchase...a value of produce approximating the value of the wheat...his chances of obtaining the business would be enhanced.62

Bunge's decision to terminate its negotiations left the Chinese in a difficult position as news of a possible deal had driven up freight costs several shillings per ton.63 However, Bunge was ultimately 'bailed out' by East Asiatic Co. (B.C.) Ltd. - the Canadian subsidiary of the parent Danish international trading firm. East Asiatic's operations were concentrated in Asia, and prior to 1949 they had several offices in China. In 1957-58 they had only one office in China, at Shanghai, having only one employee - who was unable move about freely or conduct any business. The vice-president of East Asiatic Co. (B.C.) was J.V. Christensen who had previously worked in the firm's Shanghai and Hong Kong branches.64 Representatives of East Asiatic's Shanghai office were also convinced that the Chinese were desperate to import wheat. East Asiatic had already sold Chinese produce in Canada and would continue to sell the maximum amount possible. While the firm would not sell on the basis of final inspection in China, they agreed to accept payment after the arrival of the wheat in China.65 On 7 March 1958 Bu received authorisation from Beijing to purchase 9,652 tonnes of MN#3 wheat from East Asiatic. The Chinese paid £26 2s. Per ton in registered sterling Cost and Freight (C&F) for the grain. (SEE TABLE 2.6) Under terms of the contract signed on 10 March, repayment was to be either within thirty days of loading or on arrival of the cargo in China - whichever came first.

Shortly before the first contract was signed, Forsyth-Smith told Ottawa to refrain from referring publicly to famine conditions in China because CIRECO had

...mentioned on several occasions that this purchase is merely a goodwill gesture brought on by Canada's recent interest in China trade. As the order was for early shipment, the wheat is obviously

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needed and the Chinese are merely trying to save face. We are going along with the whole idea, despite extreme scepticism, as it seems the best way to sell more wheat.\textsuperscript{66}

On 8 March Bu told Forsyth-Smith that the first wheat purchase would be a "trial shipment" and implied that the Chinese would make further purchases.

The first cargo was subsequently delivered by the \textit{Amstelveen}, a Dutch vessel owned by the East Asiatic Co. (B.C.)Ltd. In mid-March a rumour circulated that, as a result of its contract with CIRECO, the US government had 'blacklisted' the Dutch firm.\textsuperscript{67} A subsequent DTC investigation found that the rumour "...had been started in New York, on March 12th...(by) an American grain firm, presumably one which had failed to get the Chinese business."\textsuperscript{68}

Negotiations continued with several other suppliers for the other 11,176 tonnes. The Canadians were unsure of what the Chinese intended to do with the wheat but remained convinced that substantially more was required.

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\textbf{Robin Hood Flour Mills Ltd./ Maple Leaf Milling Co.}

\textit{Flour Sale To China}

Meanwhile, on 27 November 1957, CIRECO purchased 67 tonnes of devitalised wheat gluten valued at $30,000 from the Canada Grain Export Co. Ltd. of Vancouver. However, transport vessels did not run directly from Vancouver to Hong Kong or Shanghai, and CIRECO refused to accept shipment through a US port. Shortly thereafter Y.M. Woo, the seller's agent in Hong Kong, agreed to place the order on his own account before transhipping it to China. Woo grudgingly accepted the fact that CIRECO insisted that the letter of credit be opened through the Bank of China.\textsuperscript{69} In December, because of the serious decline in Canadian flour exports, the Canadian Flour Export Committee notified Ottawa of its interest in the Chinese market.\textsuperscript{70}

In early March 1958 Jim Patterson of Robin Hood Flour Mills, the Canadian subsidiary of the New York firm, International Milling Co.,


\textsuperscript{68} NAC: RG\#20: Vol.818, File 10-33, to Forsyth-Smith, from DTC, Vancouver, 28 March 1958.


\textsuperscript{70} NAC: RG\#20: Vol.818, File 10-33, pt.2, from Secretary of the Canadian Flour Export Committee, to Minister of Trade and Commerce, 10 December 1957.
was negotiating three barter deals with CIRECO in Hong Kong. Under the first, 254 tonnes of high gluten Robin Hood flour was to be exchanged for 182,880 metres of Chinese grey cloth sheeting (for flour bags) for shipment to Vancouver. Under the second transaction, in exchange for general purpose flour, 100,000 made-up flour bags were to be shipped to Venezuela where in June Robin Hood was to begin operating a flour mill. The third transaction called for a full cargo of general purpose flour to be shipped to China in exchange for an equivalent value of made-up flour bags for use by Robin Hood in Canada.

To avoid pressure from Washington, because of the firm's US affiliations, Robin Hood asked East Asiatic to handle the transactions on its behalf. The first deal was subsequently handled by the Shanghai branches of East Asiatic and China National Textiles Import and Export Corporation (CHINATEX). On 7 and 8 March Robin Hood and CIRECO reached an agreement in principle. The Chinese hoped to have the flour shipped on the same vessel as the first cargo of wheat sold by Bunge/East Asiatic. But despite Bu's eagerness to conclude the second and third contracts with Robin Hood as soon as possible, Patterson left Hong Kong that same day for a two week trip to Manila. On 15 March the Shanghai branch of CHINATEX purchased the 254 tonnes of flour from East Asiatic, who bought the flour from Robin Hood for £37 5s. per ton C&F, for which a letter of credit was to be opened. However, this was no longer part of a barter transaction as a second contract was signed on that same day under which Robin Hood/East Asiatic purchased from CHINATEX Shanghai, under a separate letter of credit, 250,000 yards of grey cloth for 9s.25d. per yard. On 18 March Robin Hood booked 350 tonnes of wheat from the CWB to cover the 254 tonne shipment of flour to Shanghai ex Canadian Pacific ports between April and May.

However, in late March Robin Hood was under pressure from its American parent company to withdraw completely from all transactions involving China. US Treasury officials had told International Milling that its subsidiary operations, if they traded with China, would be subject to US Foreign Assets Control regulations. As a result Robin Hood turned the deal over to the Maple Leaf Milling Company, a Canadian Pacific Company firm, who then completed the transaction through East Asiatic.

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71 NAC: RG#20: Vol. 818, File 10-33, to DTC, Ottawa, from Forsyth-Smith, Hong Kong: 'Wheat to China', 7 March 1958; to DTC, Ottawa from Forsyth-Smith, Hong Kong: 'Wheat to China', 10 March 1958; Ottawa, from Forsyth-Smith, Hong Kong: 'Wheat to China', 13 March 1958.


The American Quaker Oats Company of Chicago, concerned that
Canadian competitors were increasing trade with Communist countries,
informed Canadian DTC officials on 21 April that it wanted to export
flour to China from its plant in Peterborough (Canada) provided that it
would not be held responsible by the US Treasury Department. 74 The
Canadian DTC’s response was that

...subsidiaries of American Companies, were...developing
business with China and at the last minute...turned the
opportunity over to wholly Canadian firms. No doubt this was
done for the same reasons that are bothering...(Quaker Oats
executives). There is some merit in the all-Canadian firms
getting the business...(but) it cannot be denied, as far as
grain and flour is concerned, that some of the international
firms seem to have both the experience and the personnel to
promote certain types of transactions...(with China). 75

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Cargill/Bank Line 1958 Wheat Negotiations With China
(Wheat Contract #3)

Meanwhile, as early as September 1957, the Minneapolis-based
grain trading firm, Cargill, and the British shipping-trading firm, Bank
Line, showed an interest in selling grain to China. (SEE CHART 2.2)
Cargill’s volume of grain sales had begun to fall in 1957 and in
September of that year, John MacMillan Jr. (Cargill’s chairman of the
Board, and one of two brothers who controlled the US firm) proposed a
trip to Asia to investigate the firm’s subsidiary operations and possible
ventures with Japanese shipbuilders. 76 In September 1957, when Bank Line
informed its US affiliate, Cargill, that the Chinese had just approached
their Shanghai office to enquire about purchasing Western wheat,
MacMillan took an immediate interest in this market as an outlet for US
surpluses.

Prior to 5 February 1958 the Chinese again expressed interest in
purchasing wheat through Bank Line and asked Forsyth-Smith for more
details about the quality and availability of Canadian wheat. 77 Bank Line
subsequently quoted prices on behalf of Cargill Grain Co. which was
significant because it signalled Cargill’s initial involvement in trading
with the PRC. In March MacMillan and Walter Gage, who ran Tradex Genève,
visited Asia primarily to investigate the possibility of Cargill
establishing a Far East Division in addition to its subsidiary operations
in Tokyo and the Philippines. During this trip MacMillan visited Forsyth-

74 NAC: RG#20: Vol.818, File 10-33, pt.3, to DTC, Ottawa, from
consul and trade commissioner, Chicago, 22 April 1958.
75 NAC: RG#20: Vol.818, File 10-33, pt.4, to Canadian consul and
trade commissioner, Chicago, from DTC, Ottawa, 9 May 1958.
76 Broehl, Cargill Trading, pp.772-800.
77 NAC: RG#20: Vol. 818, File 10-33, pt.2 from H.B. Neve Bank
Line(China)Ltd., Hong Kong, to Forsyth-Smith, 5 February 1958.
Cargill Operations

Cargill originated in Iowa in 1869 when Will and Stern Cargill formed Cargill and subsequently became involved in grain elevators, land development and numerous agricultural enterprises.

MacMillan family of LeClerc

Beginning in 1928 Cargill was an invisible presence in Canada - a CWB agent firm. By the 1950s, despite great business success in the US, Cargill had had limited success in international grain trading. Cargill sought to rectify this situation and in 1933 purchased Gifford & Co. which owned or leased grain terminals in Seattle, Portland, Vancouver, San Francisco, Sacramento, the Columbia River and elsewhere.

Cargill's purchase of Gifford gave Cargill a link with Andrew Weir (Far East) Ltd., a Tokyo based Bank Line firm set up after WWII. Andrew Weir was subsequently an important receiver of commodities shipped from Cargill's Gifford facilities in Oregon. In 1943 Weir and Co. became a general firm.

With the passing of US PL 480 legislation, in 1954, Cargill established a Panama affiliate (Cargill International) as a tax shelter. In 1956 Tradax Canada purchased Andrew Weir (Far East) Ltd. which had been acting as agent for Cargill trading in Japan and Asia. Andrew Weir had been acting as agent for Cargill trading in Japan and Asia. Andrew Weir decided that trading was not in his best interests and moved its operations to Hong Kong. The Tokyo office became Tradax Japan. Ian Watson was appointed to run the Tokyo office.

In 1956 Tradax Canada was moved to Geneva and became Tradax Genova SA (still controlled by Cargill International of Panama) headed by Walter Faga and John Peterson.

Bank Line Operations

In 1903 Andrew Weir formed the London based firm Bank Line. In 1919 Andrew Weir became a Cabinet Minister in the British Government and Fordham Minster of Transport for Southgate. It was under Andrew Weir's son, Sir A. Martin, that the Bank Line maintained an office in Shanghai after the CCP gained power in 1949 (still open in 1959).

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In 1934, Cargill in 1934 established EMCO as a tax shelter. In mid-1934 EMCO was moved to Montreal (the centre of Canadian international grain trading) and was renamed Canex, then Kanrgill and then Tradax Canada. Tradax Canada had offices in Vancouver and Winnipeg. Cargill simultaneously established Tradax (Japmax).

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In 1958 Cargill operations opened a privately-owned grain elevator at Baie Comeau, Quebec, on the St. Lawrence Seaway (which was operated and maintained by the US and Canada). By 1958 the elevator could handle up to 40% US-grown grain. The port stayed open longer in the winter than those of the competition and saved Cargill 15 cents per bushel on deliveries to Europe. Grain was shipped to Baie Comeau from the American Midwest via the Great Lakes. Cargill was then able to flood Europe with inexpensive grain.

In 1954 Andrew Weir purchased Andrew Weir (Far East) Ltd. in Tokyo which was run by former Japanese POW Thomas Huxley. Huxley joined Tradax Genova when Cargill purchased Andrew Weir (Far East) in 1956. Bank Line simultaneously opened a Hong Kong branch.

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Smith in Hong Kong, where the American expressed his enthusiasm about
Hong Kong as a potential site for Cargill's Far East division and a base
for participating in the grain trade with China. Then on 26 March, Neve
of Bank Line (on behalf of Cargill) signed a contract with CIRECO for the
third cargo of Canadian wheat - 12,497 tonnes for April delivery.

However, the US government immediately pressured Cargill to
cancel this contract. MacMillan, still in Hong Kong at this time, had
agreed to indemnify Bank Line in case of losses associated with this
grain transaction. That the MacMillan brothers were furious about
Washington's action was evident when Cargill MacMillan, Cargill's
president, made the uncharacteristic decision to write a letter to all
US Congressmen, on Cargill stationary, protesting that

...protectionist elements were constraining international...(grain)
trading...(citing) Japan's decision to turn to China for soybeans,
rather than trading with the...(US)...

The MacMillans soon realised that Washington would not allow an
American firm to complete even an indirect transaction with the Chinese.
On 2 April John MacMillan Jr. told Forsyth-Smith that, prior to their
negotiations with CIRECO, Cargill had been advised by their lawyers that
by negotiating such a deal they would not violate US law. Nevertheless,
Cargill was forced to arrange for the Canadian firm, James Richardson
& Sons Ltd., to supply the wheat to Bank Line instead. CIRECO agreed to
this arrangement as long as they received the wheat on the same terms as
stipulated in the contract signed on 26 March.

However, Richardson's subsequent tender demanded payment in Swiss
francs upon presentation of the bills of lading and refused to help the
Chinese with their exports. CWB officials, Robertson and Treleaven, were
in Hong Kong between 25 and 30 March and on 28 March they met Bu and
CIRECO managing director H.V. Zhang, Chau Wing Shum (a manager and wheat
specialist in CIRECO's Cereals and Oils Department) and Captain Liu Tsung
Che (manager Far East Enterprising Co. (H.K.) Ltd., CIRECO's chartering
agents). Zhang told the Canadians that CIRECO wanted to complete the
Cargill contract with a Canadian firm, and, because Canadian firms were
not completely familiar with Chinese trading methods, would make an
exception in the case of Richardson's waiving

...the requirement of a signed memorandum committing
Richardson's to assist in the development of sales of Chinese
products...(but hoped) such cooperation would be forthcoming.

He was also prepared to make payment by Letter of

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81 NAC: RG#20: Vol.818, File 10-33, pt.4, to DTC, Ottawa, from Forsyth-Smith, Hong Kong, 3 April 1958.
Credit... (in convertible sterling) prior to shipment and waive the 30 days credit term.\textsuperscript{82}

On 3 April John MacMillan Jr. told Forsyth-Smith that he favoured the arrangement under which Richardson's would supply the wheat to China.\textsuperscript{83} Financing was still probably arranged through Bank Line/Cargill banking connections.\textsuperscript{84}

On 28 March Bu had also told the CWB officials that the Chinese planned to grist the wheat and corn, and mix the flour to make a type of 'cake'... Private Western traders (said) that the wheat flour might be required for bread for the foreign population - chiefly Russian - since food was difficult to obtain. This would explain why they are taking #3, and have enquired...(about MN)#2, when MN#4 and MN#5 might be more suitable if it is simply to feed large numbers of their own people.\textsuperscript{85}

After discussion with officials from Bunge, East Asiatic and Louis Dreyfus, CWB officials agreed that the Chinese urgently needed the wheat for food.

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\textbf{Louis Dreyfus/Dodds Stewart & Co.}
\textbf{Sells Wheat To China}
\textit{(Wheat Contracts #2, #4, and #6)}

Perhaps the most experienced, successful and discreet international grain trading firm with respect to arranging unorthodox transactions was the Paris-based Louis Dreyfus Co. (SEE CHART 2.3) On 22 January 1958 Jacques ('Jack') Lang, head of Louis Dreyfus' London office since WWII, contacted CWB European manager in London, J.B. Lawrie, to offer his services because he felt that in 1958 China might need a considerable amount of Western wheat. Prior to WWII Louis Dreyfus did a lot of business in China and Lang had lived there for eleven years. Interned at Shanghai by the Japanese during WWII he spoke the Shanghai dialect; and while in Shanghai he had met his Russian wife who also

\textsuperscript{82} NAC: RG#20: Vol.818, File 10-33, pt.4, to DTC, Ottawa, from Forsyth-Smith, Hong Kong: 'Wheat to China', 1 April 1958; to CWB, from Robertson and Treleaven, Hong Kong, 'Re: Hong Kong' 31 March 1958.

\textsuperscript{83} NAC: RG#20: Vol.818, File 10-33, pt.4, to DTC, Ottawa, from Forsyth-Smith, Hong Kong: 'Wheat to China', 1 April 1958; to CWB, from Robertson and Treleaven, Hong Kong, 'Re: Hong Kong' 31 March 1958.

\textsuperscript{84} Interview with Forsyth-Smith, January 1996. The Chase Manhattan Bank was Cargill's 'lead bank' according to Morgan, \textit{Merchants of Grain}, p.177.

\textsuperscript{85} NAC: RG#20: Vol.818, File 10-33, pt.4, to CWB from Robertson and Treleaven, Hong Kong, 'Re: Hong Kong' 31 March 1958.
CHART 2.3
Louis Dreyfus Co. Operations

Alsatian Leopold Louis-Dreyfus* founds Louis Dreyfus' grain trading firm in 1832 at Basel. Moved Louis Dreyfus Co. to Marseille and then Paris after Germany defeated France and Alsace was annexed by Germany.

In 1907 Paris-based Louis Dreyfus Co. opened a New York office under directors Ferdinand Leval, Jacques Kayloff and Leopold Stem.

Leval, Kayloff, and Stem assumed control of Louis Dreyfus' New York operations under a fifteen year trust to avoid US Treasury Department sanctions to freeze all French assets following the German invasion of France during WWII. The company name was changed to Leval and Co. and the original was not restored until 1955.

Between 1918 and 1941 and 1945 and 1948 Louis Dreyfus' Chinese operations were handled by British-born General Manager Arthur Evetleigh who imported annually over half of China's wheat, rice, and flour requirements. Evetleigh was appointed Food Controller for Shanghai and during the initial Japanese attack on the city handled the relief. In August 1945 Evetleigh was appointed consultant to the US China Relief Mission. In 1946 he was appointed KMT Adviser, Ministry of Food.

Paris-based operations during the 1950s and 1960s were processed through Societe D'Armeement De Genros D'Etudes Techniques and was divided into three main sections:

Shipping operations directed by Pierre Louis-Dreyfus.
Banking operations directed by Francois Louis-Dreyfus (formed after WWII Louis Dreyfus bank soon became the largest in Europe)
Grain operations directed by Jean Louis-Dreyfus.

March 1958 Jacques Lang director of Louis Dreyfus' London operations, went to China to negotiate several contracts covering sales of Canadian wheat.

In 1958 Pierre Louis-Dreyfus asked newly elected French President Charles de Gaulle, his former commander in the 'Free France' Air Forces for French government assistance in developing Louis Dreyfus' shipping operations. The French government subsequently provided the firm with generous subsidies. By 1961 the French grain growers cooperative French Office of Cereals (ONIC), which received government subsidies, had formed an alliance with Louis Dreyfus. The French government also declared Louis Dreyfus the sole supplier of French wheat to China.

*Louis-Dreyfus family hyphenates name but company does not.

Source: Composed from various documents within the NAA: A1804, and NAC: RG20 and Morgan, Merchants of Grain, pp. 35, 37, 73, 87, 90, 94, 176, 178, 181, 182, 205, 237.
taught him to speak Russian fluently.  

Although Lang, who had applied for a visa to visit China on 13 January, did not want competitors to know of his proposed visit, he asked Lawrie if he could do anything for the Canadian government or the CWB while in Beijing. Lang felt that the Chinese might be interested in barter deals involving wheat. He explained that although North American operations of Louis Dreyfus were controlled by Louis Dreyfus Co. in New York, and thus were under the jurisdiction of US FAC regulations, its London office had appointed Dodds Stewart and Co. Ltd. of Vancouver as their agent for transactions involving China. One of the smaller agents of the CWB, Dodds Stewart had previously shipped considerable quantities of flour to Hong Kong. The Vancouver branch of Louis Dreyfus and the Chinese had been trading in various commodities - "particularly sugar".

On 27 January CWB chief commissioner McIvor responded immediately to Lang's remarks by telling Dodds Stewart that they were willing to work with them in the Chinese market. McIvor suggested that Lang stop over in Canada on his return from China and added:

"Certainly we are most anxious...to see some business completed with...China and the fact that a company with the standing of...Dreyfus are interested enough to send Lang to Peking is most encouraging."

During the week of 3 to 9 March Forsyth-Smith recommended to Bu that the Chinese purchase less expensive MN#4 wheat rather than MN#2 or MN#3 which they had expressed interest in. In mid-February, Louis Dreyfus' unofficial affiliate, Dodds Stewart, offered to supply the Chinese with 20,321 tonnes of MN#2 from the end of March. On 1 or 2 March the Chinese asked the Baltic exchange about Vancouver tonnage for March. On 3 March Bu confirmed Lang's rumours that the Chinese wanted to charter an unspecified number of vessels as soon as possible. Lang had been planning to arrive in Hong Kong on 8 April, but on 13 March decided on 20 March instead after concluding that the "...Chinese business might be nearer..."
and more important than he had thought" 92

Bu planned to place the second wheat order (on a FOB basis) with the Canadian subsidiary of the British firm, Ralli Bros. Ltd., between 13 and 20 March. However, negotiations broke down on 20 March after the Chinese insisted on paying in transferable sterling while Ralli Bros. would only accept registered sterling. CIRECO officials were irritated by the fact that quotations received from Western firms were on a C&F basis which they felt kept rates high and ultimately delayed contract negotiations. The Chinese remained eager to organise their own vessel chartering for subsequent contracts so that shippers did not compete for the business and drive up freight rates. 93 On 20 March, just as Ralli Brothers' negotiations with CIRECO stalled, Lang arrived in Hong Kong and on 24 March completed the deal on behalf of Louis Dreyfus/Dodds Stewart. (SEE TABLE 2.6)

During negotiations with the Chinese, Lang gathered that Beijing possessed only a small reserve of sterling and dollars which they needed for other essential foodstuffs, fertiliser, and machinery. 94 However, with the contract negotiated on cash terms, the Chinese did not insist that Louis Dreyfus/Dodds Stewart import an equal value of Chinese goods. Lang agreed to assist the Chinese in making contacts in Canada which could be useful in increasing Chinese exports to Canada. Forsyth-Smith reported to Ottawa that

This wheat business is being done by Dreyfus London through...Dodds Stewart and the Canadian office of Dreyfus had no connection with it whatsoever. This is because the Dreyfus offices in Canada are subsidiaries of...(Dreyfus' New York) office and were the business done in Canada no doubt American pressure would be applied....Lang is naturally anxious that this arrangement should not be made public....95

Under this contract 10,618 tonnes of MN#3 wheat were shipped to China in exchange for convertible sterling. Repayment was to be within thirty days of loading or arrival of the cargo in China - whatever came first. (SEE TABLE 2.6)

On 31 March Louis-Dreyfus signed another contract with CIRECO for the sale of 11,887 tonnes of MN#3 - a contract also completed through Dodds Stewart. (SEE TABLE 2.6) This was CIRECO's fourth purchase of Canadian grain in 1958. After discussions with Lang on 6 May in Hong Kong, Forsyth-Smith reported to Ottawa that Lang had travelled fairly

92 NAC: RG#20: Vol.818, File 10-33, to Forsyth-Smith, Hong Kong, from European manager CWB, 13 March 1958.
extensively during his recent trip to China and was
tremendously impressed with...progress...industrially,
agriculturally and culturally since the Communists came to
power.
...The Chinese people's standard of living has very
definitely improved...most people seemed happier...(Lang) saw no
beggars....
The Chinese are anxious to extend their trading activities
to Western countries and to become less dependent on the...(USSR)
and their satellites...because of the unfavourable outcome of many
of the past barter deals which China has negotiated with Soviet
bloc sources....Lang also feels strongly that recognition by Canada
would have extremely favourable results on Canada's trade
there....96

Lang returned to Guangzhou (Spring Trade Fair) on 7 May and on 10
and 12 May he signed three contracts for the sale of Australian wheat to
China (SEE BELOW). Still at the Trade Fair on 22 May, Lang signed a
contract with CEROILFOOD for another shipment of 13,615 tonnes of MN#3
wheat to China. This was Louis-Dreyfus' third contract covering Canadian
wheat sales to China in 1958 and the sixth contract in that year covering
Canadian wheat sales to China. This transaction was finalised in
Vancouver by Liu of CIRECO and the representatives of Dodds Stewart on
3 June.97

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Additional Chinese Purchases of Canadian
Grain and CIRECO's 1958 Delegation to Canada
(Wheat Contracts #5, #7, #8, #9, and #10)

On 31 March CIRECO had signed a contract to purchase the fourth
cargo of Canadian wheat in 1958. Then, on 2 April Beijing ordered CIRECO
to delay further purchases. The Canadians were not sure whether the
Chinese would buy more Canadian wheat.98 Not until May did the Chinese
government authorise further grain contracts to be negotiated through
CEROILFOOD at the Spring Guangzhou Trade Fair and through a CIRECO
delegation which visited Canada in May and June. Bu had been eager to
arrange this visit since mid-March, following the signing of the first
Chinese contract to purchase Canadian wheat, to promote Chinese-Canadian

96 NAC: RG#20: Vol. 818, File 10-33, pt.3, to DTC Ottawa, from
Forsyth-Smith, Hong Kong: 'Visit To China By Mr Jack Lang, Dreyfus &
Co. Ltd.', 6 May 1958.
97 NAC: RG#20: Vol.818, File 10-33, pt.4, to DTC, Ottawa, from
Forsyth-Smith, Hong Kong: 'Wheat To China', 23 May 1958; to DTC from
CWB, 3 June 1958.
98 NAC: RG#20: Vol.818, File 10-33, pt.3, to DTC Ottawa, from
Forsyth-Smith, Hong Kong: 'Wheat and Flour-Trade With China', 3 April
1958.
trade." CIRECO's delegation comprised Liu Liang and W.L. Loh of CIRECO and two representatives of CIRECO's Hong Kong affiliate, Ng Fung Hong. Liu, who headed the delegation, was a manager of CIRECO's Industrial Products Department and had visited Canada with Bu in 1957.

On 12 May as CEROILFOOD continued negotiations with Lang of Louis Dreyfus at the Guangzhou Trade Fair for the purchase of Canadian and Australian wheat, Liu's CIRECO delegation was visiting the CWB in Winnipeg. That same day CIRECO's delegation received instructions from CEROILFOOD to purchase two more cargoes of wheat from any Canadian firm(s) which would agree to assist in the sale of Chinese goods. However, on 14 May Bu informed CEROILFOOD that Frederic Schenk, grain trader and banker of the Lausanne headquarters of Andre' & Cie S.A., had been visiting the Guangzhou Trade Fair for about a week and that the Swiss firm would be able to help the Chinese sell commodities. Bu thus recommended that one of the wheat cargoes which Liu's delegation was authorised to negotiate a contract for in Canada should be purchased from Schenk in Guangzhou. Shortly thereafter CEROILFOOD began negotiations with Schenk who was hoping to complete a transaction through Andre's Canadian branch Hall Bryan Ltd. Later Schenk stated that Finco, Andre's subsidiary, arranged intricate and complex business deals with east European and developing countries involving compensation, barter, triangular contracts, switch financing and cooperation transactions.

Dan Morgan also explains that

At Andre', trading grain seemed almost secondary to the financial opportunities this trading providing. In classic Swiss style, the firm functioned as a sort of central bank for its associated companies all over the world. Andre's North American operations were headed by its US subsidiary, the Garnac Grain Co. of New York. Garnac Head, Frederic Hediger, who founded the firm in 1937 after arriving from Switzerland, once said that "...Andre' helped us. Without their finances we couldn't have made it and without us they had no connection here in the...US."

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103 Morgan, Merchants of Grain, p.178.
104 Ibid.
105 Ibid.
CHART 2.4

Andre' & Cie S.A.

Andre' grain business founded by Georges Andre' at Nyon in 1877

In 1937 Frederic Hediger forms Gamac Grain Co. in New York,
This US firm was financially connected to Andre' (by now based at
Lausanne) and was involved in importing grain into the US during the
Depression of the 1930s.

During WWII Andre' imported grain from the US into neutral Switzerland.
Andre' built its own vessels to carry grain, and after the War became the
major Swiss maritime power.

During post WWII European economic reconstruction Andre' put together
complex, innovative, unconventional financial/commodity transactions
(involving barter, triangular, and switch financing). A major figure in these
operations was former banker, Frederic Schenk of Andre's Lausanne
headquarters.

Andre' affiliate/subsidiary operations:

- Argentina

US: Gamac (New York firm)

Canada: Hall Bryan Co.
(Winnipeg)

Andre' 's Swiss associate firm, Finco, handled the innovative, complex
deals with East European, African and Asian interests which had
limited financial resources but large import requirements.

Sources: Table compiled from information found in Morgan, Merchants of Grain, pp. 31, 40, 68, 71, 86, 87, 94, 153, 178, 176, 187n.; and within the files of the NAC RG#20 and RG#25.
On 15 May, following the signing of two contracts for the sale of Australian wheat by Lang and CEROILFOOD on 10 and 12 May, Schenk also signed a contract with CEROILFOOD for the sale of 13,209 tonnes of MN#3 wheat.\(^{106}\) This was the fifth Chinese contract to purchase Canadian wheat in 1958. On 22 May Lang concluded negotiations with CEROILFOOD for another 13,615 tonnes of MN#3 wheat. This was the sixth Chinese purchase of Canadian wheat in 1958.\(^{6}\) These two contracts along with three more to purchase Australian wheat and wheat flour were signed while the Second Session of the Eighth National Congress of the CPC was held in Beijing between 5 and 23 May, during which the Great Leap policy of 'going all out' was adopted. They coincided with a 13 May Reuters report quoting the Chinese Minister of Agriculture as having said that a serious problem had arisen because ten to fifteen percent of the Chinese wheat crop was below usual standards.

Then on 26 May Schenk was able to sell André's second cargo of Canadian wheat to China at the Guangzhou Trade Fair. This was the seventh Chinese contract to purchase Canadian wheat in 1958 and was also handled by André's Canadian branch Hall Bryan Ltd. André and CEROILFOOD also discussed the possibility of negotiating a third contract at a later date. After negotiations in Guangzhou, Schenk travelled to Beijing.\(^ {107}\) The Canadian wheat sold in each case was MN#3 and payment was in convertible sterling and under terms of the sale repayment was to be within thirty days of loading or arrival of the cargo in China - whatever came first.\(^ {6}\) Even so on 27 May Bu told Forsyth-Smith that he was disappointed with the lack of cooperation that Canadian firms and the CWB had offered CIRECO and CEROILFOOD towards increasing Chinese exports.\(^ {108}\)

On 3 June Liu, who had returned to Winnipeg, signed a contract with K.A. Powell (Pacific) Ltd. for another cargo of MN#3 wheat\(^ {109}\) (TABLE 2.6) - the eighth Chinese contract to purchase Canadian wheat in 1958. On 4 June Bu told Forsyth-Smith that the Chinese had completed their wheat purchases for the time being.\(^ {110}\) However, CEROILFOOD had been unable to book a vessel to transport wheat purchased on 15 May from Hall Bryan for June shipment. This was problematic in that the CWB was under


\(^ {109}\) NAC: RG#20: Vol.818, File 10-33, pt.4, to DTC, Ottawa, from CWB, 3 June 1958. This contract was supposed to have been negotiated with Australian firms by a Chinese delegation visiting Australia. The latter delegation thus lost its authority to purchase additional quantities of Australian wheat.

contract to deliver the grain to Hall Bryan between 10 and 30 June. After 30 June, if the grain was not shipped, storage and interest would be charged to the buyer. Daily carrying charges in this instance would amount to .0548 cents per bushel. CIRECO was given the task of asking the CWB for an extension of the delivery date to avoid the extra charges. However, the CWB was unable to make any exception in this instance. On 25 June Bu told Forsyth-Smith that CIRECO had booked space on a vessel in early July to carry the first Hall Bryan cargo. Forsyth-Smith felt that Bu was slightly irritated with CEROILFOOD for bypassing CIRECO and negotiating several of the contracts in Guangzhou. Forsyth-Smith also remarked that Bu seemed "...delighted that...(CEROILFOOD) had made a mess of their purchase." On 15 July Liu signed a contract with McCabe Grain Co. Ltd. in Winnipeg for another 9,144 tonnes of MN#3 wheat. The contract with McCabe was the ninth Chinese contract to purchase Canadian wheat in 1958. Finally, on 21 July Liu signed a contract with Hall Bryan in Winnipeg for the sale of 12,700 tonnes of wheat - the tenth Chinese contract to purchase Canadian wheat in 1958. (SEE TABLE 2.6).

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**Australian Position on China Trade in the 1950s**

The Robert Menzies' Australian Liberal-Country Party coalition government was eager to maintain preference votes from the Australian Democratic Labour Party (DLP) who had supported the government when it had criticised the Australian Labour Party for adopting, at their Hobart Conference in 1955, a policy of trading with Communist nations. However economic realities during the late 1950s forced the government to reevaluate its position. Australia's balance of payments position had been badly affected by falling prices of primary products - resulting from overproduction throughout the world and exacerbated by Washington's decision to release large quantities of materials from its vast strategic minerals stockpile. The continuation of US surplus grain disposal programmes was also responsible for Australia losing ground in its 'traditional' grain and flour export markets. Because of geographical proximity, Australian flour was cheaper for Sri Lankan, Indonesian, and Malaysian/Singapore importers until the early 1950s. However, after 1954 Australian flour exports to these nations were threatened by heavily-subsidised exports of French, West German, Italian, Spanish and

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especially American flour. The US gained a foothold in the Indonesian market in 1956 while Canadian wheat and flour exports under the Colombo plan also began to cut into Australian markets. Meanwhile the growth of Japanese and Hong Kong milling operations adversely affected Australian flour exports and resulted in the number of Australian flour mills decreasing from 165 in 1950-51 to 142 in 1958-59.\textsuperscript{113}

Export losses could not be compensated for by exporting more goods to the US because recently-imposed tariffs barred Australian goods from this market. Also, the future of Australian exports looked bleak in Europe where it seemed that highly-subsidised grain produced in France and West Germany would soon account for a large portion of EEC grain purchases.

Prime Minister Menzies realised that China represented a potentially lucrative export market for Australia. Although Australia had replaced Canada as the major supplier of Chinese grain imports in 1930, between 1949 and 1952 only small quantities of Australian wheat and flour were sold to China and the AWB was not involved in these sales brokered by private traders. In 1955-56 the Chinese again began to purchase small but increasing quantities of Australian grain and flour from private exporters.\textsuperscript{(SEE TABLE 2.7)} Increasing Australia's volume of trade with China would ensure continued large export markets for primary resource products after 1960. The Australian government saw that it was possible to develop Chinese-Australian trade through the Australian marketing boards over which it could argue it had no absolute or direct control. Minister of Trade, John McEwen, Minister for Primary Industry C.F. Adermann, and also AWB general manager Perrett - all of whom were responsible for dealing with domestic surpluses - favoured increased trade on cash terms with China. Australian Treasury and banking officials appear to have supported increased trade with China, even under credit terms, as long as they received adequate assurances regarding Beijing's ability to meet payments.

These views were countered by officials of the Australian DEA who were concerned that increased Australian-Chinese trade could adversely affect US-Australian relations, especially if credits of more than 180 days were extended. Members of the Australian DLP also continued to view China as a strategic threat to Australia and in 1958 voiced concerns about Communist economic warfare. China's large autonomous 'state trading' firms were very powerful when operating in a 'free market' economy because they handled the huge import and export requirements of Communist nations. Their operations had a considerable effect on Western markets.

\textsuperscript{113} The Wheat Situation, no. 13 May, 1958; The Wheat Situation, June 1960, No.16.
### TABLE 2.7

**Australian Wheat and Flour Exports to China: 1949-50 to 1959-60**  
(in tonnes, wheat: trade grain weight, flour: milled weight)

<table>
<thead>
<tr>
<th>Year</th>
<th>Wheat</th>
<th>Wheat Flour</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949-50</td>
<td>2068</td>
<td>8654</td>
</tr>
<tr>
<td>1950-51</td>
<td>3320</td>
<td>898</td>
</tr>
<tr>
<td>1951-52</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1952-53</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1953-54</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1954-55</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1955-56</td>
<td>-</td>
<td>1034*</td>
</tr>
<tr>
<td>1956-57</td>
<td>-</td>
<td>272*</td>
</tr>
<tr>
<td>1957-58</td>
<td>1932</td>
<td>626</td>
</tr>
<tr>
<td>1958-59</td>
<td>8627</td>
<td>-</td>
</tr>
<tr>
<td>1959-60</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

* Post 1964 reports from this source do not mention these sales

*Source: The Wheat Situation, Bureau of Agricultural Economics, Canberra, No. 17, February 1961, pp.23,24; The Wheat Situation, No. 18, August 1961*
During the years 1954-56 wheat surpluses in Australia had been growing and producers had responded in 1956-57 and 1957-58 by planting considerably less wheat. Nevertheless, a serious drought in 1957 in New South Wales had then reduced national wheat stocks in 1958 to the lowest level since 1945 and Australia had imported 40,565 tonnes of wheat from Canada.\textsuperscript{114} This encouraged wheat growers to plant more grain in 1958-59 and 1959-60. This pattern, together with only a moderate volume of exports in 1959, caused surpluses to recur by 1960.\textsuperscript{115}

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\textbf{China's 'Test Purchases' of Australian Grain in 1957-58}

On 24 June 1955 AWB chairman, Sir John Teasdale, said that his Board would explore the possibility of exporting grain to China.\textsuperscript{116} In 1955-56 and 1956-57 respectively private traders sold 1034 tons and 272 tons of Australian flour to China.\textsuperscript{117} In October 1957 Australian government trade officials contacted Ottawa to verify Australian press reports that the Chinese were interested in purchasing Canadian wheat.\textsuperscript{118}

Then in April/May 1958 CIRECO asked the AWB about purchasing between two and three cargoes of grain and sent a Chinese trade delegation to Australia. The AWB had not sold grain to China since 1939 and Perrett told CIRECO officials that such relatively small cargoes should be purchased from Louis Dreyfus or preferably Bunge (Australia) Pty. Limited, though he later agreed to consider offering the Chinese grain through other firms such as Jardine Matheson.\textsuperscript{119}

Jack Lang was sent to China to negotiate sales of Australian and Canadian wheat in early 1958. As we saw earlier, on 10 May 1958 Lang signed a contract with CERGILFOOD at the Guangzhou Trade Fair under which of 1,016 tonnes of Australian wheat would be shipped to China by Louis Dreyfus in June. On 12 May both sides signed two other contracts, one under which Louis Dreyfus would deliver 8,636 tonnes of Australian wheat

\textsuperscript{115} NLA: C.J. Perrett, A Record of Constitutional Developments, p.192.
\textsuperscript{117} Post 1964 statistics do not mention these sales.
\textsuperscript{118} NAC: RG#20: Vol.818, File 10-33, pt.2, to Assistant Deputy Minister, from Australian trade commissioner, Montreal, 25 October 1957.
\textsuperscript{119} NAA: 1804/28 201/12/1, pt.1, AWB Minutes of 4-5 June 1958, ii) China (vide) Item No. 3(b) - Min. 21 May 1958; to Moroney Secretary DPI from Perrett, 4 July 1958.
to China in August, and another 1,016 tonnes of wheat in June.120 (SEE TABLE 2.8) The Chinese also planned to purchase at least one more cargo from the Australians during a Chinese trade delegation to Australia in May/June. However, in late May CEROILFOOD decided to buy additional wheat through Canadian firms.121

Returning to London after negotiating the sales, Lang said he did not think China would become a substantial grain importer unless such imports would assist Chinese export development.122

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Chinese Grain Purchases Halted

At the Second Session of the Eighth National Congress of the CPC, held in Beijing between 5 and 23 May 1958, the policy of 'going all out' was adopted, signalling the onset of the 'Great Leap Forward'.123 On 22 July the day after the final Canadian wheat contract of the 1958 series was signed, an excerpt from a Chinese Ministry of Agriculture report on crops appearing in *Xinhua* said that the 1958 harvest was "unprecedently good". Wheat yield per hectare in 1958 was reported to be 71% higher than in the previous year.124 By October there were also reports that the Chinese were exporting rice at well below market prices.125

In autumn 1958, when Canadian Trade Commission officials in Hong Kong asked if CIRECO planned to import more wheat, they were told that this was unnecessary because of "China's bumper crops". However, the Canadians learned from Neve of Bank Line that CEROILFOOD officials had asked him for James Richardson & Sons' cable address. When Neve asked why they needed it, he

...was told that...(they) still owed Richardsons some money on their shipment of wheat. However...Neve knew all the necessary payments had been made and said so. He...(then)...suggested...that...(the Chinese) might be trying to do without his firm's services by going direct to their

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120 NAA: 1804/28 201/12/1, pt.1, handwritten notes by Chapman of the AWB; typed summary from report of Dorman's visit (to London where he met Lang of Louis Dreyfus who negotiated the sales) - 30 May - 4 July 1958.

121 NAC: RG#20: Vol.818, File 10-33, to McNamara, CWB, from Forsyth-Smith, Hong Kong: 'Wheat To China' 4 June 1958.


123 See chapter 1 footnote 29.


### TABLE 2.8

**Chinese-Australian Grain Contracts: 1957 to 1959**

[in tonnes (grain: trade grain weight, flour: milled weight) and % of total Australian grain exports]

<table>
<thead>
<tr>
<th>Crop Year (1 August to 31 July)</th>
<th>Contract Date/ Amount</th>
<th>Delivery</th>
<th>Total Australian Exports to China and % of Total Australian Exports</th>
<th>Total Australian Grain Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1957-58</td>
<td>-</td>
<td>2,032</td>
<td>(i.e. the amount sold under contracts #1 and #3 in May 1958 were placed on the 1957-58 account see below (626 tonnes of this amount was flour). The 2,032 tonne figure represented (0.2%) of total Australian wheat/flour exports in 1957-58.</td>
<td>975,405</td>
</tr>
<tr>
<td>1958-59</td>
<td>*Contract #1: 10 May 1958 - 1,016</td>
<td>6 June 1958 - 1,016</td>
<td>8,636 (0.4%)</td>
<td>1,961,987</td>
</tr>
<tr>
<td></td>
<td>*Contract #2: 12 May 1958 - 8,636</td>
<td>1 July 1958 - 8,636</td>
<td>see above</td>
<td></td>
</tr>
<tr>
<td></td>
<td>*Contract #3: 12 May 1958 - 1,016</td>
<td>6 June 1958 - 1,016</td>
<td>see above</td>
<td></td>
</tr>
</tbody>
</table>

* These contracts for the sale of Australian wheat were negotiated by Louis Dreyfus Company and CEROILFOOD at the Guangzhou Trade Fair.

suppliers... The Chinese merely laughed and did not reply. Neve is sure that this incident suggests that the Chinese may be getting ready to buy wheat again.126

That same day Bu told the Canadians that the Chinese would not import foreign grain in the near future and suggested that Canada focus on selling the Chinese aluminum, copper, zinc and steel.

Canadian wheat and flour exports to China in 1957-58 totalled 117,026 tonnes, worth about $7 million dollars; 13,608 tonnes of this grain was not shipped until 1958-59. Canadian wheat sales to China in 1958 accounted for about 90% of Canadian total exports to the PRC in that year. While 7.2 million tonnes of Canadian wheat were exported in 1956-57, sales in 1957-58 totalled 8.7 million tonnes - the highest since 1952-53.

By negotiating the 1958 wheat contracts with several Canadian suppliers the Chinese had attempted to maximise the positive political impact that the sales might have on Canadian opinion regarding Ottawa's China policy. The involvement of American FAC regulations in the 1958 grain negotiations served to turn the Canadian government, and the business community in the US and abroad, against US policy and towards the Chinese market. By placing orders with various Canadian firms, the Chinese also sought to win economic concessions by promoting competition among suppliers.

Later, in February 1961, assistant CIRECO general manager You Dunhua revealed to Canadian officials that

The 1958 cargoes... (of Canadian wheat) had been a trial... (which) had convinced their principals at CEROILFOOD that the trade was sound. They therefore wanted to expand and continue it.127

You Dunhua explained that Western wheat cost less to buy and was of higher protein content than rice, while Chinese rice exports brought a considerably higher price than wheat in foreign markets.

However, in 1958 Shanghai textile producers were adversely affected by Canadian import quotas. This may have impeded further Chinese-Canadian grain contracts. Consequently, Forsyth-Smith advised DTC and Department of Finance (DOF) officials in Ottawa that the textile import quotas issue should be resolved expeditiously.128

Around the time that the Chinese opened negotiations to purchase Canadian wheat Sydney Smith, Canadian Secretary of State for External Affairs, launched a major reassessment of Canadian China policy. The resultant report, presented to Prime Minister Diefenbaker on 16 June

126 NAC: RG#20 Vol.818, File 10-33, pt.4, letter to McNamara, CWB, from Small, Hong Kong, 16 October 1958.
128 Interview in person with Forsyth-Smith Halifax, N.S. - January 1996.
stated that

There is no clear cut balance of argument discernible in this issue. The possible benefits of increased trade and the lessening of Chinese dependence on the Soviet bloc together with the legal and logical arguments in favour of recognition and the impossibility of indefinitely denying Chinese admission to the... (UN) must be weighted against strong resentment of the...(US) that would follow recognition, the psychological factor of encouraging Asian Communism and weakening a resolutely anti-communist Asian regime; and the difficulties that Peking itself is likely to raise.\textsuperscript{129}

It also recommended that the Canadian government move in gradual stages toward extending diplomatic recognition to Beijing through increasing unofficial contacts, especially in trade relations. Some researchers consider the report to have been too "general, indecisive and equivocal" to have had a substantive affect on Canadian China policy. With the death of Sidney Smith in March 1959 cabinet-level interest in Canadian recognition of China ended.\textsuperscript{130} Also on 23 August 1958 PLA units in Fujian began shelling KMT troops occupying the islands of Jinmen and Matzu. Then in 1959 the Chinese brutally suppressed an uprising in Tibet initiating the Chinese-Indian border conflict.

Despite these developments, the Canadian government remained interested in the Chinese export market. Between 22 and 26 November 1958 William Miner and John Small visited the Autumn Guangzhou Trade Fair and between 5 and 9 May 1959 Small and Forsyth-Smith returned to China for the Spring Guangzhou Trade Fair. However, despite continued rumours of worsening food shortages in China in the second half of 1958 and throughout 1959, the Chinese did not show interest in purchasing more Canadian wheat. Meanwhile, the Canadian grain surplus continued to mount.

In 1958-59 and 1959-60 only 8 million tonnes and 7.5 million tonnes, were exported. By 1960-61, due to American disposal programmes, the US was the largest producer and exporter of grain in the world,\textsuperscript{131} exporting more wheat and flour to Communist nations (1.6 million tonnes) than any other nation. In 1960-61 approximately 70% of all US wheat exports were shipped under disposal programmes, while only 10% of Canadian exports were government-financed.\textsuperscript{132} The Canadian government could not afford similar subsidies despite mounting domestic surpluses.


\textsuperscript{131} Anderson, 'Canadian Wheat in Relation to the World's Food Production and Distribution'.

\textsuperscript{132} Grain Trade of Canada, 1960-61.
Ottawa was also increasingly concerned about the effect that EEC protectionist policies would have on 'traditional' Canadian exports to Europe. It looked as though highly-subsidised grain produced in France and West Germany would supply a large portion of the EEC grain requirements. At the same time, the Canadian government was concerned about failing to fulfil its 1957 and 1958 election promises to reduce domestic grain surpluses. In the autumn of 1960, with another election fast approaching, the government needed to increase grain exports drastically if it hoped for vital support from prairie farmers. It appeared that only a famine in a country that was willing to pay for imports in hard currency - one in which US exporters were unable to compete - could help the Canadian export position.
CHAPTER 3

China's Resumption of Imports of Western Grain:
September 1960-February 1961
Forsyth-Smith and John Small's visit to China between 13 May and 8 June 1960 allowed a first-hand assessment of conditions on the mainland. On 5 April 1960 L.C. Bu informed Canadian Trade Commission officials in Hong Kong that Beijing had decided that "it would be beneficial to the promotion of Sino-Canadian trade for...Forsyth-Smith to visit China during May this year." Bu, was pleasantly surprised by the Chinese government's decision, but upset about having to inform the Canadians that Beijing's invitation had not included DEA officer Small. Beijing explained that Small had already visited the Guangzhou Trade Fair in 1958 and 1959. While it was very unusual for Beijing to provide reasons for refusing visas, officials probably did so in an attempt to divert attention from Chinese food shortages. Beijing realized that Small was interested in more than just issues relating directly to trade. Fluent in Chinese, having grown up in Sichuan, Small was a keen observer and information gatherer.

However, in early May 1960 Beijing reversed its earlier decision and extended visas to both Small and Forsyth-Smith to facilitate their China Council for the Promotion of International Trade (CCPIT) sponsored trade promotional tour. The Canadians stopped in Guangzhou, both on the outbound and return journey, and concluded that this city was worse off than during their 1959 visit. People appeared underfed and many rural migrants wandered aimlessly. Citizens lined up for food and stores were poorly stocked. Working conditions for employees of the State Trading Corporations were the worst that the Canadians had seen in China. They were curious to know why... (Guangzhou was) in such a state... difficult to explain since the Chinese have apparently decided to make it one of the main vehicles of their external trade.

Bu, in town for the trade fair, had dinner with the Canadians but did not mention Chinese food shortages, nor did Fu Diehmin, assistant secretary general of the Fair and deputy chairman of the Guangzhou CCPIT, when hosting a farewell dinner for the Canadians.

After reaching Shanghai they asked Zhao, deputy chairman of the

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4 NAC: RG#25: Vol. 5280, File 9030-40, pt.6, to Under-Secretary of State for External Affairs, Ottawa, from Small, Hong Kong: 'China Visit By C.M. Forsyth-Smith and C.J. Small 13 May-8 June 1960'.

Shanghai branch of CCPIT, if, in view of the growth of China's population in proportion to agricultural production, the biggest problem facing China was in the agricultural sector. Zhao's response was that adequate food supplies were available and unlimited opportunities to expand domestic food production existed. Yet when the Canadians asked if the Chinese people had

...all the food that they wished to eat...(Z)hao admitted that they did not, but added that they had all they needed...their essential requirements were being met and all were receiving fair shares...{though} he admitted that his own living accommodation was better than that of most of the people in China...\footnote{NAC: RG#25: Vol.5280, File 9030-40, pt.6, to Under-Secretary of State for External Affairs Ottawa, from Small, Hong Kong: 'China Visit By C.M. Forsyth-Smith & C.J. Small May 13th-June 8th, 1960'}

Since Shanghai appeared to have a greater variety of shops - and these better stocked than their counterparts elsewhere in China - the Canadians concluded that "Shanghai is being handled with kid gloves...and that the Communists have not yet tamed this erstwhile outpost of Western capitalism..."\footnote{Ibid.} However, people appeared less well fed and clothed than their counterparts in Beijing and about on a par with the citizens of Tianjin and Guangzhou.\footnote{Ibid.} For the first time Small saw beggars in Shanghai and during the return visit to Guangzhou.\footnote{NAC: RG#20: Box 43, Vol.1983-84/234 17-21, File 7-C3-1, to DTC Ottawa, from Hong Kong: 'Tour Notes On Business Visit in Communist China', 30 June 1960; USNA: RG#59: CFPF, CDF 1960-163, Box 2883 893.181/7-660, to Washington, from US consulate, Hong Kong, 6 July 1960.}

Because most grain for the cities was procured from Sichuan, Henan, Shandong and Anhui, starvation rates were highest in these provinces. The beggars that the Canadians saw in Shanghai had probably escaped from Anhui in search of food.\footnote{Jasper Becker, Hungry Ghosts: China's Secret Famine, pp.94,142.}

In early July 1960 the US consulate in Hong Kong reported that Chinese food consumption had remained at subsistence levels the previous year. However, shortly thereafter the consulate began to receive reports that food shortages and malnutrition were especially prevalent in the vicinity of Beijing, Shanghai and Guangzhou. On 26 July the British consul general in Shanghai remarked that in June and July the food situation had deteriorated greatly. Then on 29 July the Far Eastern (FE) Bureau of the State Department told US Secretary of State Dean Rusk that "...since peasants are normally worse off than the industrial workers in the cities, it can be assumed that the conditions in the countryside are
very serious." Later, the Canadian government learned that in late August 1960 grain rations of PLA troops stationed along the Hong Kong border had been reduced from 30 kg to 15 kg per month.

In mid-January 1961 the US consulate in Hong Kong reported that the serious food situation in Beijing could worsen before the winter wheat harvest in June. Northern wheat-producing areas along the Huang He, with a population of about 180 million, were believed to have been especially hard-hit by poor weather. Also in January officials of the Indian embassy in Beijing, and Indian officials who had visited the Chinese capital for the Chinese-Indian border negotiations, told the Americans that the food shortages were the worst they had ever seen in China. They reported that malnutrition was extensive and people had to wait in long lines for rations. With prices inflated, restaurants were not busy. Rations for the 'average workers' in Beijing were 7.5 kg of grain per month while 'heavy workers' received 12 to 14.5 kg. The oil ration was 250 grams. Street clinics had been set up to examine those suffering from malnutrition. People diagnosed as requiring extra food were classified in one of three groups according to the severity of their condition and sent to communal mess halls. Mess halls fed the most malnourished hair tail fish, cabbage and beans; the less hungry, fish and cabbage and the least malnourished, only cabbage. Despite these grim reports, all the visitors to whom US consulate officials spoke said that the food situation was even worse in Guangzhou.

Secret PLA documents captured by Tibetan guerillas in 1961 also provide insights into food shortages and resultant social unrest in late 1960 and early 1961. These documents suggest that in 1960 in some areas harvest yields were not particularly low, but that the state over-procured grain - presumably for city workers and foreign export.

Overseas Chinese returning from the Chinese New Year Festival in February 1961 also reported serious food shortages. Hong Kong office workers who had visited China, mainly Guangdong, for the festival emphasised the

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12 USNA: RG#59: CFFF, CDF 1960-1961, Box 2881: 893.03/2-1761 from American consul general, Hong Kong, to Secretary of State: 'Indian Officials Report on Peiping Food Situation', 17 February 1961; USNA: RG#59: CFFF, CDF 1960-1961, Box 2881: 893.03/8-960, from American consul general, Hong Kong, to Secretary of State: 'Indian Remarks on Mainland Food Shortage', 9 August 1960, (consul general's source: V.V. Paranjpe, Indian Under-Secretary in Foreign Ministry's Northern Division, who had spent nine years in Beijing - 1947 to 1956.)

seriousness of the situation. Grain rations were reduced to as low as 4.5 kg a month - a starvation diet - and citizens responded by grinding rice straw and mixing it with other food. The rice straw caused throat irritation and other more serious problems. Canadian officials in Hong Kong concluded that

Even allowing for possible exaggeration, there seems to be no doubt whatsoever that many people are on the verge of starvation and many are suffering from malnutrition and others cannot or will not work efficiently.14

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Initial Reports of Widespread Famine and the Decision to Resume Imports of Western Grain

In March 1960 the Chinese leadership began receiving reports of starvation in various parts of Anhui, but felt that maybe the reports were exaggerated.15 Then on 28 May 1960 the CPC Central Committee issued the

...'Urgent Directive on Allocating and Shipping Grain': In the past two months, the amount of grain sent to Beijing, Tianjin, Shanghai and Liaoning Province is inadequate and grain is almost out of stock there. Unless more grain was shipped to these places immediately, the situation would deteriorate.16

The Chinese had limited space available to store grain and only in the Northeast did the climate permit grain stockpiling.17 They stored bulk or bagged grain of low moisture content in granaries (warehouses, including tunnels and caves) and open-air thatched storage compounds.18 With warehouses along "transport trunk lines" nearly empty, the CPC Central Committee stated it was urgent that grain be shipped to the most badly affected areas. They instituted emergency measures such as reducing the average civilian cloth allowance, grain, and edible oil rations and producing food substitutes.

Then in the summer of 1960 the Chinese leadership began receiving secret telegrams from provincial authorities, especially from

15 Teiwes and Sun, China's Road to Disaster, p.215.
16 CCP Central Committee, History of the Chinese Communist Party, pp.284. (severe grain shortages also affected the nuclear test areas beginning in late 1960 see: Teiwes and Sun, China's Road to Disaster, p.215.)
17 USNA: RG#59: CFPF, CDF 1960-63, Box 2881: 893.05/8-2961, 'Comments of Dr. Arao Itano on the Chicom's Food Problems', 28 January 1961.(Itano was a Japanese specialist on Chinese agriculture who spent many years in China)
Gansu and Henan, describing severe widespread famine conditions and starvation. As these reports began to reach Beijing a depressed Mao attempted to deny them.\textsuperscript{19} Reports reaching Hong Kong at this time detailed growing food shortages throughout China, but incorrectly attributed conditions mainly to poor weather/growing conditions rather than government policy errors. Meanwhile, the State Council Finance and Commerce Office told Zhou Enlai - who had been raised in Tianjin, as Premier oversaw the Ministry of Food and had previously favoured increased grain procurement for urban consumption and foreign aid - that grain procurements had been excessive. Thus, during the summer of 1960, Zhou began efforts to balance Chinese grain supplies.\textsuperscript{20}

China's economic situation worsened after 16 July when Moscow informed Beijing that it was immediately withdrawing technical and economic aid. In August Chinese officials became so concerned about dwindling grain stockpiles that urban grain rations were reduced by one kg per month.\textsuperscript{21} In late August PLA rations for troops along the Hong Kong border were halved.\textsuperscript{22} Also at that time the Chinese government responded to reports about dwindling food supplies by ordering trade officials to enter into contract negotiations in Hong Kong to purchase small quantities of Western grain. While this grain was actually for reexport to Albania these negotiations allowed the Chinese to learn more about availability, price and quality of wheat offered by various suppliers prior to placing its own larger orders after having further evaluated the domestic food situation.

Premier Zhou Enlai and ultimately Lei Shaoqi, the Hunan-born President of the Republic (since April 1959) made the final administrative decision to import grain from abroad. In August 1984 Chen Zhongmin, then deputy general manager of CEROILFOOD, told Li Liansheng, a researcher and former Chinese Foreign Ministry official, that the decision to buy grain was made by Zhou Enlai...Although the affairs of grain importation were operated by CEROILFOOD...under the Ministry of Foreign Trade, the policies and major decisions were made and supervised by the late premier until his death in 1976...\textsuperscript{23}

\textsuperscript{19} Zhisui Li, The Private Life of Chairman Mao: The Inside Story of the Man Who Made Modern China, pp.339-340.
\textsuperscript{20} Dali Yang, Calamity and Reform in China, pp. 65-73.
\textsuperscript{22} See footnote 11.
\textsuperscript{23} Li Liansheng, 'Sino-Canadian Relations and the Grain Trade', MA thesis Carlton University, Ottawa, 1985, p.16. (Li’s source: interview with Chen Zhongmin deputy manager of CEROILFOOD in August 1984)
However, initial recommendations to import grain were made by Chen Yun and Li Xiannian.\textsuperscript{24} Chen Yun's involvement in the decision to import grain in late autumn of 1960 marked his return to prominence after working in a diminished advisory capacity for about two years. In early 1959 Chen Yun had written to the 'Central Finance and Economics Group', to emphasise that he believed domestic grain shortages would not be remedied by current policies.\textsuperscript{25} However, in 1959 Chen, Liu and Zhou lacked authority to change the situation. Not until 1960 did these officials and the 'Central Finance and Economic Group' regain influence in shaping Chinese economic policy.\textsuperscript{26}

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**Chinese Government's Grain Importing Hierarchy**

After the Chinese leadership made the decision to gradually resume importing Western grain, Chen Guodong of the Ministry of Grain and Ministry of Commerce officials were given the task of deciding how much grain the Chinese needed to import.\textsuperscript{27} Ministry officials made comprehensive enquiries about local conditions, taking stock of domestic grain supplies, and studying the 'hu kou bu' (a detailed and comprehensive state register of the Chinese population). The government's food rationing cards 'kou liang cheng' and purchasing cards 'kou wu cheng' were based on the 'hu kou bu':

> With the whole population registered in this way, the Government has at all times a clear idea of the demand for supplies in different parts of the country, and can see that all the households are adequately supplied. In times of shortage, the food ration cards and purchasing cards, issued on the basis of the Register, function so that everyone gets a fair share of what is available...\textsuperscript{28}

Zhou Enlai then evaluated and passed on information regarding Chinese grain import requirements, provided by the Ministry of Grain and

\textsuperscript{24} Dali Yang, *Calamity and Reform in China*, pp.114, 292.
\textsuperscript{26} Fairbank and MacFarquhar, *The Cambridge History of China, Volume 14*, p.383.
\textsuperscript{28} Robert Tung, 'People's Policeman' *FEER*, 18 August 1966; Interview with a former Chinese government official, Washington State, April, 1996.
Ministry of Commerce, to the Minister of Foreign Trade. The Minister of Foreign Trade then gave CEROILFOOD directors, Li Yousheng, and Fu Xing, instructions about how much grain the corporation should purchase.

In late August 1960, when the Ministry of Foreign Trade received orders to begin purchasing small quantities of Western grain, there was also a movement underway to replace 'political appointees' at the Beijing headquarters of the various state trading corporations with officials having strong business backgrounds, many of whom were former influential Shanghai businessmen. The most important positions went to individuals experienced in doing business with the West. From mid-1960 onwards policymakers within the Chinese government began placing a greater emphasis on centralised control of the economy. Between autumn 1960 and May 1961, owing to shortages of foreign exchange and in an effort to improve the efficiency of the corporations, head offices began to exercise more control over branches. All purchases were subsequently made by head office or at least needed the approval of head office. The corporations also began to adopt a much tougher line concerning claims against foreign suppliers and claims by foreign buyers.

After receiving grain import instructions from the Ministry of Foreign Trade CEROILFOOD directors, Li and Fu, contacted Ding Kejian, the intermediary between CEROILFOOD in Beijing and CIRECO. Ding became CIRECO's first chairman and chief executive officer in December 1960 when he replaced Zhang Bing who was appointed CEROILFOOD deputy director in Beijing. During the 1950s, Ding had been Zhou Enlai's economic advisor, accompanying him to the Geneva Conference and later to East Berlin and Cairo where he signed the first Chinese-Egyptian trade agreement. By 1958 he was deputy director of the general office of the Ministry of Foreign Trade. In late summer 1960 Ding was appointed to the position of handling the international trading operations of the major Chinese government trade corporations and between September and December he travelled from Beijing to Hong Kong to place precise orders for Western

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30 Former CIRECO official Zhang Bing was appointed vice-director of CEROILFOOD, while Xie Shudian, former Chinese commercial counsellor in London (for five years) was appointed director of MINMETALS Beijing.


33 22 September 1994 letter to author (through Alvin Hamilton) from Roy Faibish, posted to me by Hamilton on 3 October 1994.
Three other CIRECO officials played important roles in the ensuing grain negotiations. Bu headed CIRECO's team during negotiations with the AWB, between November 1960 and mid-1962, but he did not participate directly in CIRECO-CWB negotiations. Both CIRECO and CER Oilfood seem to have had a general policy of not sending the same officials to negotiate with grain traders from different Western countries.

You Dunhua appears to have been the only high-ranking CIRECO official who, on a regular basis, participated in negotiations with both the AWB and CWB between December 1960 and January 1963. Another important CIRECO official who participated exclusively in grain sale negotiations with the CWB was Bu's assistant, Liu Liang. Liu had accompanied Bu on the 1957-58 CIRECO trade delegation to Canada.34

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Chinese-Western Grain Contracts and Negotiations: 3 September to 14 December 1960

On 3 September 1960 Bu asked the Australian trade commissioner in Hong Kong, George Patterson, for a firm offer from the AWB for 20,321 tonnes in 5,080 tonne shipments on Cost, Insurance and Freight (CIF) terms for delivery to Albania before mid-November. The Chinese had decided to provide limited food and monetary aid to the Albanian government, which - having supported Beijing in its increasingly bitter political and ideological dispute with Moscow - was also facing serious economic difficulties. Patterson, guessing that the enquiry was a preliminary 'feeler' for larger orders, immediately informed officials at AWB headquarters in Melbourne. However, the Board was unenthusiastic about sending a team to Hong Kong to negotiate for such a small order.35

Around this time CIRECO also approached the Canadian Trade Commission and private grain traders in Hong Kong about purchasing four 5,080 tonne shipments for rapid delivery in October.36 Meanwhile, Bunge officials told the Canadians that they were offering East German wheat

34 Other high-ranking CIRECO officials who participated in negotiations with the AWB were You Hosong and Xu Bangfai. Yang Liu-liang participated exclusively in negotiations with the CWB, between January and August 1961.

35 NAA: A1838 /1 766/1/4, pt.1, from Hong Kong, to AWB, Melbourne, 3 September 1960.

to CIRECO, ex London, for shipment to Albania.\(^37\) However, the Chinese considered Bunge prices too high; and the moisture content of French wheat, offered by Louis Dreyfus, was also rather high. On 7 September CIRECO again approached the Australian Trade Commission to emphasise that they would seriously consider a direct offer from the AWB.\(^38\) Perrett subsequently travelled to Hong Kong to meet with CIRECO officials, but, despite friendly discussions, he suggested that the small quantities of grain be purchased through private traders.\(^39\) Despite earlier complaints about grain being offered by Bunge, around 26 September CIRECO signed a contract with this firm for 5,080 tonnes of French grain at premium prices with payment in sterling. This was the last Chinese contract covering purchases of Western grain prior to 18 December 1961. However, in November and December Bu continued negotiations with both Gollin and Goy of Sydney and Jardine Matheson (Hong Kong) for at least two other 5,080 tonne cargoes for Albania.\(^40\) Bu apparently took an unhurried approach to these negotiations and at no point between 3 September and 14 December did CIRECO negotiators give Western trade representatives any indication of possible large purchases or the urgency of the domestic food supply situation.\(^41\)

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\(^38\) NAA: A1838/1 766/1/4, pt.1, from, Australian Trade Commission Hong Kong, 7 September 1960.


\(^40\) NAA: A1804/28 201/12/1, pt.1, Perrett, 'Mr Perrett's Overseas Visit To Japan, Hong Kong and Manilla, November/December 1960'; NAA A2051/2 S325, pt.1, from Patterson, Hong Kong: 'Wheat: China', 19 December 1960; USNA: RG#59: CFPF, CDF 1960-63, Box 2883, 893.2311/9-2060, to Secretary of State, from US consulate, Hong Kong, 20 September 1960.

\(^41\) NAA: A1838/1 766/1/4, pt.1, from Australian trade commission, Hong Kong, 7 September 1960.
Full Extent of the Famine Realised and Decision to Make Large Emergency Cash Purchases of Western Grain

During October 1960 the Chinese government began to realise the magnitude of the famine, though it was not mentioned in official documents until early December.\(^{42}\) It appears that some Chinese leaders did not fully accept the urgent need to import grain until late November. Two factors probably led to the consensus, in early December, among Chinese leaders that emergency imports of Western grain should begin. First, was the growing concern about serious food shortages and second was the upcoming Lunar New Year Festival during which the Chinese peasants would expect to receive ample wheat supplies.

Second, Oedema cases within the PLA became increasingly prevalent in September and continued to increase until late December. While the degree of this problem was not realised until February 1961\(^{43}\), there were growing concerns about food supplies within the PLA. However, an internal investigation on 25 October appears to have attempted to minimise these concerns by concluding that the physical condition of most soldiers was still good.\(^{44}\) 'The Great Leap' officially ended on 3 November 1960 when the CPC Central Committee issued an "Urgent Directive Letter on Current Policies for Rural People's Communes" (or 'the 12 articles'). The directive, written by Zhou Enlai at Mao's request, attacked income equalisation and property transfer and stated that

...commune members should be allowed to cultivate a small piece of private plot and engage in household sidelines; the labour force should be used sparingly in every field of work to reinforce the front line of agricultural production; work should be alternated with rest; and correct style of work should be rectified and people's communes consolidated.\(^{45}\)

Then a report by the Party Committee of the General Rear Services Department on 23 November stated that PLA food rations had been reduced according to circumstances and called for the army to be economical with grain supplies and work to increase agricultural production. This report was endorsed by the Military Affairs Commission on 22 December.\(^{46}\) Meanwhile on 2 December, as oedema cases in the PLA began to peak, a 'Directive issued by the General Political Department on how to Work

\(^{42}\) Dali Yang, Calamity and Reform in China, pp.75, 76, 278. Mao told the CPC Central Committee working conference in Guangzhou between 15 and 23 March 1961 that reports of famine deaths began to reach Beijing in summer 1960.


\(^{44}\) Ibid. pp.173-176, 295-297.

\(^{45}\) CCP Central Committee, History of the Chinese Communist Party, p.287.

Well; the Political and Ideological Work of Army Units Stationed in Seriously Affected Disaster Areas and of Those Whose Families are in Disaster Areas' stated that a serious situation existed throughout most of Shandong and Honan and in parts of other provinces. Army units stationed in these areas were instructed to inform local residents that large quantities of grain, medicine and winter clothing had been dispatched for relief. The directive stated that, after meeting grain requirements of PLA units, which included setting aside a reserve, additional grain supplies saved and produced by army units could be used to feed their families.47

Also in late November and early December Mao Zedong became concerned about the peasants receiving adequate grain supplies during the Lunar New Year Festival scheduled for 15 February. His final approval was needed before a temporary large-scale Chinese grain import programme was initiated and although, according to Chinese sources, Mao later opposed this import scheme throughout the early to mid-1960s48, he insisted that the peasants receive their traditional meal of jiao zi at the festival. Because almost no food was available, there was growing concern that there might not be a Spring Festival. In the region north of the Chang Jiang there could be no festival without the staple favourite jiao zi—a dumpling, steamed bread made with wheat flour. Pancakes and dark bread were also made with wheat flour, but these were not nearly as popular as jiao zi. Mao realised that if 'jiao zi' was unavailable and the festival cancelled, people's morale and orderliness would deteriorate.49

The final decision to implement a temporary large-scale Chinese grain import programme appears to have been made around 15 December in Beijing.50 Negotiations for the first large contract to purchase Western grain began on 17 December and was signed the next day. Then on 30 December Mao attributed China's food problems during the previous year to human errors as well as natural calamities and sabotage by enemies, admitting that the emphasis placed upon industrial development adversely affected agriculture.51 In January 1961 Mao stated that conditions were grave in Henan and Shandong, while refugee reports indicated that famine conditions existed in Guangxi and Guangdong.52

48 Lardy and Lieberthal, Chen Yun's Strategy, p.xxviii Their sources included a statement by Mao at a Work Conference of the CCP in June 1964.
49 Interview with a former Chinese official in Washington State in spring 1986.
50 See footnotes 58 and 59 below.
51 Dali Yang, Calamity and Reform in China, p.278.
52 Based on refugee reports from Hong Kong and Guangdong and on Mao's statement pertaining to conditions cited in Walker, Food Grain Procurement, pp.157-161.
On 29 December Beijing radio had announced that during 1960 China's cultivated areas had been hit by natural disasters without parallel in the past century. The fiction that 'food shortages' - indeed mass starvation - were the result of natural factors was maintained in a CCP Central Committee communiqué of 20 January. Between 14 and 18 January the Ninth Plenary Session of the Eighth Central Committee of the CPC was held in Beijing and Li Fuchun called for agriculture to be considered the foundation of the Chinese economy. On 19 January 1961 Chen Yun's speech to a Central Committee Work Conference referred to Chinese imports of foreign grain.

Although the Chinese economy was in dire straits in late 1960, Xinhua, the Chinese Trading Corporations and Chinese officials in Hong Kong all promoted the official Chinese position that the non-Communist world also faced a serious economic crisis. Surpluses in grain-exporting nations and the primary resources sector, as well as overcapacity in Western manufacturing industries, meant that it was an opportune time for the Chinese to increase the volume of vital imports from the West. Chinese trade officials used this reasoning in attempting to obtain goods at cut-rate prices and on credit terms.

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Chinese Begin Large Emergency Cash Purchases of Australian Wheat and Flour: December 1960

Continued Chinese enquiries about Western grain prompted AWB general manager Perrett to stop over in Hong Kong in late October 1960 en route to previously scheduled meetings in Japan and the Philippines. While in Hong Kong, Perrett met with CIRECO general manager, Zhang Bing, with whom he discussed Beijing's continued interest in purchasing 5,080 tonnes of Australian wheat for reexport to Albania. However, Perrett advised Zhang that for such relatively small amounts the Chinese should deal with private grain firms. Then, during Perrett's subsequent visit to Japan and the Philippines in November and December, he heard a rumour "...that China might be in the market for considerable quantities of wheat... because the northern China grain crop had not come up to expectations." So when returning to Australia on 14 December he again

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53 Keesing's Contemporary Archives, 4-11 February 1961, p.17912.
55 Dali Yang, Calamity and Reform in China, p.278.
57 NAA: A1804/28/201/12/1, pt.1, 'Mr Perrett's overseas visit to Japan, Hong Kong and Manila, November/December 1960'.
stopped in Hong Kong to ask Bu about the rumours.

On 15 December Perrett and Patterson met with Bu and You Dunhua who expressed dissatisfaction with the offers provided by private grain traders. When Perrett told Bu he had heard that, because of a serious drought, Beijing might soon be interested in purchasing grain from the West, Bu confirmed this 'rumour'. When they met again on 17 December for further discussions, Bu revealed that since their previous meeting Ding Kejian had arrived from Beijing and authorised him to purchase large quantities of grain, provided that price and terms were acceptable. The Chinese hoped to buy 243,851 tonnes of wheat, including a 10% option for more or less, but expected the AWB to offer the grain at below their standard price for large sales, which was currently £20 per ton FOB, the price at which Australian wheat was sold to Britain and the European Community. The meeting ended in a deadlock when Perrett explained that the Board was unable to make this concession because it would be unacceptable to regular AWB customers who paid standard prices and CIRECO would already be receiving the regular intermediary commission of 0.5%.

Nevertheless, on 18 December Perrett and Patterson again met with Bu, who was accompanied by Yu and Chau Wing Shum. Although Perrett still refused to reduce the price, he offered to increase the AWB's commission to CIRECO to 1.5%. When Bu refused this offer and asked for a 2.5% commission, Perrett immediately rejected this proposal. When Ding joined the CIRECO and Australian officials for lunch that day, he said he would accept a 1% commission, but that CIRECO should also receive a commission. When Perrett then asked Ding and CIRECO to share the 1%, Ding suggested that, if Perrett gave CIRECO an additional 0.5%, a deal could be closed. Perrett, not wanting to go home without signing a contract, accepted Ding's compromise, and, since his flight was due to leave in one hour he postponed his departure until 19 December so that an agreement could be reached.

Perrett agreed to sell CIRECO 304,814 tonnes of Fair Average Quality (FAQ) wheat, granting the Chinese the option of purchasing an additional or lesser amount - up to 10% more or less of the initial 304,814 tonnes. The Australians agreed to guarantee the quality of wheat at the Chinese port of discharge - a concession contrary to customary practice. Wheat sold under the contract was £20 per ton, minus the 1.5% commission, (SEE TABLE 3.1) and, because Beijing refused to pay by telegraphic transfer, payment was to be made "...against sight draft under irrevocable letters of credit...established in...(the AWB's) favor

56 NAA: A1804/28 201/12/1, pt.1, to the Secretary Department of Trade from Patterson, Hong Kong: 'Wheat: China', 19 December 1960.
### TABLE 3.1
Chinese Contracts With the AWB: December 1960 to January 1961

[In tonnes (grain: trade grain weight, flour: milled weight) and % of total Australian grain exports and Chinese grain imports]

<table>
<thead>
<tr>
<th>Date of Contract</th>
<th>Quantity (tonnes in trade grain weight)</th>
<th>Variety/Quality</th>
<th>Value in Million $A and % of total Chinese grain imports and total Australian wheat/flour exports in year delivered</th>
<th>Price Per Long Ton</th>
<th>Delivery Period</th>
<th>Payment Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>cash contract #1: 19 December 1960*</td>
<td>304,814 wheat (FAQ)</td>
<td>(5%) Chinese (6%) Australian</td>
<td>£20 less .5% discount</td>
<td>January 1961-February 1961</td>
<td>cash***</td>
<td></td>
</tr>
<tr>
<td>cash contract #2: 4 January 1961**</td>
<td>22,353 flour (72% extract)</td>
<td>A$ 38.05 (4%) Chinese (4%) Australian</td>
<td>£20 less 3% discount</td>
<td>February 1961-July 1961</td>
<td>cash***</td>
<td></td>
</tr>
<tr>
<td>cash contract #3: 21 January 1961</td>
<td>762,035 wheat (FAQ)</td>
<td>(13%) Chinese (14%) Australian</td>
<td>£20 less 3% discount</td>
<td>February 1961-March 1961</td>
<td>cash***</td>
<td></td>
</tr>
<tr>
<td>cash contract #4: 23 January 1961**</td>
<td>22,353 flour (72% extract)</td>
<td>A$38.05 (4%) Chinese (4%) Australian</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


** Whole grain equivalent.

*** As mentioned in text (See footnote 59) payment was made against sight draft under irrevocable letters of credit established in the AWB's favour with the CTB. A revocable letter of credit is:

...an engagement in writing by a bank on behalf of a customer addressed to the beneficiary undertaking that drafts by the beneficiary, up to a total of the stated amount on the 'issuing bank' or other named bank, will be honoured provided that they are accompanied by specific documents usually relative to the shipment of the specified goods. The letter of credit protects both the buyer and seller. In exporting, where credit information may be unreliable, a seller is concerned about receiving payment and a buyer about receiving proper goods. The letter of credit is a guarantee that the importer's bank will make the required payments provided the seller has fulfilled the obligations in the letter of credit...

An irrevocable letter of credit obliges the issuing bank to honour drafts complying with the letter of credit and can neither be cancelled nor modified without the consent of all parties...A revocable letter of credit can be cancelled or amended at any time and is no guarantee of payment.


with the Commonwealth (Trading) Bank... (CTB) of Australia..."59

The Chinese refused to purchase Australian grain on standard CIF terms since this would have left stowing and trimming costs as well as chartering in the hands of Australian firms. Beijing always preferred to purchase FOB. By arranging their own time chartering and insurance in London, as they had done previously,60 they could switch from bulk cargo to bagged flour without altered freight rates. They wanted the Australian grain shipped quickly - January to February 1961 delivery - although the AWB could only guarantee delivery in January to March. After the agreement was reached, Ding made a short address criticising American grain disposal and aid programmes and emphasising that Beijing wanted peaceful relations with Canberra.61 Perrett later remembered that he... had some apprehensions at the time as to the reaction of the...(Australian) Government to such a large contract with a Communist country vis-à-vis the US attitude, but a decision had to be made on the spot - otherwise we might have lost the business - and I considered the general reaction, including that of the Board, would be distinctly more favourable to the conclusion of the business than it would be to losing it through dilly dallying over rather uncertain political considerations.62

Before Perrett's departure, the two sides drew up a contract summary which was prepared in official document format and signed by both parties on 21 January 1961 when a second contract was signed. Meanwhile, because Beijing wanted the grain delivered as soon as possible, the AWB agreed to begin shipments before the agreement was signed. Years later Perrett emphasised that...

...mutual confidence and trust - the basis for all successful business - engendered in the first negotiations inspired the loading of vessels and the payment of their cargoes by the buyers in compliance with the agreed conditions, but before the contract was actually signed....The buyers... were impressed by the trust reposed in them in relation to observance of the agreed conditions... and referred to it on several occasions subsequently. It undoubtedly was a factor in cementing the goodwill and co-operation established during the initial discussions and since maintained.63

Sir Leslie Price, later chairman of the AWB, echoed these sentiments when discussing the impact of the first large Australian cash
sales to the PRC. However, one should also consider that the Chinese 'traditionally' were unfavourably disposed towards drawing up and signing official technical legal agreements when doing business. Also, after the CCP gained power

...the liability of...(the Chinese trade corporations and affiliates) limited to the working capital appropriated to them by the State...(which was) controlled by the Chinese People's Bank of the State Council. Since they are only middlemen in a planned economy, these corporations...(had) limited capital.

...(China had) not enacted a Commercial code. In none of China's contracts...(were) there any specific reference(s) to the legal system under which the...(wheat) contract(s)...(with Canada and Australia - (were) written...(and did) not specify an ultimate legal body. Although in the case of Canadian sales, provisions...(were) made for arbitration in Switzerland...it is difficult to ascertain to what degree...(CIRECO) (was) responsible...(and whether Beijing) would...(have accepted liability) in the event of claims. It is questionable...whether...(CIRECO) should be legally considered as an agent without personal liability or as buying and selling on its own account just as an import and export firm would.65

After Perrett left Hong Kong, rumours began to circulate among other grain traders that he was overly generous with the Chinese in order to close this first sale. CWB officials heard that Perrett not only lowered the price but also provided a commission to CIRECO in addition to the standard profits that the firm would make.66 On 27 December 1960, Bu had told George Patterson that the Chinese might try purchasing additional large quantities from the AWB and were eager to meet with Board chairman, Sir John Teasdale. Bu also enquired about the possibility of CIRECO entering into barter agreements for Australian grain, an idea which Patterson rejected outright. Beijing had granted Bu the authority to buy up to 101,605 tonnes of flour, but he was aware of recent AWB flour contamination problems. Thus, Bu insisted that before the Chinese consider purchasing Australian flour the Board had to guarantee sound delivery. Patterson then contacted Perrett in Melbourne to relay Bu's message and to remind him that the Canadians were beginning to take an interest in Chinese grain sales.67

On 2 January 1961 Perrett resumed negotiations with CIRECO in Hong Kong and on 4 January reached an agreement with the Chinese for the sale of 22,353 tonnes of 72% extract flour. On 21 January CIRECO purchased another 762,035 tonnes of wheat from the AWB in Hong Kong, but only after the Board agreed not to announce the sale publicly so before

65 Mobius and Simmel, Trading With China, p.59.
67 NAA: A2051 5325, pt.1, to Perrett, Hong Kong, from Patterson, Hong Kong, 4 January 1961.
word of the sale drove up shipping rates the Chinese could charter vessels to carry the grain. CIRECO had agreed to purchase the wheat at a price of £20 per long ton FOB; but, allowing for a 3% commission extended by Perrett, the actual price was about £19.8s. per long ton FOB. This was the largest Australian grain sale since WWII, but, as the net return for the AWB from this sale was only about 12/11-1/8d. per bushel, the Australian government became concerned about the low profit margin. Delivery of the grain was scheduled between February and August 1961. 40,642 tonnes of the total shipment was expected to be diverted to Albania. Financing for this cash sale was the same as for the initial AWB-Chinese cash wheat sale in December 1960.

On 21 January 1961, when the formal contract for this sale was drawn up and signed, three cargoes of Australian grain had already been shipped to China. On 23 January the AWB sold CIRECO another 22,353 tonnes of 72% extraction flour for cash. Only one of the two flour sales was announced publicly. (SEE TABLE 3.1) The AWB had tried, and failed, to conclude both the wheat and flour sales on a CIF basis to keep the chartering business in the hands of the Australian brokers. By 1 February the first shipment of Australian wheat arrived in Shanghai, but by then Beijing had told Bu not to purchase any more Australian flour because West European lower-priced, subsidised flour was cheaper. (SEE CHAPTER 4) However, sales of Australian wheat and flour to China contributed significantly to the AWB’s total exports in 1960-61 and 1961-62. (SEE TABLE 3.2).

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68 NAA: A1804/28, 201/12/1, pt.1, to DEA, from Moroney, Secretary DPI, 2 February 1961.
71 Perrett, A Record of Constitutional Developments, pp.195-205.
### TABLE 3.2

**Australian Total Wheat Area, Production, and Exports to the People's Republic of China: 1958 to 1962**

[in 1000 tonnes (exports: trade grain weight) and hectares and % of total Australian grain exports]

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Wheat Area (1000 hectares)</th>
<th>Total Wheat Production (1000 tonnes)</th>
<th>Total Wheat Exports</th>
<th>Total Wheat Exports to PRC and % of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-61</td>
<td>5,439</td>
<td>7,449</td>
<td>5,498</td>
<td>2,007 (37%)</td>
</tr>
<tr>
<td>1961-62</td>
<td></td>
<td></td>
<td>4,157</td>
<td>1,161 (28%)</td>
</tr>
</tbody>
</table>

** Agreement reached for the sale of 300,000 long tons of FAQ wheat to China on 20 December 1960 but shipments began in late December 1960 before the contract was actually signed. The contract was signed on 21 January 1961.

Chinese Cash Purchases of Canadian Wheat in 1961

Throughout the summer of 1960 the Chinese gave no indication that they would resume imports of Western grain. On 24 August Canadian government trade officials in Hong Kong told Ottawa that Beijing would not buy Western grain in 1960-61. However, they were surprised when shortly thereafter CIRECO began making enquiries about purchasing two shipments of Western grain for Albania. CIRECO officials subsequently told the Canadians and Australiasians that Beijing had not specified where the grain should be purchased. After hearing reports that conditions in China were deteriorating, Forsyth-Smith had encouraged CWB chief commissioner McNamara to travel to Hong Kong to meet the Chinese. In September 1960, when CIRECO enquired about purchasing grain from the AWB, they also contacted Forsyth-Smith and Bunge in Hong Kong. In late September, Bunge concluded a small sale to CIRECO for reexport to Albania. CIRECO told the Canadians that it might purchase small quantities of grain from Canada or Australia, though Beijing had not included Canada or Australia on a list of possible sources.72

The CWB, like the AWB, was unenthusiastic about small transactions similar to the recent CIRECO-Bunge contract and after these initial small Chinese purchases the Canadians still felt that Beijing would make no further wheat purchases in 1960-61. They speculated that without substantial grain imports during the coming winter, the Chinese would experience the worst food shortages since the beginning of the Great Leap Forward.73 So in early October 1960 Forsyth-Smith had introduced McNamara to CIRECO officials in Hong Kong. He had arranged for McNamara to attend the autumn Guangzhou Trade Fair between 15 and 18 October. After discussing Chinese grain import requirements, CIRECO officials at the Fair told McNamara that they were "...anxious to do business with Canada..."74 although Beijing remained irritated about Canadian import quotas. CIRECO proposed that it send trade representatives to Canada in early January 1961.

Then in mid-December 1960 when Forsyth-Smith and Small, like the Australians, heard rumours that the Chinese food situation was serious and that Beijing might begin to make large purchases of grain, the Canadians arranged to meet with Bu. While discussing the future of

73 Ibid.
Chinese-Canadian trade, Bu asked Forsyth-Smith whether Ottawa was willing to promote 'two way' trade in order to increase Canadian exports to China. Forsyth-Smith replied that, although Canadian policymakers hoped to achieve this goal, certain Chinese exports "...could prove embarrassing to Canadian industry and he would therefore concentrate on (discussing the importation of) those items of a class and a kind not manufactured in Canada." He added that he hoped a mutually satisfactory solution could be reached, emphasising that the Canadian government was in the process of drawing up a list of items, not made in Canada, which were acceptable for import from Communist nations.

During this meeting, Bu and Forsyth-Smith discussed the scheduled visit to Canada in early January 1961 of CIRECO's Yang Lu-liang and Liu Liang. Forsyth-Smith suggested that the CIRECO mission begin its visit in Ottawa so as to meet with DTC and DOT officials. Although Bu agreed to consider visiting Ottawa briefly if time permitted, he said that his colleagues had already finalised plans to meet with private business interests upon their arrival in Montreal.

Shortly after this meeting with Bu, Forsyth-Smith learned that on 18 December CIRECO purchased a large quantity of grain from the AWB. Unaware that this was to be the first of many large Chinese purchases of Western grain, Forsyth-Smith told Australian trade commissioner Patterson that Ottawa was upset at having 'lost out' to the Australians, because the CWB, (which had no official representation in the region) had recently sent its chief commissioner to Hong Kong and Guangzhou to enquire about selling Canadian wheat to China.

On 19 December Small conferred with Liu, who was to lead the CIRECO trade delegation to Canada. The Chinese hoped to increase their exports to Canada and purchases of Canadian goods - including metal (copper, steel) and synthetic fibres. Liu also told Small that he had just returned from Beijing where he had been instructed to purchase substantial amounts of Canadian goods - if they were available at

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76 'Textiles: Brighter Outlook - Profits Small But Up', Financial Post (Canadian Edition), 3 February 1962. Of the goods that the Chinese had to offer, textiles (especially cotton textiles) were the most attractive to Canadian importers. However, the Canadian government maintained highly restrictive import quotas on inexpensive Chinese textiles. An increase in Canadian import quotas on Chinese textiles would leave the Canadian government open to political attack.


79 NAA: A2051/2 S325, to the Australian Department of Trade, Canberra from Patterson, Hong Kong, 28 December 1960.
reasonable prices. When Small asked if wheat was included on the CIRECO delegation's shopping list, Liu's only comment was "Wheat is always a possibility." Liu added that he hoped to be in Winnipeg, headquarters of the CWB, for several days. When reporting this to Ottawa, Small stated that he felt there were "genuine prospects for substantial Canadian export orders resulting from...Liu's (upcoming) trip....I believe that speeding up action on his visa should prove to be fully justified."80

When Forsyth-Smith spoke to Liu again on 24 December he asked the CIRECO official about a possible Chinese-Canadian grain sale. Liu's response was that this matter might be discussed in Canada in early January. Then on 28 December Bu called Forsyth-Smith and asked him whether the Canadians were disappointed at not having been "...given the opportunity to quote on the wheat purchased from Australia."81 According to Bu, Beijing was hesitant to buy more expensive MN wheat. If China were to consider purchasing Canadian wheat, Ottawa must make a reciprocal gesture regarding Chinese imports - though the Chinese did not expect to balance their trade with Canada. On 3 January 1961 - the day the Chinese delegation reached Montreal - Forsyth-Smith told Ottawa he was convinced that the Chinese were interested in purchasing Canadian grain.

Despite providing visas for the first CIRECO delegation to visit Canada since 1958, the Canadian government was anxious not to give the impression that it was an official visit by Chinese government representatives. Liu and Yang planned to spend three days in Montreal and Toronto before going on to Winnipeg for another three days.82

When the Chinese met with McNamara and the CWB Montreal manager, Rowan, the day of their arrival in Canada they stated that Beijing wished to purchase Canadian wheat and barley. It was apparent from the outset that concessions which Perrett had granted the Chinese had a considerable impact on CIRECO's negotiations with the CWB. The Chinese asked the Canadians to give them a commission similar to the AWB's 1.5%, but CWB officials said that this was impossible because it would amount to a 2.5% reduction in the selling price for wheat of higher quality than Australian wheat.83 CIRECO also asked the CWB to guarantee grain quality at Chinese ports of discharge - despite insisting that price was more

82 Ibid.; Interview with Forsyth-Smith, January 1996. (The itinerary, appointments and hotel reservations for CIRECO delegation were arranged by the Royal Bank of Canada, Montreal).
important than quality - because the grain was not required for bread making but for dumplings. As usual, the Chinese insisted on purchasing the grain on a FOB basis and handling shipping arrangements themselves.\(^4\)

They emphasised that any grain purchased from Canada would need to be delivered soon, thus highlighting the seriousness of conditions inside China. However, the CWB was unable to supply grain as early as the Chinese requested because of previous commitments to the USSR. When the Soviets, who had a three year grain agreement with Canada, learned that CIRECO officials had opened negotiations with the CWB, they immediately signed a contract to purchase 200,000 tonnes of Canadian wheat - a sale announced in the House of Commons on 30 January 1961.\(^5\) The CWB negotiators suggested to CIRECO officials that

\[
\text{the Russians might be willing to consider a Chinese request to allow their...}(203,209\text{ tonnes})\text{ to go immediately to China, to be replaced at a later date from the Chinese purchases. This suggestion was received icily and...}(\text{the CWB negotiators})\text{ were left in no doubt whatsoever that such an idea bore no relation to reality. So much for socialist co-operation and mutual benefit!}\(^6\)
\]

The CWB negotiators offered the Chinese, on FOB terms based on daily open market prices, quantities of No.1 feed barley, MN#2 wheat, and a small amount of MN#3 wheat ex Pacific Canadian ports. They agreed to renew the offer at a later date.

When Liu and Yang arrived in Toronto on 5 January 1961 they again contacted CWB officials, to emphasise that the Canadians needed to reduce grain prices if they hoped to strike a deal. During subsequent discussions, including those on 8 and 9 January with McNamara in Toronto, they continued to press for lower prices. Liu told McNamara that although the Chinese preferred Canadian wheat for making dumpling/bread and Australian wheat for noodle making, cheaper Australian wheat was just as suitable.\(^7\) Later in 1963 when Australian Myra Roper\(^8\) visited Beijing, CEROILFOOD vice-director Fu Xing told her that flour from Australian wheat which had been mixed with hard Canadian wheat made good bread. He also stated that flour from Australian wheat also made good fermented steamed bread, unfermented noodles and soft pancakes.\(^9\) McNamara then

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\(^8\) Roper later wrote China the Surprising Country, (1966).

\(^9\) NAA: report by Miss Myra Roper: 'China Looks at the Wheat Deal', mid-September 1963 to mid-October 1963 visit to China.
asked Liu how much wheat they required, so that actual negotiations could
begin, but he reiterated that, since the CWB never substantially lowered
its wheat export prices, they were not competitive with the AWB's.
Because Canadian MN wheat was of higher quality and protein content than
Australian FAQ wheat, CWB prices tended to be 25 to 30 cents more a
bushel. McNamara explained that a reduction would be economically
unfeasible, and, if granted, would not be understood by the CWB's regular
customers.90

More formal negotiations were expected to begin on 19 January
when the CIRECO officials were scheduled to arrive in Winnipeg after a
three day stopover in Ottawa. As the Chinese completed their business in
eastern Canada, Alvin Hamilton, Minister of Agriculture and responsible
for the CWB, was working with the Board and the Cabinet to put together
an offer acceptable to the Chinese. Between 12 and 16 January, he
submitted memoranda to Cabinet relating to his proposal to give the
Chinese $3.35 million dollars worth of wheat provided they bought a total
of 506,205 tonnes and $6.7 million dollars worth if Beijing purchased a
total of 1,015,131 tonnes. This would lower the price of wheat sold by
18 cents a bushel. Hamilton explained that Ottawa would be fully
compensated for such a gift by the resulting reduction in grain storage
costs for 1961-62.91 He emphasised that China's domestic food situation
provided Ottawa with a "...timely opportunity to develop by means of this
transaction our immediate and longer-term marketing interests in this
particular market."92 While adding that other importers of Canadian grain
might subsequently seek similar concessions from Canada,

the need for grain to overcome extreme famine conditions in
China justifies special considerations...Canada will be
doing no more than following the precedent set by the U.S.
under P.L. 480... - invoked...in order to make donations of
food to...Poland and Hungary...(although) the U.S. Government
did not approve of the political regimes in either country.93

Although the proposal was supported by George Hees, the Minister
of Department of Trade and Commerce, on 16 January Cabinet rejected it.94
A majority of Cabinet Ministers, led by Secretary of State for External
Affairs Howard Green, felt that the offer might offend the Chinese and
could prompt the Americans and Australians to disregard international
agreements aimed at promoting the orderly surplus grain disposal. DEA

90 NAC: RG#25: Vol. 5280, File 9030-40, pt.1: 'Negotiations -
91 NAC: RG#20; Box 43, Vol. 1983-84/234, 1721, File 7-C3-1, to
Cabinet by Hamilton: 'Proposed Basis for a Substantial Wheat Sale to
92 Ibid.
93 Ibid.
94 NAC: RG#25: Vol. 5280, File 9030-40, pt.1, cabinet decision:
officials had cautioned Green that Chinese demand for high protein content Canadian wheat was might be temporary and Ottawa should not take actions which could provoke more aggressive American wheat disposal.\(^{95}\) Green was also advised that the gift was merely a device to reduce the price of Canadian wheat for Chinese buyers and might serve to raise expectations of Canadian aid to F.A.O. famine relief in the Congo and other worthy causes.\(^{96}\) Nevertheless, Cabinet remained interested in the possibility of the Chinese purchasing Canadian grain and agreed that Hamilton should travel to CWB headquarters in Winnipeg to discuss available options.\(^{97}\)

On 17 January Sylvestre Meyers of the USDA's Commodity Credit Corporation in Washington caused a considerable stir in Ottawa with remarks he made to the CWB chief commissioner. Meyers had telephoned McNamara regarding another matter, but enquired about what progress the CWB was making with the Chinese. McNamara told Meyers that, although the CWB and CIRECO had not reached a deal, he remained hopeful that the negotiations would prove successful. Meyers replied that "...he was also hoping something would be worked out... (and the Americans) would (also) be able to participate in this business."\(^{98}\) It is not known if Meyers was aware of the 'unofficial' US-Chinese negotiations which were underway from autumn 1960.\(^{99}\)

When McNamara told DTC officials about this conversation he stated

_I did not comment on... (Meyer's) remark but... it was a clear indication that officials at Washington are also exploring the possibility of disposing of wheat to China. It might be that if we do not button up this deal immediately they will be moving themselves._\(^{100}\)

After receiving a copy of McNamara's conversation with Meyers, Hamilton's

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\(^{97}\) NAC: RG#25: Vol. 5280, File 9030-40, pt.1, cabinet decision: 'Wheat for China', meeting of 16 January 1961 (it suggests that Hamilton discuss with the CWB mixing grades of wheat to facilitate a large sale to China); For recommendation that Hamilton travel to Winnipeg see NAC: RG#20: Vol. 1943, File 20-141-C3, from L.D. Kennedy, 17 January 1961; (For information on what was discussed during Hamilton's visit to Winnipeg), 'Availability Low Grade Wheat for China': handed to Alvin Hamilton in Winnipeg on 16 January 1961.


\(^{99}\) See Chapters 6 and 7 for discussion of US-Chinese grain sale negotiations.

special assistant, Roy Faibish, forwarded it to Howard Green. Until McNamara spoke to Meyers, Canadian officials involved in the CWB-CIRECO negotiations were primarily concerned about competition from the AWB. Then they were spurred on by the realisation that Washington might also soon open up grain negotiations with the Chinese.

The Kennedy administration took office on 20 January 1961 and there had been considerable speculation about a possible change in US China policy. However, on 31 December 1960 President Kennedy's Task Force on Foreign Economic Policy, chaired by George Ball, recommended that US policy with respect to Cuba and China should parallel American political policy towards these countries. Then, during his news conference of 25 January 1961, Kennedy, asked whether he favoured Minnesota Senator Hubert Humphrey's proposal that US food be sent to China via CARE, the UN, or some other organisation which handled famine relief, cautiously replied that, because Beijing continued to export food to Africa and Cuba, China's exports were

...a factor in (Chinese) needs for food from abroad...we've had no indication from...(Beijing) that they would welcome any offer of food. I'm not anxious to offer food if it's regarded merely as a propaganda effort by the...US. If there is a desire for food and a need for food, then the...US would be glad to consider that need, regardless of the source. If people's lives are involved...the...US will consider it carefully...in this case, however, there are examples of food being exported during this present time or recent history and...there has been a rather belligerent attitude expressed towards us in recent days by the Chinese....

Even after a US State Department release on 9 February in support of the status quo with respect to US China policy, there were increasingly vocal dissenting voices within the Department. The powerful American 'farm lobby' and Quaker groups continued to pressure Washington to ship surplus US grain to China. This theme will be taken up again in Chapter 5.

By 19 January 1961 the CWB agreed to a minor price cut of 6/9 per ton on 762,035 tonnes of Canadian grain on a deferred payment basis. Meanwhile, in Hong Kong that same day CIRECO officials reminded Forsyth-Smith that Canada had an opportunity to sell large amounts of grain, but only if the CWB further reduced prices. Small and Forsyth-Smith subsequently recommended that, because the Chinese urgently needed large quantities of wheat and were attempting to create competition between the AWB and the CWB, substantial concessions should not be granted. Small reminded Ottawa that the Chinese customarily sought concessions and

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...frequently the amount of the foreign seller's concession is less important than the actual fact of making a small concession....Even if the...AWB should gain the present business...Canada would not...(lose) since this would...clear out the balance of the Australian 1960 surplus and Canada would be bound to benefit from this in other markets.\(^{103}\)

Meanwhile in Winnipeg, also on 19 January, CIRECO contracted to purchase 121,926 tonnes of Canadian barley from the CWB. However, wheat sales were still complicated by the shortage of lower grades of Canadian wheat. Even Canadian farmers were having trouble obtaining lower grade MN#4 and MN#5 wheat for feed. One year earlier the prices for these grades had been about 20 cents below MN#2 and MN#3 wheat prices, but they were now only 2 and 4 cents lower respectively than the higher grades. The CWB, not wanting to fall behind in the expanding Japanese market, was already under contractual obligation to sell most of the available lower grade wheat to Japan at market prices.

Finally however, on 27 January the CWB agreed to sell CIRECO 660,430 tonnes of MN#2 wheat and, in order to reduce the overall price, an additional 101,605 tonnes of MN#3 wheat.\(^{(\text{SEE TABLE 3.3})}\). The contract, worth approximately $60 million, was signed in Winnipeg by CWB officials McNamara and Riddel, and Liu of CIRECO.\(^{104}\) The Canadian Cabinet agreed to accept payment in convertible sterling and to consider importing more Chinese goods into Canada. Minister of Finance, Donald Fleming, was unenthusiastic about accepting sterling and later remembered that

\[...a\ large\ purchase\ by\ China\ seemed\ imminent\ if\ Canada\ would\ accept\ payment\ in\ sterling.\ In\ a\ transaction\ of\ the\ size\ contemplated\ it\ would\ be\ necessary\ for\ Canada\ to\ feed\ the\ sterling\ back\ into\ the\ market\ gradually\ or\ it\ would\ have\ the\ effect\ of\ boosting\ the\ external\ value\ of\ the\ Canadian\ dollar,\ which\ I\ was\ most\ anxious\ to\ avoid.\]  

Fleming was also concerned about the possible devaluation of sterling, which could reduce profits from the sale. His concerns were justified as sterling exchange rates were specified as part of the contract, but Chinese payments would not be received for up to 24 months from the date that the contract was signed. Only four days after the contract was signed, due to fluctuations in exchange rates, the CWB had already begun to lose money on the transaction.\(^{106}\) The threat of devaluation of the


\(^{106}\) NAC: RG#25: Vol. 4722, File 50055-B-40, pt.15, to DEA Ottawa, from NATO, Paris: 'Famine in China', 1 February 1961. Comment written at the bottom of the telegram which was sent to Tom Pope, FE division,
### TABLE 3.3

**Initial Chinese (CIRECO) Cash Purchase of Canadian Wheat from the CWB: January 1961**

[In tonnes (trade grain weight) and % of total Canadian grain exports and total Chinese grain imports]

<table>
<thead>
<tr>
<th>Date of Contract</th>
<th>Type *</th>
<th>Quantity ** (tonnes-trade grain weight) and percentage of total Canadian wheat/four exports and total Chinese grain imports in year delivered in ()</th>
<th>Price (per long ton) ***</th>
<th>Terms****</th>
<th>Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>cash contract #1: 27 January 1961</td>
<td>MN # 2 wheat</td>
<td>660,430 (7%) Canadian (11%) Chinese</td>
<td>£ 23.5s.6d. FOB ex Vancouver</td>
<td>cash</td>
<td>121,926 MN#2, April 1961; 101,605 MN#2, May 1961; 172,728 MN#2, June 1961; 172,728 MN #2 July 1961; 91,444 MN#2 August 1961;</td>
</tr>
<tr>
<td></td>
<td>MN # 3 wheat</td>
<td>101,605 (1%) Canadian (2%) Chinese</td>
<td>£23.0s 2d FOB ex Vancouver</td>
<td>cash</td>
<td>101,605 MN#3 August 1961</td>
</tr>
</tbody>
</table>

* Moisture content not to exceed 14.5%.

** Plus a 5% buyers option more or less.

*** Price excludes the CWB agent's commission of up to 8 pence per long ton shipped under the contract.

**** Chinese open irrevocable letter of credit without recourse, 100% of invoice value for each shipment in favour of seller's agent through a chartered bank in Vancouver, On terms agreed upon by the sellers agent.


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DEA said "CDN sales made for...(pounds) for first time...(and) Wheat Board has already lost money.($60,000,000 is involved)..."
pound sterling, would later force the CWB to

sell sterling forward in the futures market to protect its
position...with some discretion, since the volume
involved...(was) considerable and could probably have had some
effect on the value of sterling.107

However, even if profits from the sales were reduced, the fact that
the grain was sold saved the CWB greatly on storage costs which, due to
the record surplus, had been a considerable financial burden.

Under standard procedure, the CWB set prices and supplied grain
to its agents, who in turn delivered the grain to the buyer. The
purchaser could choose the agent it wished to deal with so long as the
firm was registered under the CWB at Pacific, St. Lawrence or Atlantic
ports. Not only did the agent firm provide trimming and stowing services
but it also underwrote cash sales on behalf of the CWB. In effect, the
Board's agents, mainly the international grain firms, sold grain on
behalf of the CWB.108 CIRECO was eager, possibly for political reasons, to
do business with an all-Canadian CWB agent firm but soon learned that the
cost of services provided by these firms was higher than dealing with the
large international firms.109 The CWB agent firm, for the Chinese-Canadian
grain sale contract signed on 27 January was Louis Dreyfus who made
arrangements through its Canadian affiliate, Dodds Stewart.

As with the Chinese-Australian transactions CIRECO hoped to
keep the Chinese-Canadian sale secret so that they could charter ships
before word of the large sale drove up shipping costs. However, during
the negotiations CWB officials told the Chinese that they could
"...guarantee secrecy during the negotiations, but once the contract was
signed and the information was provided to the Minister they could not
be certain that an announcement would not be made...."110 The Canadian
government was eager to tell Canadian grain producers and the general
public about the sale. Between 30 January and 2 February Hamilton
discussed the matter with CWB and DTC officials. One DTC official advised
Hamilton: "You will hurt them on freight, don't announce the sale until
the buyer agrees..."111 On the same grounds some Cabinet members also
expressed reservations about making an announcement.

Cabinet nevertheless ultimately decided that "for tactical
reasons" it was in the government's interest for prairie grain farmers,

107 R.L. Kristjanson, 'Problems and Prospects of Canadian Wheat
Sales to China and the USSR', Journal of Farm Economics, Vol.49, No.5,
December, 1967.
109 NAC: RG#25: Vol. 5280, 9030-40, pt.1, to McNamara, CWB, from
Treleaven, CWB, Hong Kong, 22 February, 1961.
110 NAC: RG#20: Vol. 1943, to DTC, Ottawa, from Forsyth-Smith,
Hong Kong, 28 February 1961.
111 NAC: RG#20: Vol. 1943, from DTC: 'Wheat Sales to China', 4
April 1961.
railway workers and employees of Canadian port facilities to be told immediately of the sale and the benefits to the Canadian economy that the transaction would bring. Hamilton subsequently asked that DTC officials contact Forsyth-Smith to obtain approval from CIRECO for an announcement, but he had not received a response from the Chinese by 2 February. Forsyth-Smith never did receive the message from Hamilton. On that day the House of Commons was told of the sale. The announcement coincided with the opening of the annual meeting of the Canadian Labour Congress. The Americans were informed shortly before, through the DTC grain division, Ottawa and the Canadian embassy in Washington. For the most part, Canadians approved of the sale and their reaction to it was summed up by Paul Martin, Liberal Member for Essex East, who said that

...all members of the House, join with the Minister in the satisfaction which undoubtedly must come in the realization of the arrangement with the Chinese...which will be of great value to the income position of many farmers in Canada....

Hazen Argue, Co-operative Commonwealth Federation Party Member of Parliament for Assiniboia, Saskatchewan, added that he hoped more Canadian grain could be sold than the previous year and that, because of the recent sale, Ottawa should extend diplomatic relations to Beijing.

Announcement of the sale infuriated Beijing as it drove up shipping rates, ultimately costing Beijing a considerable amount. Canadian officials in Hong Kong felt that their relations with CIRECO officials had been jeopardised by the announcement. Small pointed out that "...in Canadian grain trade practice it is not customary to release such commercial information until it appears in our statistics long after the event." He added that, if such an announcement was made regarding a contract between the CWB and a 'traditional' customer, the Board would lose any future business with that customer.

With respect to Australian-Chinese grain sale contracts, signed with between 21 and 23 January 1961, AWB chairman Sir John Teasdale had waited until 6 February, (ie. until after the Chinese had chartered

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114 Interview with Forsyth-Smith 3 January 1996, and correspondence with author 10 October 1999.
116 Ibid., Hon. Paul Martin on Sale of Wheat to China, p.1650.
117 Ibid., Hazen Argue, p.1650.
vessels to carry the grain) before making an announcement. Chinese government losses of foreign currency associated with the Canadian government's public announcement of the sale was probably a factor contributing to the Chinese government's decision to form China Ocean Shipping Company (COSCO) in April 1961. The Chinese hoped to replace and slowly bolster their aging domestic merchant fleet in order to reduce their dependence on foreign ships and thus save on foreign exchange. Following COSCO's formation, total dead weight tonnage of China's merchant marine increased by 9.2% between 1960 and 1961 and approximately another 4% annually between 1962 and 1964.

During December and January 1961 the Chinese rapidly depleted their domestic silver, gold and foreign currency reserves to pay for the large cash purchases and delivery of Western grain. Thus, it was necessary for the Chinese to ask in early February 1961 if the Canadian and Australian governments would guarantee generous credits to facilitate additional large purchases of grain.

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CHAPTER 4

Initial Chinese-Western Grain/Flour Credit Transactions: February-July 1961
Chinese Requests for Credit to Finance Purchases of Grain

Until February 1961 Chinese currency reserves and bullion sales financed China's grain purchases. On 13 February the Bank of China's head office in Beijing informed its Hong Kong branch that it would eventually provide the funds necessary to cover all purchases of Western grain. However, K.C. Jay and other officials of the Hong Kong branch of the Bank of China were sceptical of their Head Office's position. Jay was authorised to negotiate the commercial aspects of Chinese trade deals, but required final approval from Beijing. On 3 February Jay told Forsyth-Smith that his branch was

...presently blocking Chinese funds received in payment for exports to Hong Kong against their use for payment for...grain...(but) the two million tons already contracted for is just a beginning....Larger orders will be placed before the year is out...yet the authorities in Peking have not themselves worked out the methods of obtaining the funds to pay for these purchases...2

Jay 'guessed' that Beijing would require substantial credits to facilitate additional purchases and then wanted to know what Ottawa's intentions might be in this regard. He noted that Western exporters to the Chinese market were not at risk when credits were opened by the Bank of China's Hong Kong branch because this branch was subject to British legal procedure. It owned considerable assets in the colony and would only open credits if it had the funds. He "...strongly advised...[the Canadians] against agreeing to credits opened by the...(Bank of China) in China and against agreeing to payment against documents in China."3

CIRECO meanwhile invited a CWB team to return to Hong Kong between 16 and 24 February to resume contract negotiations for the sale of grain and to meet with Shanghai chartering organisation representatives. At Beijing's request a CWB transportation specialist was included in the group to advise on scheduling of Chinese grain orders. During negotiations for the Chinese-Canadian contract signed on 16 February CIRECO fought for price concessions, prompt deliveries, guaranteed quality and secrecy of negotiations.4

On 20 February CIRECO and the CWB in Hong Kong signed a further contract covering a cash sale of 60,963 tonnes of wheat being diverted

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3 Ibid.
to Albania. (SEE TABLE 4.1) Three years later China's ambassador to
Poland, Wang Bingnan, told an official from Poland's Ministry of Foreign
Affairs that if the Canadian wheat being diverted to Albania, despite the
Chinese famine, was

...divided up among the Chinese population (it) meant (the
loss of) only a few grams per (individual Chinese) person and
was of no consequence. China derived more benefit from it
from a political point of view by supplying Albania.5

Also on 20 February a report submitted by the administrative council of
the PLA Military Affairs Commission stated that, while individual grain
and flour rations within the PLA were no less than before, they were
"...just barely enough for...(individual) need and not enough to satisfy.
This problem we were not at all conscious of before, but now it is a
question of daily interest." PLA rations were no longer adequate mainly
because extra grain supplies were unavailable as rationing was stricter
than before. Also the quality and quantity of supplementary vegetables
and food for the army had been greatly reduced.6 The Party Committee Rear
Services Department's 'Report on Prevention and Treatment of Edema
Throughout the Army' also submitted that same day explained that although
the oedema outbreak had peaked in December 1960 and had subsequently
decreased it remained a problem. The main causes were the PLA's reduced
food supplies and the practice of army staff sharing their rations with
their families. The report listed emergency measures for resolving the
remaining oedema problem, the most important of which was supplying
officers and soldiers with adequate food rations. The importance of this
report is highlighted by the fact that it was read by Luo Ruqing, the
Sichuan-born chief of the PLA's General Staff, whose response on 25
February was that "...conditions of those who suffered from edema
throughout the army are more serious than we previously realized....It
is earnestly requested that emergency measures be taken to solve this
problem....If we fail to take emergency measures, this disease will
spread further."7

5 NAC: RG#25: Vol. 5281, File: 9030-40, pt. 9, to DEA Ottawa, from
6 Cheng, The Politics of the Chinese Red Army, pp. 295-301, 351-
356.
7 Ibid. Luo Ruqing was the son of large land owner in Sichuan.
# TABLE 4.1

**CIRECO-CWB Cash Wheat Contract #2: February 1961**  
[in tonnes (trade grain weight) and % of total Canadian grain exports and total Chinese grain imports]

<table>
<thead>
<tr>
<th>Date of Contract</th>
<th>Type *</th>
<th>Quantity ** (tonnes-trade grain weight) and percentage of total Canadian wheat/flour exports and total Chinese grain imports in year delivered in</th>
<th>Price (per long ton) ***</th>
<th>Terms****</th>
<th>Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>cash contract #2: 20 February 1961@</td>
<td>MN # 2 wheat</td>
<td>40,642 (.4%) Canadian (.7%) Chinese</td>
<td>£24.2s.5d. FOB</td>
<td>cash</td>
<td>20,321 MN#3 20 March 1961- 20 April 1961, ex East Coast; 20,321 MN #2 1 April 1961- 30 April 1961, ex St. Lawrence</td>
</tr>
<tr>
<td></td>
<td>MN # 3 wheat</td>
<td>20,321 (.2%) Canadian (.3%) Chinese</td>
<td>£24.7s.9d. FOB</td>
<td></td>
<td>20,321 MN #2 1 May 1961- 31 May 1961 ex St. Lawrence</td>
</tr>
</tbody>
</table>

@ For shipment to Albania 2.2 million bushels valued at $3.7 million (Canadian).

* Moisture content not to exceed 14.5%.

** Plus a 5% buyers option more or less.

*** Price excludes the CWB agent's commission of up to 8 pence per long ton shipped under the contract.

**** Chinese open irrevocable letter of credit without recourse, 100% of invoice value for each shipment in favour of seller's agent through a chartered bank in Vancouver, On terms agreed upon by the sellers agent.

Source: NAC: RG#25: vol. 5280, file: 9030-40, to Treleaven, executive assistant, CWB (visiting Hong Kong) from CIRECO representative Liu Liang.
Meanwhile, in Hong Kong on 23 February Liu Liang suddenly told the Canadians that over the next two years, beginning immediately on completion of the current contracts, Beijing might purchase between two and three million tonnes of wheat. CIRECO's interest in importing increased quantities of Canadian grain was probably the result of Beijing's reaction to the official reports received on 20 February about food shortages and oedema within the PLA.

Liu explained that the Chinese would export rice to help pay for Canadian wheat. However, while Chinese import-export plans were concluded annually between January and March (inclusive), domestic crops were not harvested until May and June. Export earnings from these crops would be received too late to pay for additional imports of Western grain between February and summer 1961. Owing to the time lag, until surplus harvest produce was sold abroad, further Chinese purchases of Canadian grain required flexibility on payments. Liu added that credits of up to one year were required and asked that Ottawa seriously consider increasing the volume of Canadian imports of Chinese goods. The Canadians agreed to help the Chinese contact potential importers of Chinese goods and advise them on marketing methods, but reiterated that the Chinese should draw up a list of items that Beijing hoped to sell in Canada—goods which would not endanger the stability of Canadian producers.

After learning about the possibility of additional—and potentially large—Chinese purchases of grain, CWB chief McNamara advised Board negotiators in Hong Kong to press CIRECO to formalise an agreement because he was "...quite confident that the USA would be moving in the next six months and...would like to get something firm up with ...(CIRECO) prior to a change in American policy." On 24 February CIRECO and the CWB concluded their scheduled preliminary discussions concerning possible credit grain sales and the Canadians were preparing to leave the following evening. However, on the morning of the 25th Liu Liang unexpectedly asked the Canadians to meet him that afternoon. He now told the Canadians that Beijing wanted to negotiate a new Chinese-Canadian contract, beginning when the present contract expired, under which the Chinese would purchase 6.1 to 7.1 million tonnes of grain over a thirty month period. Liu made it clear

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that these further large orders depended on credits being extended.\textsuperscript{12} CIRECO's interest in purchasing, over the long-term, much larger quantities of Canadian grain than before was probably related to Luo Ruqing's recommendation that same day calling for emergency action to eliminate the further spread of oedema in the PLA. This was the first indication that some Chinese officials were taking steps to implement a large-scale, long-term grain import programme although first official mention of the need for such a strategy was not made until May 1961.

In relaying details of CWB-CIRECO negotiations to Ottawa on 25 February, Forsyth-Smith advised the Canadian government not to wait too long before extending credits to Beijing because further Chinese-Australian grain sale negotiations were underway.

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**Chinese Approach the AWB for Credits and a Long-Term Grain Agreement**

During the first week of February 1961 Bu told Australian trade commissioner, Patterson, that Beijing hoped to purchase 1.02 million tonnes of Australian grain annually over the next two years - including 1.02 million tonnes in addition to quantities already purchased from the AWB for June to October delivery. At the same time, Bu implied that credits of up to 90 days might be required to facilitate these additional purchases. The Australian government, though already concerned about the price at which the AWB had sold wheat to the Chinese, wanted additional large wheat sales to China to help the Board reduce its surplus. Perrett made plans to resume negotiations with CIRECO.\textsuperscript{13}

On 20 February Chinese-AWB negotiations reopened in Hong Kong and Perrett spoke publicly about continuing negotiations in Beijing. On the 21st Bu told Perrett that SINOFRACT and CEROILFOOD were pressuring him to obtain more rapid deliveries of the Australian grain scheduled for delivery between March and April, adding that, no matter how productive the Chinese harvest was in future years, Beijing would continue to buy Western wheat. Bu added that for goodwill and security the Chinese were interested in negotiating a long-term agreement that would specify general sales and shipment objectives. However, owing to uncertainty about its ability to supply wheat to traditional customers, the AWB was unenthusiastic about signing a long-term agreement. Nevertheless, Perrett


\textsuperscript{13} NAA: A1804/28 201/12/1, pt.1: 'Flour For China', from Kentwell, Assistant Secretary Agricultural Products Marketing, 23 February 1961.
agreed to draft a non-binding agreement covering 1962 and 1963 despite expressing pessimism about its chances of being approved by the Australian government.

Before offering CIRECO 203,209 tonnes per month between July and October 1961, Perrett stated that grain prices had rise since the last contract. Bu's response was that Beijing would purchase this amount and more if the grain became available and if Australia extended credits. Bu then explained that wheat purchases since September 1960 had depleted Chinese currency reserves by about £50 million and Beijing no longer could afford additional cash grain purchases. He reminded Perrett that Ottawa had recently extended three year credits to facilitate grain sales to Poland. Bu added that Beijing required six to twelve month credits to pay for additional grain purchases, although hoping to earn currency by exporting textiles, rice and soybean. Perrett replied that Australian banks would not provide this credit due to their poor liquidity position and shortage of foreign exchange. Bu reminded Perrett that there were no other new markets available for Australian wheat and that storing the surplus grain was costly.

Perrett had no authority to negotiate a credit deal, but he forwarded CIRECO's proposal to the Board and the CTB and the Federal Reserve Bank. Meanwhile, on 23 February the Chinese signed another contract to purchase 101,605 tonnes of Australian oats for human consumption for cash. Between 20 and 27 February the Australian Barley Board (ABB) and CIRECO negotiated a contract for another 335,280 tonnes of barley. (SEE TABLE 4.2)

On 27 February the Australian Minister of Trade, Minister responsible for the AWB, John McEwen told Prime Minister Menzies of CIRECO's request for six to twelve month credits to facilitate further wheat purchases. McEwen reminded Menzies that the issue of Australian grain sales to China was not raised when US President Kennedy and Menzies met on 24 February. McEwen's

...firm political judgement...was that the broad Australian viewpoint is to hope for a betterment of relations with...China...(but) it as a mistake to give credit on terms which the Canadians would consider as being non-commercial.16

On 1 March McEwen informed the Australian Cabinet of CIRECO's offer and the AWB's proposal to extend credits to Beijing. On the 2nd, Cabinet "...decided that there would be no political objection to the sale of

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TABLE 4.2
CIRECO-Australian Barley Board Cash Grain Contract: February 1961
[in tonnes (trade grain weight) and % of total Australian grain exports and Chinese grain imports]

<table>
<thead>
<tr>
<th>Date of Contract</th>
<th>Quantity (tonnes in trade grain weight)</th>
<th>Variety/ Quality</th>
<th>Value in Million $A and % of total Chinese grain imports and total Australian wheat/flour exports in year delivered</th>
<th>Price Per Long Ton</th>
<th>Delivery Period</th>
<th>Payment Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>cash contract #5: 20-27 February 1961</td>
<td>335,280</td>
<td>Barley #3 Chevalier of which 20,000 was #4 Chevalier.</td>
<td>(6%) Chinese (6%) Australian</td>
<td>£19.17s.3d</td>
<td></td>
<td>cash*</td>
</tr>
</tbody>
</table>

* payment was made against sight draft under irrevocable letters of credit established in the AWB’s favour with the CTB.

Source: grains section, marketing division. Australian DPI; various AWB trade reports/statistics found within the Australian Archives (especially NAA: A1804/28 201/12/1, pt.3 to Ward, from Adernian Attachment A 19 June 1963); NAA: A1839/275 766/1/4, pt.5: ‘Australian Grain Exports To Mainland China’, 20 August 1965.
wheat to... China on terms which could be regarded as commercial."\textsuperscript{17}

On 7 March Canberra instructed the Australian High Commission in Ottawa to discover whether CIRECO had asked the CWB for credits and what the Canadian government's position was on such trade. Canberra wanted to keep the Canadians fully informed about its position on extending credits to China and hoped that Ottawa would reciprocate. Canberra asked that Ottawa be briefed about CIRECO's offer to the AWB and emphasised that Australia would not extend credits unless the Chinese refused to pay cash. In case credits were required, Canberra was interested to know if Ottawa drew "...any distinction between six months, twelve months and longer periods...."\textsuperscript{18}

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**Canadian and Australian Views on Credit Sales**

On 7 March, when Canberra asked Ottawa for its position on extending credits to China, Alvin Hamilton decided that, if the Canadian government hoped for further large Chinese purchases of Canadian grain, it must seriously consider CIRECO's 25 February request for generous medium-term credit cover. Hamilton presented a memorandum to the Canadian Cabinet on 8 March indicating that the Chinese hoped to purchase approximately 5.3 million tonnes of wheat and 1.02 million tonnes of barley before August 1963. He argued that, while the CWB still hoped to conclude a cash agreement, credits of up to twelve months and $150 million Canadian should be allowed. A long-term agreement would involve a Chinese commitment to purchase - and would require the CWB to make available - minimum and maximum quantities of wheat and barley over thirty months. Individual contracts covering price and quantity would then be negotiated at monthly intervals. Hamilton told Cabinet that this was an important opportunity "for Canada to develop an immediate and long-term interest in a market which may very well be a continuing buyer of wheat in volume."\textsuperscript{19} Sales under such an agreement would also save the government grain storage costs of up to $50 million.

Because the CWB lacked the authority to sell grain abroad under credit terms, Cabinet had to decide if it would guarantee substantial credits to facilitate the proposed agreement.\textsuperscript{20} Subsequently, the Cabinet

\textsuperscript{17} NAA: A4940/1 S3287, cabinet decision no. 1245, 'Wheat Sales on Terms to Mainland China', 2 March 1961.

\textsuperscript{18} NAA: A1804/28/201/12/2, pt.1, to Australian High Commission in Ottawa, 7 March 1961.


\textsuperscript{20} NAA: A1804/28 201/12/1, pt.1: 'Flour For China', from Assistant Secretary Agricultural Products Marketing, 23 February 1961.
briefly considered completing the credit arrangements under section 21 of the Exports Credit Insurance Act, but the maximum liability that could be assumed by the Exports Credit Insurance Corporation (ECIC) was $200 million. However, the corporation had already extended credits of $163 million and Ottawa did not want to increase its loan ceiling through amendments to existing legislation.

Alternatively, the Minister of Finance had the authority to utilise section 11 of the CWB Act "...to guarantee bank loans to the... (CWB to carry) out its operations under the Act." It was assumed that the Canadian government would be obligated to reimburse the CWB if the Chinese defaulted on their loan payments. Hamilton stated that, because Ottawa had criticised Washington for its surplus disposal methods, the Americans - and governments of other exporting nations - might object to a Chinese-Canadian governmental credit agreement. Because NATO members were obliged to report the extension of credit to Communist nations, Hamilton recommended that the terms of the agreement be discussed with Washington and Canberra before concluding it.

Since 1959 Washington, which considered medium-to long-term credits comparable to foreign aid, had asked allies to refrain from extending credits of more than 180 days to the USSR and its allies. However, Chinese credit purchases had not been discussed at NATO and it was unclear how Washington felt about short-term credits being extended to Beijing. On 9 March 1961, when Cabinet met to discuss the proposed agreement, the strongest opposition was again voiced by Howard Green and Donald Fleming: Green wondered how the transaction might affect Canadian-American relations while Fleming worried about a possible default on payments. Finally, the Cabinet agreed that, if the CWB failed to conclude more cash sales with CIRECO, Cabinet would reconsider the credit proposal. However, if credits were granted, they would not be in excess of $50 million with a down payment of 25% and the balance paid in 180 days. The Cabinet also told Hamilton to inform the US Secretary of Agriculture, at the upcoming meeting of the US-Canada Committee on Trade and Economic Affairs in Washington, of the possibility that Ottawa would extend credits to Beijing. Hamilton was also instructed to discuss the matter with Australian government officials after the Committee meetings.

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21 By late November 1962 this figure was increased to $400 million. The Export Credits Insurance Corporation Act (1944) provided for the establishment of ECIC.
23 Ibid.
In Washington. 25

On 10 March Ottawa advised McNamara to continue negotiations with CIRECO but asked him to obtain its approval before completing a credit transaction. 26 On 19 March McNamara arrived in Hong Kong accompanied by CWB executive assistant Treleaven, comptroller/secretary C.E.G. Earle, and the director of the CWB grain research laboratory. That same day he encountered Perrett, also newly arrived in Hong Kong, who suggested that an AWB-CWB credit term limit be reached before selling more grain to China. McNamara told Perrett that he could probably obtain Canadian government authority to offer Beijing terms of 50% cash on shipment and 50% in six months. Perrett replied that he lacked the authority to extend credits to the Chinese but intended to discuss the matter with the AWB and the Commonwealth Trading Bank (CTB). McNamara and Perrett then agreed to tell each other about any subsequent changes in their credit policies. Ottawa also advised Canberra that it was very interested in Perrett's proposal to establish an informal agreement whereby both governments consulted one another concerning credits offered to Beijing. Privately, Perrett felt that the AWB must be willing to make an initial offer to CIRECO of nine month credits, or even a final offer of up to twelve months to close a large deal. Yet he wondered

...what will Canada think of us, if, having obtained their firm ideas, we...improve on their terms...(However), I made no commitment as to what we were likely to do...(but) in all fairness...we should advise...McNamara of any (AWB) variation...on the terms....He advised me he is holding. 27

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Canadian-Chinese Thirty Month Grain Agreement
Negotiations

When CIRECO-CWB negotiations resumed in Hong Kong on 22 March the Chinese reiterated their interest in negotiating a thirty month grain deal covering quantities mentioned above. However, the Canadians immediately realised that another large Chinese-Canadian cash grain sale was unlikely. Then CIRECO officials told the Canadians that, following completion of current negotiations in Hong Kong, the Chinese might invite them to Beijing. Both Forsyth-Smith and Small had been part of the CWB negotiating team until that point and Small, who spoke Chinese had been keeping members of the Canadian side informed as to what the Chinese negotiators said amongst themselves. McNamara immediately obtained official approval from Ottawa for Small to accompany the CWB delegation if the Chinese invited them to Beijing.

Meanwhile, on 13 March at a Joint Cabinet Committee Meeting on Trade and Economic matters, Hamilton told US Secretary of Agriculture Orville Freeman that CIRECO-CWB negotiations were continuing, adding that Ottawa might extend credits to China to facilitate further sales if additional cash sales could not be negotiated. At the quarterly Canada-US Subcommittee Meeting on Grains on 27 and 28 March the Canadians told the Americans about developments in the Chinese-Canadian negotiations. As part of the meeting's agenda, officials of the US State Department and Canadian DRA discussed Chinese food problems and Chinese-Canadian grain sales. At this time the Americans were not critical of the sales or their possible implications.

On 21 March G.O.W. Stewart, deputy manager of The Hong Kong and Shanghai Banking Corporation (one of the few Western companies still operating in China), told US Consulate officials in Hong Kong that the Chinese had recently become much friendlier towards the bank's representatives and to John Keswick, head of Jardine Matheson in London. Stewart concluded that Beijing might be changing its attitude toward Western firms able to help them solve their trade problems. CWB negotiators in Hong Kong also commented on Chinese efforts to improve relations with the Canadians. On 29 March Forsyth-Smith told American

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officials that the Chinese were now 'grovelling' for credit terms.\textsuperscript{31}

According to banking sources, the Bank of China, during March and April, was depleting Chinese currency reserves at a rapid rate to pay for purchases of Western grain in March and April.\textsuperscript{32}

On 7 April McNamara, continuing negotiations with CIRECO in Hong Kong, told Ottawa that he had offered the Chinese $50 million in credits, with 25\% down payment and the balance due in six months. The only major point of contention remaining was that CIRECO had refused six month credits and was holding out for nine month terms. McNamara stressed that, unless Cabinet was willing to offer nine month credits, the CWB might have to terminate negotiations.\textsuperscript{33} On 8 April Hamilton asked Cabinet to agree to guarantee nine month credits.\textsuperscript{34} The following day, when the Canadian Cabinet discussed this proposal, Green and Fleming raised the same objections as before and Cabinet remained divided.\textsuperscript{35} Hamilton, still hoping to complete the deal, finally presented Diefenbaker with a letter of resignation to take effect if Cabinet vetoed the credit proposal. Diefenbaker later recalled

...that if credit were arranged, loans guaranteed, etc., and if... (Beijing)...did not pay by the due date...my Government would be in an impossible position. I consulted with as many opinions as there were experts. The responsibility had ultimately to rest with me.\textsuperscript{36}

Hamilton's ultimatum persuaded Diefenbaker to support the proposal and Cabinet 'agreed' on 11 April to guarantee credits of up to $50 million over nine months.\textsuperscript{37} On 12 April the DEA advised Hamilton to inform the US ambassador to Canada (or have ambassador Heeney call on the Under-Secretary of State) of any subsequent sale before announcing it in the House.

It is not known if Canberra had immediately notified Ottawa that on 10 April it had learned that an unidentified American firm had offered CIRECO unlimited quantities of wheat to be shipped via Hong Kong.

\textsuperscript{31} USNA: RG#59: CFPF, CDF 1960-63, Box 2882, 893.131/4-461: from American consul, Hong Kong, to Washington, 4 April 1961.
\textsuperscript{33} NAC: RG#20: Vol. 1943, File 20-141-C3, telegram from MacNamara, to DTC, Ottawa from Hong Kong, 7 April 1961.
Representatives of this firm had told CIRECO officials that the US administration would approve the sale if the Chinese government agreed to import the grain. The Bank of China subsequently referred the matter to Zhou Enlai.38

On 14 April Bu, who had been participating only in CIRECO's negotiations with the AWB invited CWB negotiators to visit Beijing to conclude negotiations with CEROILFOOD.39 However, Bu rejected McNamara's request that Forsyth-Smith and Small accompany the CWB team, insisting that the Chinese government would disapprove of a DEA official (Small) participating in these negotiations. Forsyth-Smith and Small concluded that the Chinese wanted to exclude them from these final negotiations because they had extensive experience in negotiating with them and might be able to identify Chinese bargaining strategies. Such an exclusion might adversely affect Canada's position in the negotiations. Thus both Small and Forsyth-Smith advised McNamara not to proceed to Beijing without his complete team.40

By this juncture CIRECO and the CWB had been negotiating for three weeks and had completed an agreement in principle. The Canadians had offered credits of $50 million, provided Beijing agreed to an agreement of two years and six months in duration. Of the $50 million in credits, $2 million were to be spent on imports of Canadian flour. The matter of deliveries, prices, and interest rates had not been discussed, because the issue of credit terms remained unresolved. Upon their departure for Beijing on 15 April McNamara, Treleaven and Earle expected to conclude negotiations on 19 April and return to Hong Kong on 21 April. However, Small considered the CWB's plans too optimistic as "...on the basis of past performance, the Chinese will almost certainly delay their departure beyond tomorrow (20 April)."41 When the Canadians arrived in Beijing on 16 April CEROILFOOD wanted to renegotiate much of the groundwork already laid in Hong Kong. At a banquet on 17 April, McNamara criticised CEROILFOOD's approach to the negotiations: and the Canadians subsequently walked out of one negotiating session to protest Chinese efforts to win concessions by constantly referring to the seriousness of the Canadian grain surplus.

Several days after the Canadians arrived in Beijing, CEROILFOOD told them that in Hong Kong on 18 April, AWB negotiators

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40 Interview with Forsyth-Smith, January 1996 and correspondence with Forsyth-Smith, 10 October 1999.
offered grain at below the price at which the AWB sold wheat to the UK and the EEC, with payments to be made in twelve months. Later, at the Wheat Utilization Committee meetings in Washington on 23 May, Treleaven told Australian representative, A.C.B. Maiden, that, during the CWB-CIRECO negotiations in Hong Kong in April, the Canadians felt that AWB-CWB relations had been damaged by Australian officials giving the Canadians incorrect information regarding AWB-CIRECO negotiations. The AWB, hoping to convince the CWB to work with them, had told the Canadians that the AWB selling price would be above current export prices, with an interest rate the same as the Canadians' (5.25%), and credits below twelve months. Maiden told Canberra that CWB officials felt that AWB negotiations were practically concluded in Hong Kong before the Canadian(s) went on to (Beijing) and there was ample time for Perrett and his colleagues to have discussed the matter with the Canadians. The Canadians feel that their negotiating task was made more difficult by the terms that the Australians seemed to be prepared to offer the Chinese. (Possibly) the Chinese put it over on the (CWB) by pretending to have come to an agreement with Perrett and company when they had done nothing of the kind.

Maiden's analysis was indeed correct. The Canadian Trade Commission later reported to Ottawa on Chinese negotiating tactics:

...at three separate levels up to and including the (Chinese) Minister of Foreign Trade, the Chinese negotiators in Peking during the final stages of the negotiations with the (CWB) affirmed categorically that the Australians in Hong Kong had finalized and signed their agreement. Information (to the contrary, obtained later, confirmed) that the Chinese were...lying in order to pressure the Canadian delegation into agreeing to... (Chinese) terms. China's annual trade agreements have been widely publicized at home and abroad by the Chinese themselves... (but) nothing has appeared regarding grain purchases from Canada and Australia in either...(the) Chinese press or in...(China's) official Xinhua which is designed for external consumption.

A Chinese-Canadian thirty month agreement was finally signed on 22 April by Fu Xing, deputy director of CEROILFOOD, and Li Youzheng, acting director of CEROILFOOD, and by Treleaven, Earle and McNamara of the CWB. The agreement set minimum and maximum amounts of wheat and barley that the Chinese would purchase. (SEE TABLE 4.3) It also provided for CIRECO to purchase Canadian flour during the 1961 calendar year. That same day the CWB and CEROILFOOD also signed the initial two contracts under the agreement (SEE TABLE 4.4).

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43 Ibid.
### TABLE 4.3
Terms of the Initial Chinese-Canadian Thirty Month Grain Agreement

<table>
<thead>
<tr>
<th>Date Signed and Terms of Agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Signed:</strong> 22 April 1961 in Beijing by officials of CEROLFOOD and the CWB. (announced in the Canadian House of Commons by Minister of Agriculture Alvin Hamilton on 2 May 1961)</td>
</tr>
<tr>
<td><strong>Period Covered:</strong> 1 June 1961 - 31 December 1963 (thirty months)</td>
</tr>
</tbody>
</table>

#### Contracts
Individual contracts under the agreement were to be negotiated periodically with respect to price, terms and quality.

#### Quantities Involved
For the CWB to supply a minimum of 3,046,118 tonnes of wheat and a maximum of 5,108,317 tonnes of wheat and a minimum of 609,623 tonnes of barley and a maximum of 1,016,765 tonnes of barley. The agreement also made provision for CIRECO to purchase from the CWB 33,021 tonnes of Canadian flour on mutually satisfactory terms during 1961.

#### Payments
In convertible sterling at a different rate for each contract. However, because Chinese payments were not received for up to 24 months after the date of the signing of the contract fluctuations in exchange rates and the threat of sterling's devaluation meant that the CWB had to sell sterling forward in the future market to protect its position. Because of the volume of sterling involved, the Board had to take precautions not to influence the value of sterling by their operations in sterling finance.

#### Credit Terms
For the first seven contracts under the agreement terms were 25% cash, balance in 273 days, interest rate of 5.5% (2.5% above the bank rate), with Canadian government guaranteed**credilimit of $50 million. For the final two contracts under the agreement the Canadian government agreed to extending the credit guarantee from nine to twelve months in duration. Then on 16 June the Canadian Cabinet agreed to increase the credit guarantee from $50 to 100 million.

#### Conditions of Sale
Covered by Order in Council, P.C. 1961-1012 of 13 July 1961, which was reported to the House of Commons in the 27 September 1961 summary of Orders in Council and passed in July. It authorised the Minister of Finance to provide a guarantee to the CWB under Section 11 of the CWB Act. This Order in Council...authorized the Minister of Finance to give the... (CWB), an undertaking that, in the event of any default by the... (Chinese) in respect of payments due to the Board under contracts...such Parliamentary approval as may be necessary will be sought to enable direct reimbursement by the Government of Canada to the Board of any payments in respect of which the corporation is in default, and authorized the Minister also to guarantee to six chartered banks the repayment of advances and the interest thereon to the Board up to a total not to exceed $100 million outstanding at any time... (see: NAC: RG#25 File 5030-40, House of Commons Debates, Douglas Harkness Answer to Question by Melville (question No. 189), Subject: Wheat Sales to China Resources Company, 26 February 1962.)

#### Conditions of Sale
Under article 5 of the thirty month agreement the Chinese agreed not to divert or resell Canadian grain purchased under the agreement to regular Canadian export markets. A special memorandum attached to this agreement, which formed an inseparable part of the document, stated which nations did not represent regular Canadian export markets mentioned in article 5 of the agreement. Nations listed in the box were North Korea, North Vietnam, the USSR, and East Germany.

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* Neither the agreement nor any of the Chinese contracts to purchase foreign grain were referred to publicly by the Chinese government or reported in the Chinese press. This was because doing so would amount to a public admission of the Chinese government's failures in domestic grain production and distribution policy.

** This flour transaction was never completed because CIRECO was able to purchase flour at much lower prices from West European firms. The flour sold by West European firms to the Chinese was either milled from US wheat or US wheat was replacing West European grown wheat being milled for flour for export to China. (See: LATER SECTIONS OF THIS CHAPTER AND CHAPTER 6)

*** Covered by Order in Council, P.C. 1961-1012 of 13 July 1961, which was reported to the House of Commons in the 27 September 1961 summary of Orders in Council and passed in July. It authorised the Minister of Finance to provide a guarantee to the CWB under Section 11 of the CWB Act. This Order in Council...authorized the Minister of Finance to give the... (CWB), an undertaking that, in the event of any default by the... (Chinese) in respect of payments due to the Board under contracts...such Parliamentary approval as may be necessary will be sought to enable direct reimbursement by the Government of Canada to the Board of any payments in respect of which the corporation is in default, and authorized the Minister also to guarantee to six chartered banks the repayment of advances and the interest thereon to the Board up to a total not to exceed $100 million outstanding at any time... (see: NAC: RG#25 File 5030-40, House of Commons Debates, Douglas Harkness Answer to Question by Melville (question No. 189), Subject: Wheat Sales to China Resources Company, 26 February 1962.)

Between late April 1961 and April 1963 the Liberal Opposition raised questions about the validity this government credit guarantee procedure. When the Progressive Conservative government then asked for an independent opinion on the matter the CWB's legal department concluded that the Order in Council and the guarantee given to facilitate these sales were within the terms of the statute and were both valid because Section 11 of the act provided the Governor in Council the authority to:...authorize the Minister of Finance, on behalf of Her Majesty, to guarantee on such terms and conditions as the Governor in Council may approve, repayment of advances made to the Board and interest thereon, on the security of grain held by the Board or otherwise, by any Bank incorporated under the Bank Act for the purpose of carrying on its operations under this Act. (See: NAC: RG#20: Vol.915, File 10-33 (7-10-303) p.12: memorandum to the CWB from Monk Q.C. Solicitor Legal Department CWB, 5 December 1962)

On 21 January 1963 the Deputy Attorney General of Canada also agreed that the government had acted within the law in providing a guarantee in this manner. (See: NAC: RG#20: Vol.915, File 10-33 (7-10-303) p.12: letter to S.C. Barry, Deputy Minister, Department of Agriculture, from Deputy Attorney General: 'Canadian Wheat Board Act - Financing of Sales of Grain to China', 21 January 1963)

Beijing stipulated that it would not deal with a Canadian bank that had financial in or business ties with Taiwan.

Later during the Berlin Crisis and escalation of the Vietnam conflict this clause earned the Canadians some embarrassment when the Chinese diverted Canadian grain to East Germany.

Sources:
- For information on the Chinese-Canadian agreement see: NAC: RG#20: Vol.915, File 10-33 (7-10-303) pt.11: memorandum to the CWB from Monk Q.C. Solicitor Legal Department, CWB, 5 December 1962.
## TABLE 4.4

Initial Contracts Under the 1961 Chinese-Canadian Thirty Month Grain Agreement

[In tonnes (trade grain weight) and % of total Canadian wheat exports and total Chinese grain imports]

<table>
<thead>
<tr>
<th>Contract # and Date Signed</th>
<th>Type</th>
<th>Quantities (tonnes) and % of total Canadian wheat/lour exports and total Chinese grain imports in year delivered</th>
<th>Price (per long ton)</th>
<th>Terms</th>
<th>Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>credit contract #1:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>22 April 1961</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>MN # 2**</td>
<td>457,72 * (4.7%) Canadian, (8%) Chinese</td>
<td>£23.5s.6d. FOB ex Pacific; £24.2s.5d. FOB ex St. Lawrence</td>
<td>credit: 25% cash, 75% in nine months (273 days); 5.5% inter. rate; .25% above bank rate; $50 million credit guarantee by Canadian the government on 16 June 1961 increased to $100 million; Private Canadian firms registered with the CWB, to act as agents for the Board, received a commission of up to 8 pence for each long ton shipped under the contract</td>
<td>ex Pacific ports***: 101.605 August 1961; 127.006 September 1961; 127.006 October 1961; 101.605 November 1961.</td>
</tr>
<tr>
<td></td>
<td>MN # 3**</td>
<td>304,814 * (3.1%) Canadian, (5%) Chinese</td>
<td>£23.1d. FOB ex Pacific; £23.17s. FOB ex St. Lawrence</td>
<td>“”</td>
<td>“”</td>
</tr>
<tr>
<td>credit contract #2:</td>
<td># 1 Feed Barley</td>
<td>365,777 up to 20% of the total was to be #2 Feed Barley</td>
<td>£5.9s.7d. FOB ex Vancouver; £15.6s.3d. FOB ex Prince Rupert; £15.6s.3d. FOB ex Vancouver; £15.2s.11d. FOB ex Prince Rupert</td>
<td>“”</td>
<td>barley ex Prince Rupert: 20.321 per month June 1961- November 1961; sellers option of loading up to 20% #2 Feed Barley</td>
</tr>
<tr>
<td></td>
<td># 2 Feed Barley</td>
<td>(6%) Chinese</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* 152,407 tonnes of this wheat (and wheat sold to China under the 5 August 1961 Chinese-Canadian grain contract) was re-exported by the Chinese to East Germany at the height of the Berlin crisis. Canadians learned about this diversion by 5 September 1961 by which time 20,321 tonnes had already been shipped to East Germany.

** MN is Manitoba Northern wheat. Under the contract the moisture content of MN wheat was not to exceed 14.5%.

*** Pacific ports included: Vancouver, New Westminster, Prince Rupert, or Victoria (all these ports are in the Province of British Columbia).

Details of the agreement of 22 April were not cabled to Ottawa until the CWB delegation reached Hong Kong on 26 April. The Canadians' return trip to Hong Kong was delayed en route due to 'bad weather' and they were forced to overnight in Changsha and to complete the trip to Guangzhou by rail. John Small subsequently told Ottawa that "Although our evidence is circumstantial, it seems that the Chinese made every effort to ensure that the Canadian...(delegation) did not encounter their Australian counterparts who were hurried from Hong Kong to...(Guangzhou) on the day the Canadian group travelled from...(Guangzhou) to Hong Kong. Normally, groups travelling in opposite directions between these two cities meet at the Chinese border station of Shum Chun. On this occasion...(CWB) officials were not permitted to travel on the customary early express but were shepherded onto a later slow train which arrived at Shum Chun after the Australians' departure." On 27 April, the day after returning to Hong Kong, CWB negotiating team members Treleaven and Earle took the sales contract back to Winnipeg.

Meanwhile, Prime Minister Diefenbaker had authorised Hamilton and his special assistant, Roy Faibish, to travel to Hong Kong after the agreement was signed to discuss with CIRECO officials payment and financing matters relating to the agreement. The government had planned the trip as early as 19 April. On that day DTC officials told Forsyth-Smith: "...you will recognize that the main purpose of the Minister's visit relates to publicity." Forsyth-Smith's response was to strongly recommend that Minister delay his departure pending advice on...(the probable) date of McNamara's return and the status of the negotiations....A special visit by the Minister will weaken our position in present negotiations if he arrives prior to completion. Additional negotiations on future sales...would be complicated by the visit...emphasizing to the Chinese the importance that we attach not only economically but politically to these sales and thus weaken(ing) our position. So far we have held the initiative but a visit by the Minister might reverse that position...

When asked in the House of Commons on 26 April about the nature of Hamilton's visit, Prime Minister Diefenbaker said that "His purpose -...which he has followed with determination and success - is to secure

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48 NAC: RG#20: Vol.1943, File 20-141-C3, telegram from McNamara in Hong Kong, to Esdale, Ottawa, 28 April 1961; 'Wheat Officials', South China Morning Post, 28 April.
sales for Canadian grain...that is as far as I can go."\(^{52}\)

Unaware that Hamilton had already left for Hong Kong, McNamara told Ottawa that Hamilton should consider the political implications of travelling to Hong Kong to meet with CIRECO officials as his presence there would emphasise to Beijing the importance that Ottawa attached to the Chinese-Canadian grain agreement - which in turn would complicate future negotiations.\(^{53}\) He also reminded Ottawa that the agreement had been signed with CERGILFOOD in Beijing four days before Hamilton's visit\(^{54}\), a fact not made public at the time. The opposition would later claim that the visit was merely a Progressive Conservative government political ploy, at the taxpayer's expense, to claim more credit for the agreement than was actually warranted.

On 28 April Hamilton and Faibish arrived in Hong Kong and the following day met with CIRECO general manager Ding Kejian and other CIRECO officials at an informal dinner party organised by Forsyth-Smith. During the dinner Ding thanked the Canadians, and Hamilton responded by inviting the Chinese to send a trade delegation to Canada to examine opportunities for marketing Chinese handicrafts. Forsyth-Smith, unprepared for this initiative, interrupted, calling Hamilton aside to remind him of the political sensitivity of such matters. Hamilton then withdrew his suggestion that the Chinese open handicraft stores in Canada, but encouraged them to send a trade delegation to meet with Canadian business interests.\(^{55}\)

On 2 May Hamilton, back in Ottawa, announced the agreement in the House. Just before making the announcement, Hamilton telephoned USDA Secretary Freeman about the sale while DTC officials provided relevant details to US embassy officials. Reaction to the announcement can be summarised by the headline in the Toronto Telegram the following day - "Grain Deal Brings Some Joy, Some Doubts".\(^{56}\) Western farmers and grain handlers were especially pleased with the sale, but the Opposition immediately began to question aspects of the agreement. By early June a Gallup poll indicated that 72% of employed Canadians favoured trade with China.\(^{57}\)

On 2 May 1961 Opposition Leader Pearson, while welcoming the

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\(^{52}\) Canada, House of Commons, Debates, 'Trade - Hong Kong - Visit by the Minister of Agriculture', 26 April 1961, p.4017.


\(^{54}\) NAC: RG#20: Vol 1943, File 20-141-C3, from McNamara in Hong Kong, to Esdale, Ottawa, 26 April 1961.

\(^{55}\) Interview with Forsyth-Smith, Halifax N.S., January 1996; and correspondence with Forsyth-Smith, 10 October 1999.

\(^{56}\) NAC: Hamilton Papers, A-175, Vol.62.

reduction in surplus grain that the transaction would provide, warned
that, due to political considerations, there was an "element of
insecurity" in it. Pearson emphasised that the transaction occurred
because of the serious food shortage in China and should be considered
a "windfall" as opposed to "normal trade". He added that it was
unorthodox for the Canadian government to encourage commercial ties with
a government that it disapproved of on political and ideological grounds.
With respect to the government's decision to extend credits under these
circumstances, Pearson stated "...we sell wheat to our friends for cash.
We sell it now to a Government which we do not recognize diplomatically
for credit..."59

Despite Canadian satisfaction with the actual sales, even after
the Liberal Party defeated the Diefenbaker government in the spring 1963
federal election the Liberals continued to maintain that the Diefenbaker
government had taken too much credit for grain sales to China between
1961 and 1963. Although it was not standard practice60 for detailed
information relating to the grain trade to be made public, as it could
be helpful to the competition, the Liberals maintained that the
Diefenbaker government should have specified that the actual Chinese-
Canadian agreement had been negotiated by officials from the DTC, DEA and
CWB.61 The Liberals also questioned the validity of the government
guarantee under section 11 of the Wheat Board Act and the need for
Hamilton's trip to Hong Kong to meet with the Chinese after the contract
was signed. The domestic controversy surrounding the signing of the
initial agreement, while outside the scope of this thesis, resulted
partially from the well-documented poor relationship between the
Diefenbaker government and the civil service - including officials in the
CWB, the DTC, DEA and former civil servants who had joined the Liberal
Opposition.

Prior to a news conference on 4 May, US Secretary of State Rusk
was advised that, if asked about the Canadian grain sales to China, he
should remember that Canada had kept the US informed throughout its
negotiations with the Chinese. Ottawa had not asked Washington for an
opinion on the negotiations, and the Americans had not volunteered one.
Rusk was also reminded that Canada had a serious grain surplus problem,
an unemployment rate twice as high as that of the US and an Opposition
leader who had criticised Diefenbaker for "compromising with...China for

59 Ibid.
60 NAC: RG#2: Vol. 6176, Cabinet Conclusions: 'Sale of Grain to
Communist China'; Canada, House of Commons, Debates, 10 May, 1961,
61 NAC: RG#20: Vol. 820, File 10-33, pt.13, undated (May -
December 1963) draft statement to the House of Commons by Minister of
Trade and Commerce (Mitchell Sharp).
the sake of political and economic expedience..." Washington was not eager to become involved in any Canadian domestic political disputes.

Rusk was briefed to remind the press, if asked, that the grain agreement did not violate COCOM restrictions. When President Kennedy met with Diefenbaker on 16 May in Ottawa he was not critical of the Chinese-Canadian grain sales. Later, Diefenbaker remembered that during the talks Kennedy stated that it was just a matter of time before Beijing was admitted to the UN, and refrained from mentioning the grain sales.63

Following Alvin Hamilton's verbal invitation to the Chinese to visit Canada, the DTC recommended that Ottawa not send the Chinese an official invitation and that Forsyth-Smith in Hong Kong should invite them. Minister of Finance, Fleming, expressed doubts about the proposed visit, suggesting that Canadians generally, and manufacturing interests in particular, might oppose it. Concerned about a possible public opinion backlash relating to Chinese imports, the DTC on 27 June recommended that Ottawa finally

...face up to the problem of dealing with low-cost imports from (China and)...start to handle it now, before the problem becomes much more acute and less manageable.64

***

**Chinese-Australian Credit Grain Negotiations**

After initial AWB-CIRECO credit grain negotiations were concluded in Hong Kong in early March Perrett accepted an invitation to meet CEROILFOOD and SINOFRACT representatives in China. On 9 March Perrett and Fu Xing met in Beijing to discuss a possible long-term Chinese-Australian grain agreement. CEROILFOOD deputy director Zhang Bing also participated in the discussions.65 Perrett gave Fu a copy of a draft agreement drawn up earlier in Hong Kong. Australian Department of Primary Industry (DPI) officials would later object to its wording because its title did not mention the AWB or CEROILFOOD, and thus it could have been misconstrued as an official governmental agreement which could be used for bargaining during CWB-Chinese negotiations.66 When Fu told Perrett

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62 USNA: RG#59: General Records Bureau of European Affairs, Alpha Numeric files relating to Canadian affairs 1957-1963, Box 3, 6-D.317: for Orville Freeman, Secretary of Agriculture, 'Canadian-Communist Chinese Grain Deal', May 1961. (mentions that Rusk was given the same 'current situation report' and 'possible answers to press questions')

63 Diefenbaker, One Canada, pp.169-183.


65 Perrett, A Record of Constitutional Developments, p.206.

that some of the Australian grain shipments had been contaminated (SEE APPENDIX TO CHAPTER 4) the AWB general manager took immediate action to remedy the problem.67

When Perrett returned to Hong Kong on 19 March he met CWB chief commissioner McNamara who admitted that Ottawa might be willing to extend credits of 25% down, and the balance in six months. Both recognised the necessity of reaching a CWB-AWB understanding on credit term limits before selling more grain to China. Perrett told McNamara that he would have to consult with the CTB and AWB before signing a credit deal with China. Privately, Perrett felt that the AWB needed to offer CIRECO nine months credits initially and twelve months credits to close a large deal.68

Back in Melbourne on 21 March Perrett and AWB officials discussed a proposal asking the Australian government to guarantee six months credits to facilitate a sale involving 508,023 to 762,035 tonnes of Australian wheat. However, a small group of Board officials, led by chairman Sir John Teasdale69, opposed credit sales to China because such sales would set a precedent for future transactions with other customers. The AWB traditionally sold wheat on a cash basis and Teasdale was concerned that the Board's public image could be damaged if credits were extended to a country he considered openly hostile to the West - particularly when he felt the Board had other prospective markets.70

The next day the AWB submitted the above proposal to the Australian government. It stipulated that every effort would be made not to exceed credit terms extended by the Canadians. The price of grain sold was expected to be the UK export price less 1%, with delivery between July and December 1961 at an interest rate of between 4% and 5%.71

In early April, just as the Canadian and Australian governments began to give serious consideration to guaranteeing credits for large grain exports to China, the Australian government received a report that an unnamed American firm had offered CIRECO unlimited quantities of wheat to be shipped via Hong Kong. The firm's officials were said to have told CIRECO that Washington would approve the sale if official Chinese

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68 Ibid.
69 AWB chairmen were appointed by the Minister for Primary Industry. In 1950 Teasdale had been appointed by John McEwen - the Minister for Primary Industry at that time.
71 NAA: A1838/1 766/1/4, pt.1: 'Grain to China,' to DEA, Canberra, from AWB, 17 March 1961; NAA: A1884/28/201/12/2: telephone message from AWB, 22 March 1961 - confirmed in writing the next day.
approval was forthcoming. The Bank of China referred the matter to Zhou Enlai. 72

On 5 and 6 April 1961 AWB members voted on whether Board officials (Perrett, Maisey and Max Saint) should proceed to Hong Kong on 16 April to open AWB-CIRECO credit grain sales negotiations. Twelve Board members agreed that the delegation should proceed while two members, including chairman Teasdale, maintained that the delegation should wait for the government's decision on the credit guarantee.

On 11 April C.F. Adermann, the Minister for Primary Industry, told Teasdale that Cabinet, on 10 April, decided to reject the proposal for a government guarantee of Chinese-Australian credit sales, leaving the matter in the AWB's hands. On 12 April Adermann and DPI officials told Perrett that the Australian government hoped that the Board would not extend credits in excess of six months to the Chinese. A long-term agreement could be an embarrassment to Canberra if committed to paper and not carried out, and Cabinet had asked Adermann to discover the AWB's rationale for considering such an agreement. Adermann was instructed to discuss the matter with the Minister for Trade and the Attorney General before conveying Cabinet's position on the matter to chairman Teasdale.

When Teasdale learned of the Cabinet's position he attempted to arrange an emergency AWB meeting in Melbourne, on 13 April, to discuss whether the AWB delegation now had the authority to proceed to Hong Kong. Teasdale realised that it was too late to stop their departure, but hoped to delay the trip. Ultimately only five of the fourteen AWB members, none of whom were to go to Hong Kong on 16 April, attended this emergency meeting. Of the five Board members attending the meeting, two continued to oppose the delegation's departure because they felt the matter, in light of Cabinet's decision, should be discussed by all AWB officials at a meeting on 19 April. The other three members attending the emergency meeting had previously voted for extending credit to China, but reversed their decision on the grounds that their vote on 5-6 April was based on the assumption that Cabinet would agree to guarantee credits for the sales. Thus all five Board members at the 13 April meeting expressed doubts as to whether AWB negotiators now had a mandate to proceed to Hong Kong. 73 However, Perrett, Maisey and Saint stood firmly by the initial AWB decision of 6 April and departed as scheduled on 16 April.

From this controversy a serious rift occurred between Teasdale and


73 NAA: A1804/28/201/12/1: from AWB chairman Teasdale, to Minister for Primary Industry: 'Credit Sales to China,' 14 April 1961; AWB minutes of special meeting held in Melbourne 13 April. Cabinet decision also confirmed by letter: to Teasdale, from Minister for Primary Industry: 'Sale of Wheat to China,' 13 April 1961.
Perrett. Teasdale felt that he had been out-maneuvered and that Perrett was taking an increasingly independent role in the negotiations with the Chinese. After speaking to Teasdale on 14 April DPI Secretary J.V. Moroney concluded:

It is a difficult decision for Ministers and Permanent Heads alike following the Cabinet decision that negotiations for and the conclusions of any sales are the responsibility of the... (AWB) and not the Government.... Probably all we can do is to keep spurring the Chairman on the point that the Board should retain a tight hold on developments.... (Within the AWB) Perrett has the growers' majority vote against the Chairman's more Conservative ideas.  

When in the summer and autumn of 1961 the older, more conservative Teasdale informed the Americans about the sales, he referred to Perrett and the chairman of the Reserve Bank of Australia as "fellow travellers". The Americans, fully aware of the AWB's statutory obligation to comply with directives issued by Adermann, later observed that Canberra's claims that the Board possessed independent status was "...a convenient dodge for eschewing responsibility for wheat sales to... China on credit."

Between 18 and 26 April Perrett, Maisey and Saint reopened negotiations with Bu in Hong Kong. The delegation possessed the authority to extend credit on the basis of 20% cash, 40% in six months and 40% in twelve months at an interest rate 4%-5%. They soon felt that, unless they extended credits in excess of 180 days, they could not close another large sale with the Chinese. The lowest price that Perrett, Maisey and Saint were supposed to extend to CIRECO was the standard price at which the AWB sold wheat to the UK and the EEC, with up to a 2% reduction. When the AWB-CIRECO negotiations opened on 18 April Perrett told Bu that grain prices had increased since the last contract. However, on 24 April when both sides met in Hong Kong for the final time before the Australians were invited to complete the negotiations with CEROILFOOD in Beijing, Bu told Perrett that he thought that AWB grain prices remained the same as

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74 For more on the clash between Teasdale and Perrett see Whitwell and Sydenham, _A Shared Harvest_, p.338.
75 Moroney became AWB chairman between 1962 and 1965 following the death of Teasdale in 1962.
76 NAA: A1804/28 201/12/2/, pt.1, DPI paper 'Wheat Mainland China,' by Moroney, Secretary, 14 April 1961.
those offered under the previous contract.\textsuperscript{79}

The Australians arrived in the Chinese capital on 26 April, the same day the Canadians left Beijing for Hong Kong. They guessed that a large CWB-CEROILFOOD credit sale had been concluded. When Li Yousheng and Fu Xing opened negotiations with the Australians, they expressed surprise that the AWB had increased its wheat prices and pressed for terms which included no down payments on shipments and a lower interest rate. The negotiations became tense after the Australians stated that the lowest price they could offer was £19.19s.3d. (including discount). The Chinese then left the AWB officials alone for several days, part of the time being over May Day, and, although the Australians were upset by this treatment, they were unable to book a flight out of Beijing and thus were forced to wait for the Chinese to contact them. When CEROILFOOD officials returned, AWB officials pressured them to arrange a return flight for them to Australia on 7 May.

However, on 6 May CEROILFOOD made a counter offer of £19.14s. per long ton, a 6s. increase over the initial offer. Believing that this was CEROILFOOD's final offer and hoping to return to Australia with a contract, Perrett offered the Chinese wheat under twelve month credit terms at £19.17s.6d. per long ton - terms which he lacked the authority to offer. Immediately, the Chinese congratulated the Australians for displaying "...a spirit of co-operation by some suggestion of compromise."\textsuperscript{80} The contract was signed at 3:30 am on 7 May (SEE TABLE 4.5).

When Teasdale announced the sale publicly on 11 May, he emphasised that the AWB carried sole responsibility for financing it and that the Australian government had no part in the transaction.\textsuperscript{81} At the 31 May/1 June meetings of the AWB Teasdale and his supporters criticised the delegation for having exceeded their authority when concluding the contract with CEROILFOOD. Perrett's response to this criticism was that the delegation's

...report recorded the difficult position that...it was placed in deciding its course of action. To obtain the ...(AWB's) prior approval to the small departure from its authorizations would have required cabling from Peking. In the absence of Australian diplomatic representation in...(Beijing), cabling would have to be in the clear through the local cabling service...and it could have prejudiced the outcome of the negotiations.

The difference in the monetary return to the Board


\textsuperscript{80} NAA: A2051/2 S325, pt.2: to the Secretary from White: 'Sale of Wheat to China', 16 May 1961.

# TABLE 4.5

**Initial Chinese-Australian Credit Grain Contract: May 1961**

<table>
<thead>
<tr>
<th>Date of Contract</th>
<th>Grain and Quantity</th>
<th>Price Per Long Ton FOB and Total Contractual Value</th>
<th>Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>credit contract #1: Signed in Beijing on 7 May 1961 by officials from the AWB and CEROILFOOD</td>
<td>FAQ wheat - 762,035 tonnes (Chinese option to import 10% more or less of this amount)</td>
<td>19.17s.3d per long ton FOB. Total value: slightly less than 20 million.</td>
<td>Credit Facilities: 10% cash down payment, 40% in six months, 50% in twelve months. 4.5% Interest rate on credits.</td>
</tr>
</tbody>
</table>

Credit facilities were financed by:
1. The AWB's previous cash sales
2. Through overdrafts from the CTB**, Sydney. The AWB delayed the standard CTB advances to the AWB. Then the AWB delayed its interim payments to farmers (based on returns from sales after repaying bank advances). The CTB was prohibited from negotiating letter of credit drawings, thus the AWB, after Beijing agreed to open an irrevocable letter of credit (sight draft) in favor of the seller at the Bank of China (Beijing), handed the drawings to the CTB for dispatch on collection basis to the Bank of China. This procedure gave the Bank of China control of the wheat and basically meant that in case of non-payment by the Chinese the AWB, rather than the CTB, assumed full responsibility. In case of non-payment by the Chinese it would have been impossible to establish liability of the Bank of China.

Quality: The AWB agreed to guarantee grain quality at port of discharge.

Insurance: The Chinese agreed to cover insurance costs.

Arbitration: Through negotiation, but failing that through an arbitration committee composed of one Chinese official, one Australian official and an umpire chosen by both sides. The losing party was required to pay arbitration costs.

*These terms actually exceeded what the AWB negotiating team had been authorised to offer.

**CTB- Commonwealth Trading Bank.

between the total value calculated from the Board’s authorizations and that from the price and terms contracted was relatively small compared with the total value of the contract...

When a CIRECO-AWB long-term draft agreement was finally presented to Cabinet on 3 August, Cabinet agreed that it was too vague and might provoke a dispute. Cabinet wondered if the draft might imply that the Chinese would receive preference over established customers of Australian wheat and concluded that the document was unnecessary.

Because of the uncertainty of domestic grain production, the AWB was not in a position to guarantee that quantities of grain would be available for export to China on an annual basis. Thus Board officials ultimately agreed that the long-term agreement proposal was impractical. In August Perrett told the Chinese that the AWB was unable to commit itself to a long-term agreement.

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**Chinese Turn To West German Firms for Flour Imports**

After initial enquiries and purchases in early 1961 the Chinese concluded that Canadian and Australian flour was too expensive. On 4 and 23 January 1961 the AWB and CIRECO had signed contracts for the cash sale of 22,000 long tons of 72% extract flour FOB. CIRECO was interested in purchasing an additional 60,000 tons from Heine Brothers who had offered the flour at £27 per ton. However, Australian millers and the AWB were unwilling to reduce their profits further while CIRECO had received offers of substantially lower priced flour from West European interests.

Thus, on 23 February Chinese-Australian flour negotiations collapsed and Australian flour traders were unable to sell the Chinese more flour between 1961 and 1963. The Chinese-Canadian thirty month grain agreement provided for CIRECO to purchase 32,500 tons of Canadian flour from Canadian millers on "mutually satisfactory terms" during 1961. As a special concession Canadian millers offered to sell the Chinese flour at a 14 5/8 cents per bushel reduction - a price usually quoted only to

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82 Perrett, A Record of the Constitutional Developments.
84 Perrett, A Record of Constitutional Developments, pp.195-196, 205.
85 NAA: A1804/28 201/12/1, pt.1: 'Flour For China,' by Assistant Secretary Agricultural Products Marketing, 22 February 1961.
regular customers. But CIRECO rejected the offer because it was still considerably higher than West European flour. The Chinese ultimately decided against purchasing Canadian flour between 1961 and 1963.

Meanwhile, between mid-January and June 1961 West German firms sold the Chinese large quantities of flour (SEE TABLE 4.6) representing more than one quarter of West German grain exports in 1961. West German domestic grain surplus problems resulted from a combination of domestic overproduction and a large volume of imports of foreign grain. Because the Europeans were eager to keep their flour mills operating, they may have been reexporting US wheat as flour. Exports to West Germany by Tradax, Cargill's European subsidiary, probably contributed to West Germany’s grain surplus. By selling US grain directly to West German mills, Tradax had made serious inroads into the domestic German market. This may have meant that US wheat was either being purchased and reexported to China as flour or was replacing West German wheat being exported to China. Grain trade statistics clearly indicate that, while West German flour exports to China increased after 1960, West German imports of US grain also increased substantially.(SEE TABLE 4.7)

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89 NAA: A1804/28 201/12/1, pt.2, 'West Germans Sell Wheat to Red China', Hong Kong Tiger Standard, 21 June 1962; for the Secretary Australian Department of Trade, from trade commissioner Scott, 29 May 1961.
**TABLE 4.6**

**Chinese Purchases of West German Flour in 1961**

[In tonnes (milled weight) and % of total Chinese grain imports]

<table>
<thead>
<tr>
<th>Date of Contract(s)</th>
<th>Firm</th>
<th>Type</th>
<th>Quantity (in tonnes) and % of total Chinese grain imports in year delivered</th>
<th>Price (tons)</th>
<th>Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 February 1961-30 June 1961</td>
<td>Alfred C. Toepher*</td>
<td>78% extract wheat flour</td>
<td>20,321-40,642 (3%) to (7%) Chinese</td>
<td>21.13s.FOB</td>
<td>cash</td>
</tr>
<tr>
<td></td>
<td></td>
<td>80% extract wheat flour</td>
<td></td>
<td>20.10s.FOB</td>
<td></td>
</tr>
<tr>
<td>1 February 1961-22 August 1961</td>
<td>Kampfmeyer**</td>
<td>wheat flour</td>
<td>162,567*** (3%) Chinese</td>
<td>DM 240 per ton ($60 per ton)</td>
<td>no down payment 100% in nine months***</td>
</tr>
<tr>
<td>22 June 1961-30 June 1961</td>
<td>Kampfmeyer</td>
<td>wheat flour</td>
<td>50,802*** (5%) Chinese</td>
<td>DM 240 per ton ($60 per ton)</td>
<td>no down payment 100% in nine months***</td>
</tr>
</tbody>
</table>

* Alfred C. Toepher was one of three private West German grain trading firms competing against the large multinationals. Toepher, the owner of the firm, also had interest in agri-business, shipping, banking (minority interest in Bankhaus Hesse Newman of Hamburg), and grain elevators in the US. Toepher made its initial offer to CIRECO via London on 19 January covering between 8,000 and 10,000 tons of West German flour in new 100-150 kilo jute bags.

** Kampfmeyer was one of three private West German grain firms competing against the large multinationals.

*** 121,926 tonnes of the 213,370 tonnes 'sold' by Kampfmeyer was handled by Lambert, of London, England. For these sales Lambert arranged for credit terms to be extended through Swiss interests - these included no down payments and 100% due in nine months. The price for the Lambert / Kampfmeyer sales to China was 19.5s. FOB.

### TABLE 4.7

**West German Imports of US Wheat and Exports of Flour to China: 1960 to 1964**

[In tonnes (flour: milled weight, wheat: trade grain weight) and % of total Chinese grain imports]

<table>
<thead>
<tr>
<th>Year</th>
<th>West German Flour Exports to China and % of total Chinese grain (flour included) imports in year delivered</th>
<th>West German Wheat Imports from the US</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-61</td>
<td>10,300 (.2%)</td>
<td>214,386</td>
</tr>
<tr>
<td>1961-62</td>
<td>387,200 (8%)</td>
<td>448,400</td>
</tr>
<tr>
<td>1962-63</td>
<td>119,800 (2%)</td>
<td>?</td>
</tr>
</tbody>
</table>


***
Chinese Purchases of French Grain and Flour

In early summer 1961 the Chinese began looking for additional sources of grain. Unless they negotiated a grain deal with the Americans, France was the only other large source at that time. Newly instituted EEC agricultural legislation made it difficult to sell highly subsidised, low-priced French grain in the Common Market. Consequently, the French government was enthusiastic about opportunities for exporting grain to China.90 In May 1961 CIRECO opened negotiations in Hong Kong with George Weisslitz, director of Louis Dreyfus' Paris operations. The French government subsequently appointed Louis Dreyfus sole supplier of French barley to China in order to rule out competition between French firms which could weaken France's bargaining position.91 Pierre Louis-Dreyfus, who directed Louis Dreyfus Co.'s shipping operations had served under France's leader de Gaulle during WWII and the French firm had previously benefited from this association through generous government subsidies extended to help the firm rebuild its shipping arm. The firm had also been appointed agent of the French government-backed grain growers' cooperative, the National Cereals Office (ONIC).

In early June a Louis Dreyfus-Chinese contract was signed covering the sale of barley of unspecified origin on credit for June-December 1961 shipment. (SEE TABLE 4.8) The Chinese said that the barley was primarily for livestock feed, although any left over would be for human consumption. CIRECO-Louis Dreyfus negotiations covering another barley contract for April delivery were unproductive over the rest of the summer because the French firm was having difficulty obtaining barley from the new French crop via ONIC. Not until October was another contract for the credit sale of French grain signed between Louis Dreyfus and the Chinese. Meanwhile, on 28 June 1961, Inter Agra, a French firm, sold the Chinese 254,011 tons of flour on nine months credit terms. (SEE TABLE 4.8)92

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### TABLE 4.8

**Chinese-French Contracts Covering the Sale of Grain and Flour: January to September 1961**

([in tonnes (grain: trade grain weight, flour: milled weight) and % of total Chinese grain imports])

<table>
<thead>
<tr>
<th>Date of Contracts</th>
<th>Firm</th>
<th>Type</th>
<th>Quantity (in tonnes) and % of total Chinese grain (flour included) imports in year delivered</th>
<th>Delivery</th>
<th>Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>credit contract #1: at some point between 1 January 1961- 8 June 1961 *</td>
<td>Louis-Dreyfus Co.</td>
<td>Barley</td>
<td>254,012 (4%) Chinese</td>
<td>June 1961 - 31 December 1961</td>
<td>25% down; 75% twelve months, interest included in price</td>
</tr>
<tr>
<td>credit contract #2: 28 June 1961</td>
<td>Inter-Agra</td>
<td>Flour</td>
<td>254,011 (4%) Chinese</td>
<td></td>
<td>nine month credits</td>
</tr>
</tbody>
</table>

* Information provided to Forsyth-Smith by George Weisslitz director of Louis Dreyfus Co. Paris.

**Sources:** NAC: RG#20: vol. 819, file 10-33, pt. 8, to DTC, Ottawa, from Forsyth-Smith: “Grain Sales to China”, 8 June, 1961; to McNamara, CWB, from Forsyth-Smith, 30 June 1961.

***
Chinese Food Situation in May/June 1961 and Approach to Canada for Improved Credit Terms

Meanwhile, Chinese grain stockpiles which had been nearly exhausted in mid-1960 remained depleted in summer and autumn 1961. In early May a CIA memorandum stated that according to information provided by refugees and travellers, food shortages were especially bad in Guangdong, Henan, Hubei, Liaoning, Shaanxi, Shandong; with starvation conditions in Guangxi, Hunan, and Qinghai, Zhejiang. Rural areas were thought to be worse off than the cities. It also concluded that the first Chinese harvest of 1961, the winter wheat crop harvested between June and July, was expected to be poor.

Chinese government statistics also indicate that the wheat and rice output continued to fall in 1961 although output figures for maize, millet, kaoliang and miscellaneous grain which had been unavailable in 1958, 1959, and 1960 were recorded in 1961. (See Table A1.1 Appendix to Chapter 1).

In mid-June a Chinese government document which discussed conditions throughout the country emphasised that China would be in a critical position if attacked simultaneously by Taiwanese forces and another enemy such as India. The report implied that the Chinese government was concerned that if this occurred the Chinese people might join Taiwanese forces. It was increasingly apparent to Chinese officials that more grain was needed to tide China over until results of the autumn grain harvest could be analysed. These factors combined with earlier Chinese successes at successfully creating a 'credit race' between Western countries in the Chinese grain market prompted Chen Yun, during the CPC Central Committee working conference in Beijing between 21 May and 12 June 1961, to propose that the government implement a long-term grain importing programme. He suggested that under this scheme up to half of China's foreign exchange earnings be spent on foreign grain imports and 20 million urban residents be returned to the countryside. Although,

---

95 Information provided by Chinese defector Zhao Fu (former security officer at from the Chinese embassy in Stockholm) to the 87th Congress, Senate Committee Hearing, Vol. 1543, 'Testimony of Chao Fu', Subcommittee to Investigate the Administration of the Internal Security Act and Other Internal Security Laws of the Committee of the Judiciary, 29 November 1962. Zhao said that in mid-June 1961 the Chinese ambassador briefed embassy staff on document's contents.
96 Ash (collector and editor), *Agricultural Development in China*, p.128; Chen Yun's speech at the Central Work Conference in May 1961, 'An Important Work That Relates to the Overall Situation', translated
these proposals were not adopted by the Chinese leadership until three months later the Chinese continued efforts to purchase more Western grain on improved terms.

During Forsyth-Smith and Small's 13 May to 8 June 1961 trade promotional tour to China the Chinese complained that some Canadian grain shipments were underweight and/or contaminated (SEE APPENDIX TO CHAPTER 4), but the Canadians received an infinitely better reception from the Chinese government than the previous year. In 1960, they were received by only low-level Chinese officials and talks were characterised by political wrangling. In 1961 the Canadians were received warmly, entertained by secretary general Xiao Fangzhou of CCPIT and received by Li Qiang, Vice-Minister of Foreign Trade, who spoke enthusiastically about Chinese-Canadian trade. Xiao told the Canadians on 24 May that

...he had a piece of news for us that had not appeared in the newspapers;...that the Americans wanted to sell China wheat - but... (Canada) need not fear since China had only one buyer - ... Li (Yousheng) (CEROILFOOD's acting director) and he would not buy from the Americans. We tried to ascertain the source of this information but... (Xiao) did not make it clear.98

The Australian government had received similar information in early April.99 Li also stated that he hoped Canada would buy more goods from China and that Beijing planned to send a trade delegation to Canada. In early June just as another Foreign Assets Control controversy - involving the supply of US made vacuator pumps for ships carrying grain to China - was resolved (SEE CHAPTER 5) CIRECO and the CWB were close to signing another contract under the Chinese-Canadian grain agreement. However, the Chinese insisted that Ottawa increase the credit limit from $50 to $100 million to facilitate the sale.100 The CWB again required the authority of the Canadian government to provide the necessary credit facilities. Hamilton presented another proposal to Cabinet where some

in Lardy and Lieberthal (editors), Chen Yun's Strategy, p.145.
99 See footnote 72.
Ministers, headed by Finance Minister Fleming, expressed reservations about increasing the line of credit. Fleming later remembered that Canada

...had no extended record of financial transactions with... (the Beijing) Government or its purchasing agency... If they made default in payment whose head would be on the block?... not the head of the Minister of Agriculture... (or) the Minister of Trade and Commerce, but the Minister of Finance. I agonized over the dilemma and finally decided to take the risk and support the sale on credit. The Government decided not to announce, until early October 1961, that it had increased the line of credit extended to the Chinese. 101

On 16 June the Canadian Cabinet authorised the Minister of Finance to increase the government guarantee to $100 million to cover bank loans and authorised Hamilton to approve further CWB credit sales to CEROILFOOD under these terms. 102 Fleming later wrote to Hamilton, expressing concerns about this decision and reminded him that Moscow had recently reported that Beijing had defaulted on trade payments to the USSR in 1960. 103

Also on 16 June at the Laos Conference in Geneva China's Foreign Minister, Chen Yi, thanked Canada's representative, Howard Green "...for the shipment(s) of wheat which our government had sent to China in the wake of his country's severe drought...." 104 He added

that this kind of economic contact, like cultural contacts such as visits of the Peking Opera, could be useful in establishing good relations without altering the formal legal position of non-recognition. 105

Chen Yi said that Beijing greatly appreciated Ottawa's decision to extend credits to China, to accept payment in convertible sterling, and for its efforts in solving the 'vacuator pump fiasco' adding that Beijing would

continue the purchases on an annual basis, not just to meet famine conditions of the current crop year... (but) to build up a wheat reserve in China to overcome lean years (and) that demand for wheat in northern parts of their country was a continuing factor.... 106

Former distinguished Canadian diplomat, George Ignatieff, remembered that Green was

encouraged by Chen's... apparent sincerity and sudden communicativeness (and)... asked him whether he would like to come to a reception the Canadian mission was holding that evening. Chen... enquired which Americans were going to be

101 Fleming, So Very Near, p.256.
105 Ibid.
106 Ibid.
there and when told that both (Secretary of State) Rusk and Averell Harriman, (ambassador at large and) the Head of the U.S. delegation, were expected to attend, he announced 'I'll come - I'll speak to Harriman'. (Chen) did just that.\textsuperscript{107}

However, despite receiving improved credit terms from the Canadian government the Chinese urgently needed to negotiate more grain contracts with the CWB, AWB, and French and West German interests to meet immediate demand. Some Chinese officials had not ruled out purchasing US grain if they encountered difficulties obtaining enough grain from other Western sources on suitable credit terms.

## APPENDIX TO CHAPTER 4

### TABLE A4.1

Differences in Canadian and Chinese Records Relating to Grain Shipments Discharged at Chinese Ports in 1961 [in tonnes (trade grain weight)]

<table>
<thead>
<tr>
<th>port of discharge</th>
<th>vessel/port* date loaded</th>
<th>quantity loaded (tonnes)</th>
<th>quantity unloaded (tonnes)</th>
<th>grade</th>
<th>% foreign matter - other grains</th>
<th>total % foreign matter other than grains</th>
<th>% foreign matter - mineral</th>
<th>total % foreign matter</th>
<th>moisture test</th>
<th>test weight in kgs. per hectolitre</th>
</tr>
</thead>
<tbody>
<tr>
<td>Luda (Dalian)</td>
<td>Captain Carras/ P.R. 22 March 1961</td>
<td>12,142</td>
<td>12,111</td>
<td>#1 feed barley</td>
<td>2.10 (2.82)</td>
<td>1.59 (1.29)</td>
<td>.07 (7)</td>
<td>3.69 (4.11)</td>
<td>14.0 (14.2)</td>
<td>64.89 (60.0)</td>
</tr>
<tr>
<td>Luda (Dalian)</td>
<td>Fotini/ V / 4 April 1961</td>
<td>14,555</td>
<td>14,488</td>
<td>#1 feed barley</td>
<td>1.60 (2.2)</td>
<td>1.05 (0.96)</td>
<td>.03 (7)</td>
<td>2.81 (3.16)</td>
<td>14.2 (13.7)</td>
<td>64.89 (65.36)</td>
</tr>
<tr>
<td>Luda (Dalian)</td>
<td>President Boshof/ P.R. 5 March 1961</td>
<td>9,754</td>
<td>9,734</td>
<td>#1 feed barley</td>
<td>2.10 (2.64)</td>
<td>1.08 (1.45)</td>
<td>.07 (7)</td>
<td>3.18 (3.69)</td>
<td>13.8 (14.3)</td>
<td>64.89 (65.46)</td>
</tr>
<tr>
<td>Luda (Dalian)</td>
<td>Castor/ V./6. May 1961</td>
<td>13,717</td>
<td>13,700</td>
<td>#1 feed barley</td>
<td>2.60 (3.09)</td>
<td>0.92 (1.14)</td>
<td>.1 (7)</td>
<td>3.52 (4.23)</td>
<td>13.9 (14.1)</td>
<td>67.39 (65.40)</td>
</tr>
<tr>
<td>Luda (Dalian)</td>
<td>Charlambos L. Pateras/ V/ 16 May 1961</td>
<td>11,827</td>
<td>11,777</td>
<td>#1 feed barley</td>
<td>2.00 (2.76)</td>
<td>1.30 (0.99)</td>
<td>.06 (7)</td>
<td>3.30 (3.69)</td>
<td>14.4 (13.5)</td>
<td>64.89 (65.08)</td>
</tr>
<tr>
<td>Tianjin</td>
<td>Castor/ P.R./15. February 1961</td>
<td>13,209</td>
<td>13,155</td>
<td>#1 feed barley</td>
<td>1.64 (2.13)</td>
<td>0.89 (1.45)</td>
<td>0 (9)</td>
<td>2.53 (3.56)</td>
<td>13.9 (13.5)</td>
<td>64.89 (66.63)</td>
</tr>
<tr>
<td>Tianjin</td>
<td>Aguoo Island/ P.R./20 March 1961</td>
<td>10,679</td>
<td>10,669</td>
<td>#1 feed barley</td>
<td>1.10 (2.55)</td>
<td>0.92 (1.28)</td>
<td>.05 (92)</td>
<td>2.02 (3.75)</td>
<td>14.2 (14.0)</td>
<td>64.89 (66.30)</td>
</tr>
<tr>
<td>Tianjin</td>
<td>Captain Nicolas/ V/ 16 March 1961</td>
<td>11,727</td>
<td>11,629</td>
<td>#1 feed barley</td>
<td>0.90 (1.78)</td>
<td>0.806 (1.13)</td>
<td>.04 (--)</td>
<td>1.706 (2.88)</td>
<td>14.2 (13.3)</td>
<td>64.89 (66.37)</td>
</tr>
<tr>
<td>Tianjin</td>
<td>Inshorstein/ V/25. February 1961</td>
<td>9,551</td>
<td>9,480</td>
<td>#1 feed barley</td>
<td>2.18 (3.25)</td>
<td>0.94 (1.66)</td>
<td>.05 (0.1)</td>
<td>3.12 (4.32)</td>
<td>14.2 (13.4)</td>
<td>64.89 (65.37)</td>
</tr>
<tr>
<td>Tianjin</td>
<td>Lubeck/ V/25 March 1961</td>
<td>11,410</td>
<td>11,327</td>
<td>#1 feed barley</td>
<td>2.00 (2.46)</td>
<td>0.89 (1.82)</td>
<td>.06 (0.1)</td>
<td>2.89 (3.49)</td>
<td>14.2 (13.5)</td>
<td>66.14 (65.47)</td>
</tr>
</tbody>
</table>
TABLE A4.1 CONTINUED

<table>
<thead>
<tr>
<th>port of discharge</th>
<th>vessel/port/ date loaded</th>
<th>quantity loaded (tonnes)</th>
<th>quantity unloaded (tonnes)</th>
<th>grade</th>
<th>% foreign matter - other grains</th>
<th>total % foreign matter other than grains</th>
<th>% foreign matter mineral</th>
<th>total % foreign matter</th>
<th>moisture test</th>
<th>test weight in kgs, per hectolitre</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tianjin</td>
<td>Harpalyce / P.R./ 6 April 1961</td>
<td>10,831</td>
<td>10,799</td>
<td>#1 feed barley</td>
<td>1.40 (1.42)</td>
<td>1.33 (1.42)</td>
<td>.05 (.02)</td>
<td>2.73 (3.56)</td>
<td>14.1 (13.7)</td>
<td>64.89 (64.62)</td>
</tr>
<tr>
<td>Tianjin</td>
<td>Captain Carras/ P.R./3. May 1961</td>
<td>12,081</td>
<td>12,044</td>
<td>#1 feed barley</td>
<td>1.50 (2.4)</td>
<td>.90 (1.24)</td>
<td>.04 (.91)</td>
<td>2.40 (3.60)</td>
<td>14.2 (14.0)</td>
<td>64.89 (65.29)</td>
</tr>
<tr>
<td>Tianjin</td>
<td>Eubricios /V/ 14. April 1961</td>
<td>11,446</td>
<td>11,421</td>
<td>MN#2 wheat</td>
<td>.08 (7)</td>
<td>.10 (7)</td>
<td>.02 (7)</td>
<td>.18 (8)</td>
<td>12.9 (12.8)</td>
<td>62lbs (63.39) **</td>
</tr>
<tr>
<td>Tianjin</td>
<td>Angus Ollandia/ V/18 April 1961</td>
<td>13,762</td>
<td>13,740</td>
<td>MN#2 wheat</td>
<td>.108 (7)</td>
<td>.08 (7)</td>
<td>.02 (7)</td>
<td>.188 (8.4)</td>
<td>13.0 (12.7)</td>
<td>63lbs (64.83) **</td>
</tr>
<tr>
<td>Shanghai</td>
<td>Nicolas Patras/ V/14. February 1961</td>
<td>12,120</td>
<td>12,068</td>
<td>#1 feed barley</td>
<td>1.40 (2.66)</td>
<td>1.02 (1.83)</td>
<td>.10 (0.01)</td>
<td>2.42 (3.73)</td>
<td>14.2 (14.2)</td>
<td>66.14 (65.6)</td>
</tr>
<tr>
<td>Shanghai</td>
<td>Fettai/V/ 22 February 1961</td>
<td>14,504</td>
<td>14,446</td>
<td>#1 feed barley</td>
<td>2.20 (2.56)</td>
<td>0.53 (1.83)</td>
<td>.016 (0.03)</td>
<td>2.736 (3.62)</td>
<td>14.2 (14.1)</td>
<td>66.14 (65.97)</td>
</tr>
<tr>
<td>Shanghai</td>
<td>Suncerville/ P.R./ 13 April 1961</td>
<td>11,471</td>
<td>11,436</td>
<td>#1 feed barley</td>
<td>2.00 (2.21)</td>
<td>1.12 (1.33)</td>
<td>.05 (0.01)</td>
<td>3.12 (3.55)</td>
<td>14.3 (14.5)</td>
<td>64.89 (64.34)</td>
</tr>
<tr>
<td>Shanghai</td>
<td>ampton/ V/ 1. April 1961</td>
<td>13,732</td>
<td>13,703</td>
<td>MN#2 wheat</td>
<td>.12 (7)</td>
<td>.12 (7)</td>
<td>.04 (7)</td>
<td>.24 (7)</td>
<td>12.6 (12.8)</td>
<td>63lbs (63.88) **</td>
</tr>
<tr>
<td>Shanghai</td>
<td>Crass/ V/ 13. April 1961</td>
<td>13,021</td>
<td>13,079</td>
<td>MN#2 wheat</td>
<td>.10 (7)</td>
<td>.12 (7)</td>
<td>Nil (Nil)</td>
<td>.22 (0.43)</td>
<td>13.2 (12.6)</td>
<td>63lbs (63.82) **</td>
</tr>
<tr>
<td>Shanghai</td>
<td>Crass/ V/ 13. April 1961</td>
<td>14,108</td>
<td>14,058</td>
<td>MN#2 wheat</td>
<td>.08 (7)</td>
<td>.09 (7)</td>
<td>Nil (Nil)</td>
<td>.17 (8)</td>
<td>12.5 (12.6)</td>
<td>63lbs (64.22) **</td>
</tr>
<tr>
<td>Shanghai</td>
<td>Alexandros / V/ 16 May 1961</td>
<td>12,508</td>
<td>12,549</td>
<td>MN#2 wheat</td>
<td>.0104 (7)</td>
<td>.0608 (7)</td>
<td>Nil (Nil)</td>
<td>.172 (9.39)</td>
<td>12.6 (12.6)</td>
<td>63lbs (63.96) **</td>
</tr>
</tbody>
</table>

V - Vancouver  P.R.- Prince Rupert


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CHAPTER 5

US Government Position on Grain Sales to China: September 1959-June 1961
US Attitudes Towards Exporting Grain to China: 1959 to 1961

The US government had become increasingly tied to its firm stance on China during the 1950s. However, in contrast to Americans from other regions Western US business concerns, which had long-standing interests in China trade before 1949 enthusiastically supported the September 1959 recommendations of the San Francisco based research firm Conlon Associates (a report commissioned by the US Senate Foreign Relations Committee) which stated that Washington should replace its China policy of 'containment through isolation' with one aimed at 'exploration and negotiation' as well as the normalisation of relations.\(^1\)

Western American grain growers, who had watched domestic grain surpluses grow to record levels by 1959 were especially intrigued by the idea of resuming grain exports to China. As demonstrated in chapter 3 USDA officials were interested in exporting surplus American grain to China as early as mid-January 1961.

There was considerable speculation during the US election campaign of 1960 that if elected President John F. Kennedy would implement changes to American China policy. However, on 31 December prior to taking office Kennedy's Task Force on Economic Policy had recommended that US trade policy with respect to Cuba and China should parallel American political policy in relation to these countries.\(^2\) The pro-Taiwan Committee of One Million ('China Lobby') which opposed any change to US China policy continued to be a powerful force in the US Congress - and an element which the US President could not ignore. Although some USDA and State Department officials were increasingly receptive to possible limited American-Chinese trade, the majority of officials in the Far Eastern Bureau (FE) of the Department of State and others in the Pentagon remained firmly opposed to a new American China policy.

Nevertheless, immediately after the Kennedy administration took office on 20 January 1961 Under-Secretary of State Chester Bowles and his special assistant (the China scholar) James C. Thomson advocated a relaxation of US China policy. Walt Rostow, the new Deputy Assistant for National Security Affairs, had also instructed National Security Council (NSC) special staff members to prepare a list of key national security problems. When concluded in February this NSC report explained that one of five problems that merited early attention was the present and future role of China because

\[...A \text{composite statement of...}(US) \text{policy toward...China does not now exist....China will emerge fully into the world arena during the 1960s, and this demands that a fresh and}\]


\(^2\) See chapter 3 footnote 101.
imaginative U.S. policy be formulated...³

Washington also needed to reevaluate its policy concerning admitting the PRC to the China seat at the UN, to bring it into the disarmament process, to harmonise relations with China in line with US relations with other Communist nations, and to consider whether the Chinese government was becoming more acceptable to US allies. It also stressed the urgent need to reexamine the Chinese-Soviet alliance

...now that cracks are clearly visible. While an alliance of convenience...will probably continue...potentially exploitable issues may arise...of vital concern to (US) national security....We should especially examine 1) whether the U.S. should take special measures designed to exacerbate the dispute, 2) let the dispute run its course, 3) investigate possible free world policies on this subject; and 4) the possibility of encouraging neutralists to support the U.S. position...⁴

On 25 January President Kennedy told a news conference that, if the Chinese approached Washington for foodstuffs, the US government would carefully consider the request. However, on 23 February the White House announced that President Kennedy had rejected a proposal by Representative James Lane of Massachusetts to send US wheat to China in exchange for the release of American POWs still held in China. Meanwhile, on 12 February Chen Yi was reported to have emphasised publicly that the Chinese would not beg for US food.⁵

During a meeting between President Kennedy and Australian Prime Minister Menzies, accompanied by Australian ambassador to the US, Howard Beale, in Washington on 24 February, the Chinese-Australian wheat sales were not mentioned. However, on a more general level Menzies warned Kennedy that the UN would soon reject Allied resistance to Chinese representation at the UN and that the question should be reexamined by Western governments. Kennedy emphasised that Washington would not and could not abandon Taiwan - and could not recognise Beijing diplomatically because this would, he felt, be unacceptable to Congress and the American public. However, Kennedy

...did not care one way or another whether...China was a member of the UN....He had been hoping to ease the tension between Washington and Beijing by various minor moves... (but had not) received... (an) encouraging response from (the

⁴ Ibid.
⁵ For Chen's remarks see: Daily Telegraph, 12 February, 1961 cited by Becker, Hungry Ghosts, p.296.
Kennedy felt that, if the UN accepted Beijing, there would be "a quite widely supported move, though by no means necessarily a successful one, toward having the USA leave the UN." Kennedy explained that American opposition to the Beijing government was a political factor that his administration could not ignore. He told Menzies that Eisenhower had warned him, after he left office, that the China question was the only issue that would bring him "back to the hustings."

In February Rusk told US ambassador to Poland, John Cabot, that, if the Chinese ambassador to Poland, Wang Bingnan, raised the topic of Chinese food shortages and accused the US government of magnifying the situation for propaganda purposes when the Warsaw talks re-opened on 7 March, Cabot was to cite Kennedy's remarks of 25 January which stressed that the US would not offer food to the Chinese merely for propaganda purposes but if...

...there is a serious need for food...then the (US) would be glad to consider answering the need. If people's lives are involved...(the US) will always do what it can to help on purely humanitarian grounds. Conversely, in unlikely contingency that Wang...express(es) an interest in receiving...(US) food aid, inform him that you will refer...(the) request to...(the State Department).}

Available information suggests that this topic was not raised on 7 March.

On 15 March Bowles told Canadian ambassador Heeney in Washington that, while the State Department was reviewing completely US China policy, President Kennedy was thoroughly reexamining the issue of Chinese UN representation in preparation for discussions with American allies about this matter based on "...the two-China concept..." A Gallop Poll in March indicated that the American electorate was slowly changing its views regarding China.(SEE TABLE 5.1)

However, on 1 February 1961 CIA Director Dulles emphasised to Washington colleagues the seriousness of the situation inside China. On 3 April after talks with CIA officials and 'China hands', Brig. Gen. Lansdale, Deputy Assistant for Special Operations to the Secretary of Defence, told Defence Secretary McNamara that, although the PLA was still in control of the situation in China there had been troubles within the...
TABLE 5.1

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Favour improved relations</td>
<td>53%</td>
</tr>
<tr>
<td>Oppose improved relations</td>
<td>32%</td>
</tr>
<tr>
<td>Approve of China trade</td>
<td>47%</td>
</tr>
<tr>
<td>Oppose China trade</td>
<td>35%</td>
</tr>
<tr>
<td>Favour the export of US grain</td>
<td>52%</td>
</tr>
<tr>
<td>oppose the export of US grain</td>
<td>37%</td>
</tr>
<tr>
<td>Republican voters favouring</td>
<td>47%</td>
</tr>
<tr>
<td>improved US-China relations</td>
<td></td>
</tr>
<tr>
<td>Democrat voters favouring</td>
<td>54%</td>
</tr>
<tr>
<td>improved US-China relations</td>
<td></td>
</tr>
<tr>
<td>'Independent' voters favouring</td>
<td>54%</td>
</tr>
<tr>
<td>improved US-China relations</td>
<td></td>
</tr>
</tbody>
</table>

Chinese army in Shandong and granary riots at Hankow and Hainan. He suggested that the US continue to pressure the Chinese government by initiating a "strong psychological campaign" to aid internal opposition to the Beijing government and even consider permitting probing US military action inside China. The following day a Special National Intelligence Estimate (prepared by officials from the CIA and the intelligence organisations of the State Department, Army, Navy, the Air Force, Joint Staff and National Security Agency) concluded that although widespread famine conditions did not exist in China in some provinces people were on a "bare subsistence diet". It concluded that even under conditions of widespread famine the Chinese government would not accept relief shipments of US grain. Clearly the US military establishment saw internal Chinese difficulties as evidence that Western trade controls had been effective and would continue to be useful in limiting the economic development of a country which they saw as under a leadership which was hostile to the US.

On 6 May, less than a month after the signing of the Chinese-Canadian thirty month wheat agreement, and the day before the first Chinese-Australian credit wheat contract was concluded, President Kennedy established the Food For Peace Council. On 8 May he signed into law a bill which extended the scope of PL 480 by more than $2,000 million in US surplus farm produce. Then on 17 May, when Kennedy addressed the Canadian parliament about the extension of foreign aid to Less Developed Countries (LDCs) he emphasised that Canada and the US had a responsibility to work closely together in expanding efforts to use food surpluses to defend freedom...extend its writ and strengthen its covenant to peoples of different cultures...whose policy or economic system may differ from ours but whose desire is to be free...emerging into independence they face a choice....In making...(their) decision...(for freedom or totalitarian control) they should look...at the tragedy being played out in the villages of...China....

The Kennedy administration would only consider exporting food to China if Beijing asked Washington for the grain directly. Shaping this American policy position and possible responses to potential Chinese requests for US grain were wider American perceptions about Chinese foreign policy and actions. Although some US government policy advisers

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12 FRUS, volume XXII, 1996, p.38, National Records Center, RG#330, OSD Files: FRC 65 A 3464, 091, China, from Deputy Assistant for Special Operations To the Secretary of Defense (Lansdale) to Secretary of Defense McNamara, 3 April 1961.
were beginning to take a more flexible approach to the question of US-Chinese relations during early 1961 their influence was limited. President Kennedy's advisors feared taking any initiative regarding China which would leave them open to attack from the 'China Lobby'.

However, resulting from Washington's continued inflexible approach to China two 'FAC incidents' arose involving US subsidiary firms in Canada which created tension between Washington and the Canadian, Norwegian and British governments and left many observers, in the US and abroad, questioning the practicality of continued rigid and wide-ranging US controls on China trade.

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**Chinese Ship Chartering and the 'Bunker Fuel Incident'**

In January 1961 SINOFRACT began chartering cleaned and especially converted British, Norwegian and Swedish oil tankers to transport Canadian grain to China as quickly as possible. Standard vessels held a maximum of 9,070 tonnes of wheat while the tankers could hold up to 19,954 tonnes. After making large cash purchases of Western grain between 17 December 1960 and early February 1961, the Chinese became concerned that the shipments might lead to discharge problems at Luda (Dalian), Qingdao, Shanghai, and Tianjin (Tanggu) - facilities which relied heavily on manual labour, small junks, a few slings, grabs/clams and conveyers to unload grain into waiting railway cars or dockside storage facilities. In January SINOFRACT chartered three tankers - for one voyage each from Geelong, Victoria, Australia to Chinese ports between Luda and Shanghai - from Navigation and Coal Trade Limited, Alva Corporation's UK flag firm. In February the North Pacific Shipping Company Limited of Vancouver, acting as Canadian West Coast agents for SINOFRACT in Beijing, chartered South African, Greek, West German, Hong Kong (British), and British vessels to transport Canadian wheat. March Shipping Agency Limited acted as SINOFRACT's agents for grain shipped to

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17 USNA: RG#59: CFPF, CDF 1960-63, Box 3116, 993.739/2-361, to Secretary of State from American embassy, London, 3 February 1961. Information provided to the US Embassy by Fred Cross who was formerly UK shipping attache' in Washington and now director of Navigation and Coal Trade Ltd.
China from Canadian ports on the St Lawrence and the East Coast.

With the Chinese increasing use of foreign vessels, Washington began to consider whether to authorise subsidiaries of US oil firms to bunker ships carrying grain to China. When briefing the NSC's 475th meeting on 1 February 1961, CIA Director Dulles "...noted... (China's) serious agricultural situation." A brief discussion ensued concerning a possible change in US policy which prohibited bunkering by US oil companies of ships carrying grain to China. President Kennedy subsequently asked Secretary of State Rusk to study this matter further.18

In late January State and Treasury Department officials had recommended that subsidiaries of US oil companies be asked to apply for waivers allowing them to provide oil for such vessels. This recommendation was made despite the fact that bunker fuel could be obtained from non-US firms.19 Treasury and State agreed that waivers should apply only if the vessels, using fuel from US subsidiary firms, were not carrying goods classified as strategic under NATO guidelines. They also insisted that a waiver should not be granted if blocked US dollars were used as payment. Unaware that the NSC had taken an interest in this issue20, on 1 February Douglas Dillon, Secretary of the Treasury, New York banker and former Under-Secretary of State in the Eisenhower administration asked President Kennedy to approve the proposal. Dillon felt that the matter should be discussed before any subsidiary of a US oil firm was asked to provide fuel for ships transporting Western grain to China. However, he did express concern that, by taking the initiative to grant a waiver, the US would be accused of weakening its position on China.

Dillon's initiative was not well received by another group of influential American officials led by Frederick Dutton of California who was Secretary of the Cabinet and President Kennedy's special assistant at the White House. Dutton sent President Kennedy a memorandum outlining arguments for and against granting a waiver, emphasising that Washington should not make any quick decisions about the bunker fuel issue. He implied that the US should maintain its position as an example for its allies, stressing that Washington not get into the position where it could be criticised as weakening its stand on China. Dutton appears to have opposed the initiative because of concerns about a possible political backlash by powerful conservative domestic interests organised by the 'Committee of One Million'. Dutton stressed that

19 JFKL: NSF: countries, Box 21, China, general 20 January 1961-19 February 1961, to President Kennedy by Dutton, 1 February 1961.(discusses the Dillon/Treasury and State Department initiative.)
...the action provided by State and Treasury (a) raises unnecessary possibilities of domestic political attack for the new Administration...and (b)...would be a poor symbolic or actual first step toward a new policy vis-à-vis...China. Certainly a better 'first small gesture'...an important consideration in a change of major controversial policy...could be picked than this one to presage new attitudes toward trade with...China.\(^{21}\)

Dutton was convinced that a waiver in this instance would not serve any humanitarian purpose as the fuel could be obtained elsewhere. On 1 February Kennedy decided that all applications for licenses involving the bunkering of ships by US firms or their subsidiaries would be denied and that no advance announcement relating to this decision would be made.\(^{22}\) Washington did not have to wait long until Kennedy's decision on the bunker fuel question was put to the test.

Between 16 and 24 February a CWB delegation was in Hong Kong negotiating with CIRECO and advising SINOFRACT.\(^{23}\) Beginning on 18 February, Treleaven and Rowan of the CWB began to advise SINOFRACT officials on Canadian grain loading facilities and how best to organise Chinese-chartered ship arrivals so as to move the grain quickly.\(^{24}\) Forsyth-Smith and/or Small attended each meeting with the Chinese.

Shortly after these meetings began, Imperial Oil of Canada, the Canadian subsidiary of the American firm Standard Oil, informed Ottawa that, due to FAC regulations, it might not be able to sell bunker fuel to Norwegian and British shipping interests for ships chartered to transport the Canadian grain to China. Although Canadians had recently become very familiar with the extraterritorial application of American FAC regulations, Ottawa found this case particularly irritating because on the Canadian West Coast all the oil refineries and bunkering facilities except Shell, an Anglo-Dutch firm, were American subsidiaries (Imperial, British-American and Gulf).\(^{25}\)

In Washington on 20 February, Canadian Prime Minister Diefenbaker met with President Kennedy for talks, during which Diefenbaker learned that the FAC proposed "...to veto the supply of fuel


\(^{22}\) Ibid.; FRUS, vol. XXII, 1996, NSAM action memorandum No.3 from Bundy to Rusk, 3 February 1961, Department of State, NSAM Files, Lot 72 D316 NSAM 3.


on the grounds that such a transaction by a company with any directors from the US would be contrary to US law."26 When Diefenbaker asked Kennedy about the proposed ruling, Kennedy stated that FAC was instituted to protect the national security of the US and that violations would result in prosecutions. When Kennedy suggested that shipping companies acquire bunker fuel from other suppliers, Diefenbaker emphasized that the government of Canada would not interfere with contractual rights by designating companies that might supply the oil. Diefenbaker warned Kennedy that such interference "...would likely provoke a storm of protest in Canada."27 Kennedy then replied that, if Ottawa asked Imperial Oil to supply bunkers, he would personally ensure that no FAC action would be taken and that US directors of the firm would be protected. Diefenbaker later felt that Kennedy "...had not at first appeared to realise the implications of the proposed ruling from the Canadian viewpoint."28 On 23 February American embassy officials in Ottawa reminded Washington that the Canadian government would not accept anything less than a complete waiver with respect to the FAC ruling.29 Later, in early March, Canadian ambassador to Washington, A.D.P. Heeney, met with Fred Dutton and US Treasury Department officials, and reiterated Ottawa's position on the bunker fuel issue. Heeney, on behalf of the Canadian government, rejected a US proposal which sought to implement a notification procedure for bunkering because it continued to object to the extraterritorial law.30

Meanwhile, Shell, which did not trade with Taiwan or maintain an office there, had obtained the bunkering contracts for ships carrying grain to China.31 Shell’s subsidiary operations in China were handled by the Shanghai based Shell Company of China (a.k.a. Asiatic Petroleum Company) which had been formed in 1913. In the first half of 1950, prior to the British government’s decision to participate in the US-led oil embargo against China, Shell had supplied oil to the PRC. Although all of Shell’s properties had been transferred to the jurisdiction of the Chinese government between 1951 and 1953, it was one of the few Western

27 Ibid.
28 Ibid.
30 USNA: RG#59: CFFP, CDP 1960-63, Box 1038, 493.429/4-2861 memorandum of conversation, participants: Canadian ambassador Heeney; economic councillor Canadian embassy; Ivan White, Deputy Assistant Secretary EUR; Delmar Carlson, officer in charge Canadian affairs, US State Department, 28 April 1961.(Mentions Heeney's earlier meetings with US officials regarding the bunker fuel issue).
31 USNA: RG#59: CFFP, CDP 1960-1963, Box 1038, 493.429/3-361, from Vancouver to Secretary of State, 4 March 1961.
firms which was allowed to maintain an office in China (Shanghai) during the 1950s and early 1960s.\textsuperscript{32}

Although the US-Canadian disagreement over bunker fuel remained officially unresolved in 1961\textsuperscript{33}, in October 1961 US Export Control, with the approval of the US Port Security Commission and Departments of State, Treasury and Commerce, ruled that

...U.S. export control licenses are not granted for bunkers to...Chinese owned or controlled vessels... result(ing) in the automatic denial of all bunkering licenses for such vessels, including vessels under...Chinese charter carrying Cuban sugar. However, in the case of...Chinese chartered vessels carrying Canadian wheat to China, an exception may be made in that consideration will be given to applications for a license for bunkers in this case, with no predisposition to either grant or deny such a license.\textsuperscript{34}

While, Kennedy yielded to Diefenbaker's demands for Washington to grant an exception regarding bunkering licenses for US ships carrying Canadian grain to preserve US-Canadian relations, he avoided changing US China policy due to concern about a political attack from the 'China Lobby'.

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\textsuperscript{32} Shao Wenguang, China' Britain and Businessmen Political and Commercial Relations 1949-1957, pp.73-76,91; Nien Cheng, Life and Death in Shanghai, pp. 19, 289-293.

\textsuperscript{33} NAC: RG#25: Vol. 5281, File 9030-40, pt.1, for the Prime Minister from HCG, 'United States Foreign Control Oil Bunkers For Grain Ships To China', undated.

\textsuperscript{34} USNA: RG#59: CFFP, CDF 1960-63, Box 3116, 993.73/10-1061: 'Action To Be Taken With Respect To Communist Chinese Controlled Vessels in U.S. Ports', 10 October 1961.
SINOFRACT's chartering arrangements with Western shipping firms provided for the installation of vacuator pumps which would discharge the grain from tankers into waiting railway cars, junks, or dockside warehouses relatively quickly with minimal manual labour. These vacuators, ordered from Kapple-Dunbar of Batavia, Illinois were capable of unloading twice as much grain per day as other available equipment. The only other firm in the world that manufactured comparably powerful vacuators was the Illinois-based Sherman-Meyers. However, this firm had not received orders for vacuators for use on ships exporting grain to China.

Kapple-Dunbar billed and received payment for the vacuators directly from the shipping firms but did not apply for an export license from the Treasury Department or file a 'non-diversion' declaration - required for US exports not for end use in Canada.

On 5 June the US Treasury Department took action to prevent the delivery of the vacuators from Kapple-Dunbar to vessels being loaded in Canada. The British tanker the Eskfield had been chartered to the Chinese only after the owner, the Hunting Group, received a guarantee from Kapple-Dunbar that the vacuum pumps would be delivered in the first week of June. Hunting officials approached British suppliers for less powerful substitute vacuators, but were told that delivery would take six to eight weeks. Also on 5 June C.P.M. Hunting, vice-president of the Hunting Group, reported these developments to the Canadian High Commission in London, emphasising that his firm was "...perfectly willing to give an ironclad undertaking that the vacuators would not be sold in...China or left there." Loading of Canadian grain for China on the Eskfield was previously scheduled to begin on 12 June, but before commencing (so as not to be stuck with a cargo of grain) Hunting wanted to know...

...what arrangements are contemplated for meeting the cost of purchasing the equipment in Canada and flying it if necessary to China...
<table>
<thead>
<tr>
<th>Name of Vessel</th>
<th>Registered</th>
<th>Shipowner</th>
<th>Equipment purchased from</th>
<th>Quantity</th>
<th>Date that the US Treasury Department took action to halt delivery of equipment</th>
<th>Delivery date</th>
<th>Vessel’s departure date for China</th>
<th>Date learned that equipment sold to China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armos*</td>
<td>British</td>
<td>Kelvin and Kalokomenis (London)</td>
<td>Model 2500 diesel vacuator pump (incorporated the 160 hp Cummins engine)**</td>
<td>4</td>
<td>Before vessel’s departure</td>
<td>8 June 1961**</td>
<td>8 June 1961 after 8 June 1961</td>
<td>n.s.</td>
</tr>
<tr>
<td>Mt Buffet</td>
<td>Norwegian</td>
<td>Bell Ships Co. (Norway)</td>
<td>Model 2500 diesel vacuator pump (incorporated the 160 hp Cummins engine)</td>
<td>4</td>
<td>5 June 1961</td>
<td>8 June 1961**</td>
<td>3 June 1961 8 June 1961**</td>
<td>3 June 1961 8 June 1961**</td>
</tr>
<tr>
<td>Mt Betty</td>
<td>Norwegian</td>
<td>Bell Ships Co. (Norway)</td>
<td>Model 2500 diesel vacuator pump (incorporated the 160 hp Cummins engine)</td>
<td>4</td>
<td>5 June 1961</td>
<td>8 June 1961</td>
<td>After 8 June 1961</td>
<td>n.s.</td>
</tr>
<tr>
<td>Mt Tankemperor</td>
<td>Norwegian</td>
<td>Bell Ships Co. (Norway)</td>
<td>Model 2500 diesel vacuator pump (incorporated the 160 hp Cummins engine)</td>
<td>4</td>
<td>5 June 1961</td>
<td>8 June 1961</td>
<td>After 8 June 1961</td>
<td>n.s.</td>
</tr>
</tbody>
</table>

n.s. = no information available.

* Equipment also for use on the Cygnus when the Aries had been unloaded in China.

** Vessel received equipment but the loading of the ship was halted when the US Treasury Department took action.
Date to begin loading vessel prior to its departure for China.

Six of the vacuators and spare parts for use on the Merchant Knight and Merchant Baron were sold to SINOFRACT by verbal agreement through SINOFRACT’s London agent and delivered to Qingdao.

The British embassy in Washington, which was being kept informed by the Canadians, was instructed to raise the vacuator pump issue with the US government.\(^{40}\)

Then on 6 June the president of the Norwegian firm Herlofson Sigurd A/S told the Canadian embassy in Oslo about problems which his firm was encountering in obtaining vacuators from Kapple-Dunbar.\(^{41}\) The Norwegian ambassador to the US subsequently made representations to the American government. Meanwhile, the chairman of Kapple-Dunbar had been working with his attorneys in New York and Washington and his local congressman to solve the problem.

Between 5 and 7 June 1961 the Canadian government, concerned about the delayed grain shipments, asked the US Treasury to approve export licenses for the vacuators. Consultations took place involving Prime Minister Diefenbaker and President Kennedy, Canadian ambassador Heeney, Under-Secretary Bowles, former Deputy Assistant Secretary for European Affairs, Ivan White and, informally, Arkansas Senator Fulbright. During these discussions, the Americans stressed that Kapple-Dunbar had not applied for a US export license, but that any application filed would have been rejected because Norwegian ships which participated in China trade and stopped in US ports en route were refused all services except emergency repairs. However, on 7 June Heeney told State Department officials that under previous transactions Kapple-Dunbar had already provided, without incident, vacuators for five tankers carrying Canadian grain to China and emphasised the suddenness of the Treasury Department’s action to prevent further delivery of vacuators.\(^{42}\) White then told Heeney that the US government did not intend to delay Canadian wheat shipments to China; and Bowles told him that

\[\ldots\text{he was very much in favor of the provision of foodstuffs to...China and expected that...}(State)\text{ would be able to convince their legal people that the equipment could be released for an interim period at least.}\]\(^{43}\)

Heeney found the Americans cooperative and "...on all sides a genuine desire to go as far as possible to ease the situation within the limits of existing US laws."\(^{44}\)

\(^{40}\) NAC: RG#25; Vol.5280, File 9030-40, pt.8, to DEA, Ottawa from Washington: 'USA Unloading Equipment for Vessels Carrying Canadian Grain to China', 8 June 1961.

\(^{41}\) NAC: RG#25; Vol.5280, File 9030-40, pt.8, to DEA, Ottawa from Canadian embassy, Oslo, 7 June 1961.


\(^{43}\) Ibid.

\(^{44}\) NAC: RG#25; Vol.5280, File 9030-40, pt.8, for the Prime Minister from the Secretary of State for External Affairs, 7 July 1961.
After Dillon, Bowles, Fulbright and others reviewed the US position\(^4\)\(^5\), although the US government did not plan to make a public statement on the issue, on the evening of 7 June it agreed to provide export licenses for vacuator pumps already on order for the Norwegian, British, Swedish tankers carrying Canadian grain to Chinese ports. Washington told Ottawa this exception applied only in this instance and would not be a precedent for further shipments of vacuators. However, the US Treasury Department expressed concern

as to the complications and consequences in which they may be involved elsewhere as a result of the present action in respect of Canada. They hope therefore that it will be possible for the US (and Canadian governments) to make reference to the exceptional nature of this...action...(and that the US) action is not intended to cover long-term orders from Canada...\(^4\)\(^6\)

On 8 June Diefenbaker told the House of Commons that Washington would allow delivery of vacuator pumps already ordered from American firms for installation on ships transporting Canadian grain to China.\(^4\)\(^7\)

However, the US Treasury may have had good reason to be concerned about the fate of vacuators used on ships carrying grain to China as later, in the first half of 1962, the US Commerce Department learned that several of the Kapple-Dunbar vacuators had been sold to the Chinese. (SEE TABLE 5.2)

Despite the adverse political fallout from the bunker fuel incident and vacuator pump fiasco, occurring in the summer and autumn of 1961, the China Lobby - which still commanded considerable power in Congress and support from US military and FE Bureau of the Department of State officials - continued to oppose even minor changes to US China policy. However, beginning in autumn 1961 a growing number of influential US policy-makers in the USDA, State Department and the White House viewed the cash grain sales to China by US allies as not only acceptable but something which the US government should also consider participating in.

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CHAPTER 6

Chinese-Western Grain Negotiations:
August to December 1961
September 1961 Lushan Conference and China’s Grain Import Strategy

Despite the large imports of Western grain since December 1960 the general Chinese population faced continuing serious food shortages throughout the summer of 1961. A CIA report of 1 August stated that Tianjin’s grain rations for white-collar workers were reduced from 13.5 kg to 11.5 kg per month. It was standard practice for new regulations to be tested initially in Tianjin and then, if deemed successful, enforced in Beijing. As grain rations were reduced, vegetable availability improved, the idea being to conserve grain in the winter and spring by eating more vegetables. CIA officials felt that the reduction in rations at a time when grain supplies were near their annual peak reflected Beijing’s concern about the upcoming domestic harvest. At the CPC working conference in Beidaihe between 5 July and 10 August, Bo Yibo formulated directives on increasing and guaranteeing grain production as well as reducing capital construction.

Captured PLA documents reveal that although conditions in the Chinese army in August 1961 were better than during the winter of 1960-61 between five and ten percent of soldiers in PLA units still did not have enough to eat - partly because they transferred some of their rations to their families. In August China’s military leadership identified food shortages as the central problem relating to PLA living conditions and suggested measures aimed at increased food production, more economical use of food supplies and building a fifteen to thirty day food reserve.

Chinese sources maintain that the CPC Central Committee working conference in Lushan in September 1961 marked the turning point in China’s economic recovery because during these meetings the Chinese leadership obtained a better understanding of the overall situation throughout the country. A general consensus was reached that ‘readjustment’ policies were not working because production quotas had not been reduced significantly. Shortages of grain continued to be “acute”. Thus, the conference agreed to adopt Chen Yun’s proposal of May 1961 and implement a long-term grain import programme. In conjunction

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4 See footnote 6 chapter 1.
with this strategy the government agreed to adopt measures aimed at reducing the amount of grain purchased by the state, reduce grain sales and the rations of the urban population and economise on grain consumption. In addition the government also agreed to Chen's proposal to reduce the urban population, although this policy was not implemented until May 1962. (SEE CHAPTER 7) According to official Chinese sources these measures together served to raise national per capita grain consumption by 3.5% in 1962.5

Trade statistics and Western archival materials indicate that Chen's grain import strategy was followed over subsequent years. However, between September 1961 and March 1962 the Chinese had difficulty obtaining enough grain, covered by medium term credits, to meet their requirements for 1962 under the new long-term strategy. Canada and Australia alone could not provide enough grain to fulfill China's annual grain import requirements. The Chinese needed to find other Western grain suppliers who were able and willing to provide generous credits to facilitate these large purchases. Thus, those in charge of the Chinese government's grain importing system began to consider France and the US as potential large suppliers of grain.

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**Chinese-Australian Grain Trade:**

**August to November 1961**

In June 1961 the Australian government decided to allow a Chinese trade delegation headed by Zhang Bing to visit Australia in August and September, while insisting that the AWB sponsor the mission and extend unofficial assistance. In addition to refusing to recognise the mission officially, the Australian government insisted that the Chinese should not visit Canberra or discuss trade policy while in Australia.6

During AWB-CIRECO negotiations in September 1961 the Chinese obtained options on Australian grain deliveries for 1962. AWB negotiators, unlike CWB officials, were not caught amidst wrangling between the Chinese and their own government officials over textile import quotas. Chinese goods entering the Australian market received Most Favoured Nation (MFN) status.

By the end of September the Chinese had agreed to exercise the option, which was part of the 7 May 1961 AWB-CEROILFOOD contract, to purchase an additional 254,012 tonnes of wheat in November. (SEE TABLE

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5 Liu and Wu (editors), *China's Socialist Economy: An Outline History*, p.274.
Then between 2 and 11 October 1961, Dr. H.C. Coombs, governor of the Reserve Bank of Australia, visited Beijing to discuss banking matters with Dao Zhuru, president of the People's Bank of China. The exact nature of these discussions is unknown. Rumours persisted that they involved credits for wheat purchases from the AWB.7

On 7 October Coombs told the British charge d'affaires (Michael Stewart) that he hoped that the Australian Reserve Bank in both China and the USSR could emulate the Bank of England's efforts to build up relations with the Soviets.8 Coombs hoped to learn about the state of the Chinese economy and examine possibilities for Chinese-Australian trade. The Australians, he added, were preparing for the possibility that Britain might join the EEC by finding alternate markets, and China was increasingly seen as an important market for Australian goods such as wheat, sugar, and hops. Despite Canberra's denials, the Americans assumed that Coombs' visit to China was connected primarily to financing of Australian grain exports to China.9 At a meeting on 30 November the AWB decided that the maximum quantity of grain which it could offer the Chinese in 1962 would be 254,012 tonnes of FAQ wheat on cash terms and 254,012 tonnes of off-grade wheat under the same credit arrangement as before.

8 PRO: FO 371/158415: FC 1161/11, from Beijing to FO, 24 October 1961.
TABLE 6.1

Chinese-Australian Wheat Contract: November 1961
[in tonnes (trade grain weight) and % of total Canadian grain exports and total Chinese grain imports]

<table>
<thead>
<tr>
<th>Date of Contract</th>
<th>Type of Grain</th>
<th>Quality</th>
<th>Quantity (tonnes) and % of total Australian wheat exports and total Chinese grain imports in year delivered</th>
<th>Price (per long ton, FOB)</th>
<th>Terms</th>
<th>Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>credit contract #2: November 1961 *</td>
<td>wheat</td>
<td>n.a.</td>
<td>254,012 (5%) Australian (4%) Chinese</td>
<td>n.a.</td>
<td>10% cash, 40% in six months, 50% in twelve months; interest rate 4.5%; 10% buyers option for metre or less</td>
<td></td>
</tr>
</tbody>
</table>

* This contract represented an option clause which was part of the 7 May AWB-CEROILFOOD contract. Both parties were required to confirm that they wished to proceed with the contract by 30 September. In May both sides had agreed to defer the contract because the AWB was unsure as to whether adequate supplies would be available to complete such a sale.


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Chinese Purchases of French Grain: June to November 1961

During 1961 the Chinese viewed both France and/or the US as the potential third major supplier of Chinese grain imports on generous credit terms. Beginning in May 1961, Beijing was eager to secure more grain on acceptable credit terms. However, after signing contracts to purchase French flour and barley between January and June 1961, Louis Dreyfus was unable to obtain additional barley for export (from the new crop) from the French National Cereals Office (ONIC) throughout the summer of 1961.10

Then, in October 1961 Louis Dreyfus negotiated a contract with CIRECO covering the sale of 254,012 tonnes of French barley (SEE TABLE 6.2) In November when CIRECO and Louis Dreyfus Co., acting as agent for ONIC, resumed negotiations in Hong Kong, the Chinese insisted on obtaining credits of eighteen months with 10% cash down. T. Gervis, head of Louis Dreyfus' negotiating team, then told CIRECO officials that his company would not offer credits of more than twelve months. On 1 December Gervis suggested to Forsyth-Smith that the CWB, AWB, ABB and Louis Dreyfus work together to coordinate contractual terms and credit limitations extended to China. Forsyth-Smith responded by stressing that the CWB would not want to divulge matters relating to credits to a private firm.11 While Forsyth-Smith forwarded Gervis' remarks to Ottawa and the CWB, the suggestion failed to produce a Franco-Canadian understanding on credit limitations to China.

10 NAC RG#20: Vol. 819, File 10-33, pt.8, to DTC, Ottawa, from Forsyth-Smith, Hong Kong: 'Canadian Sales To China', 8 June 1961.
11 NAC: RG#20: Vol. 819, File 10-33, pt.9, to McNamara, CWB from Forsyth-Smith, Hong Kong, 1 December 1961.
**TABLE 6.2**

**Franco-Chinese Grain Contract: October 1961**
[in tonnes (trade grain weight) and % of total Chinese grain imports]

<table>
<thead>
<tr>
<th>Date</th>
<th>Firm</th>
<th>Type</th>
<th>Quantity (in tonnes) and % of total Chinese grain imports</th>
<th>Delivery</th>
<th>Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>credit contract #3: October 1961</td>
<td>Louis Dreyfus Co.*</td>
<td>Barley</td>
<td>254,012 (4%) Chinese</td>
<td>twelve month credits</td>
<td></td>
</tr>
</tbody>
</table>

* Information given to Forsyth-Smith, Canadian trade commissioner in Hong Kong, by George Weisslitz director of Louis Dreyfus Co. Paris. Louis Dreyfus had been appointed sole exporter of French barley to China by the French government. This decision was made to prevent the Chinese from promoting competition among French exporters in order to drive down prices.


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Chinese-Canadian Grain Trade: August to November 1961

On 5 August 1961 the CWB and CIRECO signed a third contract under the thirty month Chinese-Canadian grain agreement. (See Table 6.3) Shortly thereafter Lui Liang's work with CIRECO was rewarded when he was promoted to CEROILFOOD's third in command in Beijing. At the summer 1961 Canada-US Quarterly Meeting, CWB chief commissioner McNamara told the Americans that some Canadian wheat sold to China was being reexported to East Germany. DTC officials confirmed to American officials that Beijing had already diverted 20,321 tonnes and had also advised the CWB that an additional 132,086 tonnes would be diverted to East Germany in July and August. In 1960-61 and 1961-62 the Chinese reexported 52,201 tonnes and 218,817 tonnes of Canadian wheat to East Germany and 64,087 tonnes and 57,197 tonnes to Albania.

This was acceptable under article 5 of the Chinese-Canadian wheat agreement which stated that "...grain purchased by the buyers (China) is for shipment to China or to countries which are not regular commercial markets for the seller's grain." A list of these countries was contained in an attached memorandum which formed an inseparable part of it, and included: the USSR, Poland, Czechoslovakia, Rumania, Albania, Hungary, Bulgaria, Mongolia, North Korea, North Vietnam, and East Germany.

Thus the Canadians could not prevent wheat sold by the CWB being diverted to East Germany despite that fact that on 13 August East Germany closed off the border between East and West Berlin and erected the Berlin Wall. This action contravened the four power Paris agreement of 20 June 1949, allowing for free movement in Berlin. On 20 August 1961, additional US troops arrived in West Berlin and tensions intensified until the crisis peaked in late October.

15 Ibid. and attached memorandum (inseparable part of the long term Chinese-Canadian grain agreement), 22 April 1961: a definition of the sellers' (CWB) regular commercial markets mentioned in article 5 of the agreement (See Table 4.3).
### TABLE 6.3

Third Contract Under the 1961 Chinese-Canadian
Thirty Month Grain Agreement
[in tonnes (trade grain weight)]

<table>
<thead>
<tr>
<th>Date of Contract and Number of Contract Signed Under the Chinese-Canadian Thirty Month Grain Agreement (signed on 22 April 1961)</th>
<th>Variety</th>
<th>Quantity (tonnes)</th>
<th>Price (per long ton FOB)</th>
<th>Terms</th>
<th>Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>credit contract #3: 5 August 1961</td>
<td>MN#2 wheat</td>
<td>162,567</td>
<td>MN#2 25.1s.6d. (exchange rate $2.87 - 11/16)</td>
<td>Payment in sterling. 25% down payment FOB value of each shipment plus agent's commission. All other charges payable in cash on presentation of documents. 75% value of each shipment payable against sight draft 273 days after invoice</td>
<td>ex St Lawrence ports between August and September 1961. Individual cargo lots booked by CWB agents at which time twenty day shipping period was to be declared within the August to September 1961 period.</td>
</tr>
<tr>
<td></td>
<td>MN#3 wheat</td>
<td></td>
<td>MN#3 24.18s.11d. (exchange rate $2.87 - 11/16)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

On 11 October 1961 a thirteen man Chinese trade delegation, led by Chen Ming, and including separate general trade and grain delegations, arrived in Canada for a two month stay. Because the Canadian government did not recognise the Chinese government diplomatically, Ottawa emphasised that the delegation was travelling at its own expense and on an unofficial basis. However, the fact that Forsyth-Smith accompanied the Chinese delegation for several weeks seems to weaken Ottawa's claim in this respect. Apart from Chen, the delegation included nine other representatives of various Chinese trading corporations. The five members of the grain delegation, led by Li Yousheng, visited Montreal briefly before continuing, separately, to Saskatchewan and the CWB in Winnipeg.

They initially indicated that they might return home as early as 18 November 1961. After arriving in Winnipeg they informed McNamara that they had recently been instructed to begin discussions on the fourth contract under the Chinese-Canadian thirty month agreement. They asked for credits of two years to facilitate a new contract, but McNamara had already stated that Ottawa was unwilling to extend improved terms.

The Chinese bargaining position was weaker than it had been earlier in the year because a drought in Western Canada had reduced the crop by half in 1961. Despite the 14.3 million tonnes carryover of wheat from 1960-61, lower grades were already in short supply. The North American, European and Chinese wheat harvests all decreased in 1961: total world wheat production fell from 222.8 million tonnes in 1960 to 214.5 million tonnes in 1961. Yet total world wheat and flour exports rose by 12% in 1961 over the previous year as a record 43.4 million tonnes was traded. US business accounted for 45% of the world wheat trade, with 70% of all American sales classified as concessional. Thus by autumn 1961 the CWB was short of lower grades of grains and the Board stated that delivery quotas for farmers would be eliminated at the end of 1961.

When Chinese-CWB negotiations resumed in Winnipeg between 21 and 23 November, Li again insisted on more favourable credit terms. McNamara asked why Beijing expected the CWB to provide better terms than the AWB. Li explained that this was because Canadian grain was more expensive, and also that the Chinese had decided to ask for two year credits merely to initiate the negotiations. He added that the Chinese might accept a Canadian offer of eighteen month credits to close another sale. McNamara rejected this proposal and the two sides remained apart.

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16 Grain Trade of Canada, (1961-62)
Meanwhile, in October and November 1961 as Chinese efforts to obtain more grain from Canada, France and Australia, on improved credit terms, faltered the issue of possible American grain sales to China became a subject of discussion within the US government. While many American government officials sought to enforce anti-Chinese policies in the first half of 1961, opposing pressures within the US were also at work. Between 10 April and 24 May the Australian, Canadian and British governments had received information that American interests, with the backing of the US government, offered to sell the Chinese unlimited amounts of US grain.

It is conceivable that the rumour was fabricated by Chinese officials to make the Australians and Canadians think the Americans were about to enter the Chinese grain market, with the purpose of creating a credit race among potential suppliers. On the other hand, the Chinese seem to have been genuinely concerned that credit facilities and adequate grain supplies might not be available from non-US suppliers, thus making necessary an approach to American suppliers.

Since early 1961, US government officials (especially in the USDA) had been under pressure from the powerful American grain producers' lobby to export surplus US grain to China on commercial terms or as relief aid. Officials in Washington were interested in examining the possibility of selling US grain to China for cash - a prospect that could benefit US interests in at least three ways: by helping reduce the US grain surplus; by possibly boosting American prestige - especially in Asia - if carried out under an aid programme as a humanitarian gesture; and if Washington could convince its allies to place strict limitations on credits extended to Beijing, by reducing the amount of foreign currency that the Chinese could channel into foreign aid or use to support hostile actions - for example in Vietnam.

During October and November 1961, US government officials became increasingly divided about exporting US grain surpluses to China. According to a newspaper article in the Los Angeles Times on 5 December, Kennedy's advisers were split roughly into three groups. One group, opposed US wheat sales to China, was composed of officials from the Pentagon and from the FE Bureau of the State Department. Although Averell Harriman replaced Walter McConaughty as Assistant Secretary of State for FE Affairs during the 'Thanksgiving Day Massacre' on 30 November 1961, the FE bureau continued to be influenced by officials who had risen to

19 See chapter 4 footnotes 38, 98.
the section's higher echelons after the State Department purges in the early 1950s.\textsuperscript{20} Officials of the Pentagon and of the State Department's FE Bureau held firm to their position, especially in view of the information provided in PLA documents captured by Tibetan guerrillas in 1961 indicating that food shortages and economic problems had a serious adverse effect on the PLA morale. They pointed out that US intelligence reports indicated that because the food situation had not improved during the summer of 1961, the Chinese government continued to face civil unrest. They argued that Western credits extended to Beijing, beginning in April 1961, were providing vital aid to Chinese ambitions. US officials who were opposed to changes in US China policy also felt that Western credits were allowing the Chinese to fulfill previous commitments of aid to LDCs which were either allies of Beijing or non-aligned nations.(SEE TABLE 6.4) These officials also argued that the Chinese would be unable to obtain equivalent quantities of grain if the Australians and Canadians cut off grain exports to China.\textsuperscript{21}

A second group, led by George McGovern, the South Dakotan Director of Food for Peace under Executive Office of the President, advocated further study of possible sales to China in relation to other demands for US grain. The Food For Peace programme had been established in January 1959 to organise the distribution of PL 480 foodstuffs so that food-deficient nations could establish reserves of wheat and other items.\textsuperscript{22}

A third group favoured US cash sales of grain to China for humanitarian and propaganda purposes - but only if the Chinese people were aware that it was US grain. This group comprised Secretary of State Rusk, Secretary of Agriculture Freeman of Minnesota, McGeorge Bundy (President Kennedy's Special Assistant for National Security Affairs) and Walt Rostow who had worked in the OSS during WWII and like Rusk had been a Rhodes Scholar. They supposedly argued that Washington's refusal to sell grain to China could adversely affect US interests in Asia.


\textsuperscript{21} NAA: A1209/106 61/428, memorandum: Prime Minister's Department, seen by PM Robert Menzies, 8 March 1963.

TABLE 6.4

Chinese Foreign Aid Commitments: 1960-61

<table>
<thead>
<tr>
<th>Date of Commitment</th>
<th>Type of Chinese Aid</th>
</tr>
</thead>
<tbody>
<tr>
<td>13 October 1960</td>
<td>$105 million loan to North Korea</td>
</tr>
<tr>
<td>30 November 1960</td>
<td>$60 million interest free loan to Cuba</td>
</tr>
<tr>
<td>19 December 1960</td>
<td>$11.4 million donation to Cambodia</td>
</tr>
<tr>
<td>9 January 1961</td>
<td>$4.2 million interest free loan to Burma</td>
</tr>
<tr>
<td>January 1961</td>
<td>$84 million loan to Burma</td>
</tr>
<tr>
<td>2 February 1961</td>
<td>$1.2 million loan to Albania and began donating large wheat shipments from the West. In 1960-61 and 1961-62 the Chinese re-exported 2.4 million and 1.1 million bushels of Canadian wheat respectively to Albania.</td>
</tr>
<tr>
<td>June 1961</td>
<td>After Chen Yi's visit to Indonesia the Chinese offered the Indonesians technical, industrial and capital aid to help rectify serious domestic economic problems.</td>
</tr>
<tr>
<td>11 October 1961</td>
<td>$30 million loan to Indonesia at 2% interest</td>
</tr>
<tr>
<td>15 October 1961</td>
<td>Donation of $9.8 million to Nepal</td>
</tr>
</tbody>
</table>

Sources: Kurt Muller, Foreign Aid Programs of the Soviet Bloc and Communist China. (According to Victor Marchetti and John D. Marks, The CIA and the Cult of Intelligence, p.181, Muller's information was provided by the CIA who also encouraged him to write an anti-communist account before helping him to get it published and widely distributed); G.V Ambekar and V.O.Divekar, Documents on China's Relations with South and South-East Asia (1949-1962); Various documents relating to China's use of wheat purchased from Canada contained in National Archives of Canada, files RG#20 and RG#25.
However, on 23 October Rusk was closely following reports that the AWB would continue to extend twelve month credits to Beijing to facilitate grain purchases. Washington classified credit of this duration as concessional - more generous than terms extended for regular commercial practices. The Americans felt the AWB's decision to grant these credits might well run contrary to Canberra's policy of not extending recognition to Beijing. Rusk asked American embassy officials in Canberra to determine what terms the AWB expected to offer the Chinese in future. Washington was also concerned about Australian Reserve Bank Governor Coombs' visit to China.

Between 25 and 30 October Rusk testified before the House of Representatives Select Committee on Export Controls (investigating the sale of strategic materials to Communist countries. When discussing US agricultural exports to Communist nations Delbert Latta of Ohio asked Rusk "...Does not an army still march on its stomach." Rusk's response was:

If, and as, we move closer to a straight military confrontation...this question would assume more and more importance. But they are having to strain themselves to buy foodstuffs rather than use their foreign exchange for supporting subversion and revolution in other countries....It would be safer for us, for them to be using their foreign exchange for food rather than a lot of other things.

When asked how the US government would have responded if it had been asked to export surplus American grain to China Rusk stated that it was a complex matter. This was because Washington would have had to consider that its reputation would be jeopardised if it refused to export food to starving people. Also it was necessary to consider the effect that an American decision to deny a Chinese request for foodstuffs might have on the health of people in other countries surrounding China - in terms of diseases such as cholera. He then mentioned Chinese foreign revolutionary activities and friction between Beijing and Moscow resulting from competition for influence between both sides in Asia and Africa. Rusk added:

...if I had to choose a way to absorb (Chinese) foreign exchange, I am not sure this is not the safest way....This in itself is a very serious strain, and yet they will not be able to satisfy their own people because they have not been able to afford the large quantities of foodstuffs...needed to give an adequate diet to their own people under these

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24 'Investigation and Study of the Administration, Operation and Enforcement of the Export Control Act of 1949 and Related Acts', Hearings before the Select Committee on Export Control, House of Representatives, 87th Congress, 1st Session, 25, 26 and 30th October, 5, 6, 7 and 8 December 1961, p.100.

25 Ibid.
Also on 26 October a 'top secret' Department of State Policy Planning Council (S/P) 'think paper' was distributed for discussion by officials from the State Department's Bureau of Intelligence and Research (INR) and the CIA. The paper called for a review of US China policy in order "...to evaluate present objectives, policies and lines of action regarding China and determine wherein they should be modified." James C. Thomson's concise summary of the 124 page document explains that it suggested various initiatives aimed at communicating...

...a more moderate and flexible U.S. attitude toward China and lead gradually in the direction of accommodation. Such initiatives might include moves toward lifting of the passport ban, modification and eventual removal of the ban on trade with China in non strategic goods, arms control and disarmament discussions, more productive use of the ambassadorial talks at Warsaw, Chinese Nationalist evacuation of the offshore islands, some form of representation for... (Beijing) in the United Nations, U.S. recognition...

It also proposed that US trade controls on China be reduced to the level applied to trade with other Communist nations, while warning that such a move could be interpreted by US allies as Washington's readiness to adopt a 'soft policy' toward China - an initiative which could cause American allies to reduce their controls on trade with China further.

The author of the 'think paper' was Edward Rice, born in Michigan and educated at the University of Illinois, whose Foreign Service "...career had positioned him in such politically hazardous spots as ...(Chongqing, Sichuan) and FE between 1942 and 1948... (but) had escaped the Republican purges thanks to a letter of special commendation placed in his file, for reasons unknown, by General Patrick Hurley, the Chief forefather of the 'witch-hunt'." Rice recommended that the US government consider a 'one-time' gift to the Chinese of at least 1.02 million tonnes of wheat, possibly at the Warsaw talks in a manner 'devoid' of propaganda...

...if and when it becomes evident that the regime faces a renewed food crisis beyond its control...

If (Beijing)... accept(ed) our offer (it) could not be expected to publicize the fact within China or allow us to control or observe its distribution. We would therefore need to guard against the possibility they might circulate charges that the foodstuffs we supplied were spoiled, radioactive, poisoned or otherwise unfit for human consumption. We should accordingly be prepared to deal through an intermediary which

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26 Ibid.
29 Ibid.
Two weeks later, on 7 November, Burmese Prime Minister U Nu - who had spoken publicly about his interest in negotiating a Chinese-American rapprochement and had become a good friend of Zhou Enlai during various Chinese-Burmese negotiations since 1954 (SEE BIOGRAPHICAL SKETCHES) - suggested to Washington that the US transship 304,814 tonnes of wheat to China as a humanitarian gesture in a triangular PL 480 deal via Burma. In October U Nu and Zhou had met to sign the protocol to the Chinese-Burmese border agreement and finalise their January 1961 agreement under which China extended interest free loans of twenty years in duration totalling the equivalent of about $88 million. In 1960 Burmese imports from China increased by 60% and during 1961 the Chinese agreed to purchase 350,000 tonnes of Burmese rice at well above market prices.31 On 8 November Rostow asked to meet with President Kennedy to discuss U Nu’s proposal, emphasising that he was convinced “that the situation in...China is one of the most important factors in our (Washington's) calculations about Southeast Asia.”32

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32 JFKL: NSF, countries, Box 22, to President Kennedy from Rostow, 8 November, 1961.
Unofficial US-Chinese Grain Negotiations:  
February 1961-Late November 1961

Meanwhile, only three days after, Rice’s S/P ‘think paper’ began circulating at the State Department and CIA, there were rumours that when US wheat growers travelled to Hong Kong on 29 October they attended a pre-arranged conference at the Bank of China building with CIRECO officials.33 In October officials from two groups representing US wheat growers toured Asia to examine potential new markets. One group was from the Western Wheat Association Incorporated of Portland – an organisation supported by the state governments of Oregon, Idaho and Washington through a tax on each bushel; the other, from the Great Plains Wheat Market Development Association of Garden City, a non-profit organisation representing Midwestern wheat growers. Formed in February 1959, the former was not officially a sales organisation but sought to reduce US wheat surpluses by educating traders, consumers, teachers, farmers, bakers, and millers worldwide about the benefits of consuming American wheat.

Prior to 1949, business interests in California, Washington and Oregon generally did much more business with the Chinese than with other American states. Then, China imported grain and wheat flour from Oregon and other primary goods such as pulp and timber products from the American Northwest. Between 1934 and 1941 approximately 12% of Oregon’s total exports went to China.34

Between 1955 and 1960 US average annual wheat production was 31 million tonnes. American wheat exports totalled 13.9 million tonnes and 15.9 million tonnes in 1959-60 and 1960-61 respectively. Every year the US required about 10 million tonnes of wheat for domestic consumption, but, by April 1961 US stockpiles of wheat had grown to 46.3 million tonnes.35 Thus, as domestic surpluses of grain and primary goods mounted and prices for these items fell, western American producers were eager not to lose out to other exporting nations in ‘new’ markets.

Private American business interests – particularly in the Midwest and the West Coast – closely followed Canadian and Australian

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34 Ralph Nader, 'U.S. Ban on Peiping Trade Spins Debate', Christian Science Monitor, 7 May 1963; PRO: FO371 170688 FC113145/1, from Jackson, Washington to BOT, p.889 C1161/63; Congressional Record (Senate) remarks by Morse, 15 May 1963, p.8172.

35 JFKL: Thomson Papers, Box 15, INR memorandum: 'Possible Solutions For Mainland China's Food Deficits'; JFKL: Thomson papers, to Bowles from Thomson, (Thomson’s recollections of major points in discussion with Olson and Spurlock of the USDA), 12 January 1962.
efforts to expand trade with China. USDA information indicated that American farmers and their representatives were roughly divided into three groups with regard to selling US grain to China. One group felt that by such sales American farmers would benefit financially while the Chinese would spend their foreign exchange; another that Washington should sell the Chinese food for humanitarian reasons; and yet another that the US government should continue to prohibit food sales to China.36

Throughout the latter half of 1961 frequent reports surfaced about American wheat growers engaged in secret talks with the Chinese in Hong Kong. Then on 20 November, less than two weeks after U Nu suggested that the US transship PL480 wheat to China via Burma, the Canadian Trade Commission in Hong Kong received information that US grain merchants had expressed possible interest in the Chinese market.37 On 21 November, a report in the Chicago Daily News - by the paper's Manila correspondent, a friend of the Western Wheat Association representative who had visited Hong Kong - stated that US wheat growers and an unnamed American firm were negotiating with the Chinese for the sale of wheat with the knowledge of the US government. The report emphasised that the US State Department and USDA were being kept informed despite the fact that, at a press conference on 21 November, the State Department denied that the American government was aware of any such negotiations.38 After reading this article in the morning paper, first secretary Chu Tsing-Kang and charge d'affaires Dr. Kiang Yi-seng, of the ROC embassy in Washington, telephoned Joseph Yager, director for Chinese Affairs in the State Department, to inform him that Taiwan was concerned. The US Agricultural Service in Hong Kong maintained that the supposed meeting had not occurred and Washington subsequently assured Taibei that the report was unfounded.39 Floyd Root, president of the Western Wheat Association, also denied that negotiations had taken place.40

When reporting these developments to Ottawa Forsyth-Smith stated that

According to the story reaching us, the Chinese require 6 million tons of grain during the calendar year 1962, only 60% of which they would be able to obtain from Canada and

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36 Ibid.
Australia and therefore... (will) be interested in negotiating a contract... (for the) supply (ing) of some 250 million bushels (6.8 million tonnes) per annum over the next five years. Such a volume of grain in itself tends to lead us to the conclusion that these figures were merely chosen at random.\textsuperscript{41}

However, Chinese statistics show that in 1961 the Chinese began implementing a policy of importing an average of between five and six million tonnes of grain annually.

On 24 November 1961 CIRECO, as quoted in The South China Morning Post, categorically denied that negotiations with US interests had taken place. Canadian Trade Commission contacts within the grain trade also either discounted rumours of US-Chinese negotiations or were unaware of the reports. Officials in Washington and at the US Consulate General in Hong Kong also denied that negotiations had taken place. Forsyth-Smith thus concluded that the report might have been a 'trial balloon', written on behalf of the US government or private American interests so that Washington could evaluate the reactions of foreign and domestic readers to a possible change in US policy.\textsuperscript{42} The story may alternately have been fabricated by Chinese interests with the hope of leading the Australians, Canadians and French to conclude that Washington was close to capturing part of the Chinese grain market. In mid-December 1961 CIRECO officials told McNamara of the CWB that representatives of the American wheat growers had indeed met with them in Hong Kong and were continuing talks.

Since May and especially during October and November 1961 the Chinese became increasingly concerned about whether or not they could obtain enough grain from Western sources.


ITC Approach the USDA on Behalf of J.M. Braga
in Association With Chinese Government Interests

Around 20 November 1961 - about two weeks after Burmese Prime Minister U Nu's suggestion that a triangular US-Chinese PL480 wheat deal be completed via Burma and just as the Canadian Trade Commission began receiving reports stating that US grain merchants had expressed possible interest in the Chinese market - George Nelson, the president of the International Trading Company (ITC) of Seattle wrote to the USDA to enquire about the possibility of his firm obtaining a US government export licence to ship grain to China and North Korea. Nelson's letter to the USDA stated that his firm hoped to purchase three million tonnes of wheat and three million tonnes of barley from the USDA's Commodity Credit Corporation for shipment to China in seven to ten cargoes per month over three years.\(^4\) One million tonnes of wheat and one million tonnes of barley would be shipped to China annually under the proposed agreement. As part of the same deal, the ITC also wanted to export an additional 762,035 tonnes of wheat and 762,035 tonnes of barley to North Korea in seven to ten cargoes per month.

Without a subsidy, the ITC would export the grain at the price of $78 per tonne FOB ex US West Coast ports. However, if subsidised IWA ceiling prices were permitted, the export price would be approximately $60 per tonne FOB ex US ports. Later, in March 1962 when newspaper reporters first learned of the proposed ITC-Chinese/North Korean grain sale\(^4\), some reports portrayed Nelson as a person who would do anything for profit. He himself contended that his motive was humanitarian: "It would do a great deal to ease the tensions of the cold war. And I haven't done much for anyone in my lifetime."\(^4\)

Nelson did not provide any further information about these grain negotiations, at that time. However, he first became interested in exporting grain to China and North Korea, around February 1961, after learning from Hong Kong and business associate J.M. Braga (who was a longtime rice trader and was involved in the West German firm Otto Wolff's large equipment sales to Burma during the 1950s) that the Chinese government might be interested in purchasing US grain. Prior to contacting Nelson, Braga had been asked, by Jay of the Bank of China in


Hong Kong to make discrete enquiries on behalf of Chinese government officials about purchasing American grain. Also in early February Jay had approached Canadian and Australian officials about obtaining credits necessary for the Chinese to purchase further emergency grain imports. Braga guessed that the Chinese had contacted him because of his extensive connections and wartime work in Macau, when he had purchased grain for the KMT. Braga thought that perhaps some of the officials with whom he had previously dealt were now in the CCP government's grain-purchasing hierarchy.46

Beginning in 1958, Jay and other Chinese officials had contacted Braga regarding Chinese interest in organising a new Hong Kong-Macau gold importation syndicate.47 When Jay approached Braga again in early 1961, this time about buying grain, he had just received authorisation from Beijing to make enquiries with American grain trading interests. He told Braga that he had the authority to contact US interests because the Bank of China would handle the financing although CIRECO would handle final negotiations.

According to Jay, since early 1961, one group of Chinese officials, led by Zhou Enlai, favoured a formal "...approach to the Americans for grain in the belief that better economic relations with the US are inevitable."48 Jay told Braga that he and a majority of officials at the Hong Kong branch of the Bank of China supported Zhou's group. However, another group (supposedly led by Liu Shaoqi) vigorously opposed purchasing US grain because it felt that "...since the US seeks to destroy the CPR (China) a grain deal (with the US) would be used to administer a propaganda defeat and that starvation was preferable to humiliation."49

In January or February 1961, around the time that he was first approached by Jay, Braga was also contacted by Yu Chol-min, a Cantonese trader living in Hong Kong, about the North Korean portion of the contract. Yu represented the North Korean government's purchasing agency based in Pyongyang, whose function was similar to that of the Chinese government's CEROILFOOD and CIRECO. Braga later learned from Yu that most of the grain that was to be bought from the US under the proposed ITC-Chinese/North Korean contract would be shipped to China, depending on need and that North Korea would probably take only a small portion. The

46 USNA: RG#59: CPF, CDF 1960-1963, Box 1037, 493.19/2-1462, to Secretary of State, from US consulate, Hong Kong, 15 February 1962.
47 NLA: MS 4300 (J.M. Braga Papers), Box 45, memorandum of conversation with Vidigal, the Governor, Director of the Exchequer, Re: Ling/K.C. Jay and the gold license application, 25 September, 1960; from Braga, 16 June 1960; memorandum dated 25 June; from Braga, 8 January 1960.
48 USNA: RG#59: CPF, CDF 1960-1963, Box 1037, 493.119/2-1862, to Secretary of State, from US Consulate, Hong Kong, 18 February 1962.
49 Ibid.
North Korean government initially had approached him on behalf of Beijing - whose officials did not want Westerners to know the magnitude of Chinese grain requirements - to place a portion of China's purchases of American grain under the North Korean purchasing agency's name.\textsuperscript{50}

During initial talks with Braga Jay also stated that he had already talked to R.G.L. Oliphant (manager of the head office of the Hong Kong and Shanghai Banking Corporation in Hong Kong between 1958 and 1964) about providing financing for an American-Chinese-North Korean grain sale. Later, in February 1962, after the US State Department learned of the ITC-Chinese-North Korean negotiations from Braga, Oliphant told State Department Officials that he became interested in the deal after learning of the proposal.\textsuperscript{51} Oliphant indicated that the bank would extend the necessary financing provided the British government raised no objections.

Jay insisted that Braga keep their negotiations secret. He emphasised that Beijing was "...not looking for a propaganda victory from this purchase, but... (did) not wish to suffer a propaganda defeat either." Until the ITC export license application was filed with the US government in January 1962, the only individuals aware of the Chinese-ITC connection were Jay, Braga and his ITC associates. Although Braga had chosen the ITC to export US grain to China and North Korea, he had not provided ITC officials with any details about the Chinese approach. Braga had protected Jay's identity in his conversations with ITC officials by referring to the Chinese banker as 'BIRMINGHAM'. Not until February 1962 did Braga give the US government details about his negotiations with the Chinese.\textsuperscript{52}

\textsuperscript{50} USNA: RG#59: CFPF, CDF 1960-1963, Box 1037, 493.119/3-962, to Washington, from US consulate, Hong Kong (corrected copy), 9 March 1962.

\textsuperscript{51} USNA: RG#59: CFPF, CDF 1960-1963, Box 1037, 493.119/2-1462, to Secretary of State, from US consulate, Hong Kong, 15 February 1962.

\textsuperscript{52} USNA: RG#59: CFPF, CDF 1960-1963, Box 1037, 493.119/2-1862, to Secretary of State, from US consulate, Hong Kong, 18 February 1962.

The US government's ambivalent response to U Nu's proposal, rumours of negotiations between US wheat growers and CIRECO and the ITC's enquiry with the USDA was ultimately shaped by four main factors. First, the US government had no firm evidence that the Chinese government was interested in importing American grain. Second, many American officials considered Western grain sales to China on medium-term credits as a type of foreign aid which was helping the Chinese to rebuild their economy. Third, the US government was increasingly concerned about the conflict in Vietnam and Chinese involvement there. Fourth, Washington wanted to properly evaluate evidence of a deterioration in Chinese-Soviet relations before embarking on any policy which could have a bearing on the outcome of the dispute and/or US relations with these countries.

An INR research memorandum of 13 November 1961 cited the 20 March 1961 issue of World Culture (Beijing) for a statement that Beijing would reject offers of US food.53 Also at the 493rd meeting of the National Security Council on 15 November the CIA Deputy Director of Intelligence, Robert Armory, said that "...Chinese advances have been generally retarded across the board because of food shortages. The deficient diet has tended to diminish efficiency in other fields of endeavour. Production is generally on the decline."54 This analysis probably added weight to the position of those American officials who opposed easing of controls on China trade.

On 22 November President Kennedy approved NSAM (National Security Action Memorandum) no.111: a decision to provide logistical support teams, equipment, training and advisors to the South Vietnamese military. By January 1962, after embarking on this counterinsurgency programme, the US government committed 2600 military personnel to Vietnam.55 From this point onwards Beijing's support for the South Vietnamese Liberation Front was an increasingly important factor in US decision-making with respect to China.

Nevertheless, on 22 November, Rostow sent Kennedy 'a memorandum for the Thanksgiving Day Weekend' in which he emphasised that "the central fact about China may not be its ideological toughness but its

53 JFKL: Thomson Papers, Box 15, Department of State, INR memorandum: 'Possible Solutions For Mainland China's Food Deficits', 13 November 1961.
economic crisis". The memorandum stressed that Washington should consider U Nu's proposal in the context of attaching conditions to such a sale - such as the successful settlement of the Laotian crisis; or the cessation of Hanoi's attacks on South Vietnam. Rostow suggested that Washington also consider asking Ottawa and Canberra to tell Beijing that both countries would reduce grain shipments to China and would not restore the volume of these exports unless tensions were eased in Laos, Vietnam and South-East Asia generally. He felt that this might be the time to exert pressure because recent intelligence seemed to indicate that "... despite Chinese verbal toughness, they are in such bad trouble at home and in such an impossible position with respect to Moscow that they may be seeking a limited accommodation with the West."

On 27 November Rusk told the US embassy in Burma to reject U Nu's offer because it would

...create...(for Washington) an extremely sensitive political problem...(especially) when Peiping seems to be splitting even from Moscow in pursuance of a more aggressive policy, and when our contacts with the Chinese...show no inclination or desire on their part to lessen the threat or reduce tensions in the area. Southeast Asia is now exposed to a particularly vigorous penetration effort by the Communist bloc..."

This was not the end of the matter for those who favoured American grain shipments to China.

On 28 November and 18 December McGovern wrote to Rostow and George Ball, the Chicago lawyer newly appointed as Under-Secretary of State, emphasising that President Kennedy and Food For Peace had recently received a large volume of mail from a broad section of the US public encouraging Washington to export food to China. The letters suggested that a decision to do so would be well received by most other nations and could be justified on humanitarian grounds. McGovern had also suggested to Ball that US policy with respect to Chinese food shortages be studied by a privately-commissioned group.

On 19 December Rusk asked the American consul in Hong Kong, Marshall Green to obtain more information regarding persistent rumours of Chinese interest in purchasing US grain. On 24 December Green reported that CIRECO officials had told the CWB's McNamara that American

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57 Ibid.
58 FRUS, Vol. XXII, 1996, p.175, from Department of State, Central Files, 811.0093/11-276 to Rangoon, 27 November.
59 JFKL: NSF: Box 22, for Rostow from McGovern, 28 November 1961; JFKL: Thomson papers, Box 15, to Under-Secretary of State Ball from McGovern, 18 December 1961.
60 USNA: RG#59: CFPF, CDF 1960-1963, Box 2883, 893.2311/12-1961, also JFKL, Thomson papers, Box 15, to Secretary of State Rusk, from Green, Hong Kong, 19 December 1961.
wheat growers representatives had met with CIRECO officials in Hong Kong on several occasions in 1961.\footnote{USNA: RG#59: CFPF, CDF 1960-1963, Box 2883, 893.2311/12-2361, to Secretary of State, from Green, Hong Kong, 24 December 1961.}

In response to continued pressure by Quaker organisations which favoured shipping American grain to China, Carl Kaysen, the Harvard University economist and Deputy Special Assistant to the President for National Security Affairs, called a meeting to discuss Washington's position on US-China trade policy concerning agricultural goods and to consider possible changes in American government policy. Government officials attending the meeting on 21 December included Kaysen himself; Arthur Schlesinger Jr. of the White House; Marcus Raskin and Diana de Vegh of the NSC staff; James Symington of Food For Peace; and 'China scholar' James C. Thomson from Chester Bowles' office in the State Department. Representatives of the Quaker organisations included Colin Bell of the American Friends Service, and Edward Synder and Frances Neeley of the Friends Committee for National Legislation.

The 'Kaysen meeting' agreed that the American people and Congress would reject a Food-for-Peace gift of grain to China owing to Chinese hostility towards the US. Kaysen emphasised that Washington did not want to give food to the enemy or complicate Canadian-US relations by providing such a gift or precipitate a public debate on US-China policy.\footnote{JFKL: Thomson papers, Box 15, memorandum of meeting in Kaysen's office, 10 January 1962.} Arthur Schlesinger suggested that by selling food to China, Washington would be making the proper moral choice, while at the same time obtaining propaganda benefits. However, he guessed that it would be impossible for either Washington or Beijing to accept this proposal. James Symington called for the US to exhaust every opportunity to sell wheat before giving it away.\footnote{JFKL: Thomson papers, Box 15, memorandum of conversation, by Diana de Vegh, participant in the 'Kaysen meeting', undated.}

In view of other Western grain sales to China government officials at the meeting told Quaker representatives that if an American wheat grower negotiated a deal with the Chinese, he should apply for an export license from the Commerce Department. Kaysen agreed to forewarn the Commerce Department of possible license applications and ensure that the documents were forwarded to the NSC for processing. Quaker representatives were instructed not to divulge, when talking to potential US grain exporters, precisely whom they had spoken to in Washington, other than that they had spoken to high level US government officials.\footnote{JFKL: Thomson papers, Box 15, memorandum of meeting in Kaysen's office, 10 January 1962.} James C. Thomson Jr. later confirmed to Bowles that the upshot of the discussion was unofficial but strong.
encouragement to the Quaker representatives... (regarding) the prospects for White House approval of the issuance of an export licence for grain to... China, should an American dealer negotiate an agreement and approach the Department of Commerce. It was stressed, however, that although favourable White House action could be anticipated, it could not be flatly guaranteed.65

However, the urgency of China’s grain import situation had suddenly been lessened, between 18 and 22 December, when the Chinese negotiated grain contracts with Canada and a long-term grain agreement with France.

***

**Chinese Grain Situation and Agreements With Canada and France: December 1961**

In many regions of China the autumn 1961 grain harvest was disappointing and the Chinese leadership became very concerned after it was unable to secure adequate supplies of Western grain on their terms throughout October and November. These worries are reflected in monitored Chinese broadcasts during the first two weeks of December. A Xinhua report of 12 December reminded the Chinese that during his talk on ‘the correct handling of Contradictions Among the People’ Mao had said...

... our policy is to plan and consider things in an overall manner and make appropriate arrangements accordingly. This is so with respect to the food problem, the famine problem as with other problems (NCNA ellipsis)66

While stopping short of referring directly China’s imports of Western grain the article added that:

... the towns factories... mining areas and commercial crop producing areas, all rely on the State for... food... Natural calamities... have adversely affected... (agricultural) production in some areas making the peasants in these areas partially or largely dependent on other areas for... food. Prompt... food delivery and sales... is... beneficial... to the State..., the collective and the individual.67

According to a Chinese report of 8 December Jindian commune, Jiangbu county, Jiangsu was suffering from a serious decline in grain output and the Chinese government, which had attributed this shortfall to drought, had exempted the commune from the grain levy and was transporting food to the commune.68

Also during the first week of December Li Yuesheng of CEROILFOOD

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65 JFKL: Thomson papers, Box 15, for Bowles from Thomson: 'Meeting on Food for Communist China', 21 December 1961.
67 Ibid.
68 SWB FE/W141/B3, Economic and Scientific, 'crops: Jiangsu Commune's Decline in Grain Output', Nanjing regional service.
notified the CWB that Beijing had decided to negotiate another contract with the Board on the same terms as before. On 11 December McNamara and Treleaven arrived in Hong Kong to continue negotiations with Ding Kejian, Bu and You Dunhua of CIRECO.\textsuperscript{69} Between 18 and 22 December the CWB and CIRECO signed three contracts under which the Chinese agreed to purchase a total of 1.14 million tonnes of grain.\textsuperscript{(SEE TABLE 6.5)}

Also on 22 December Louis Dreyfus presented an agreement to ONIC under which the firm proposed shipping one million tonnes of French grain to China over a three year period, under twelve month credit terms.\textsuperscript{(SEE TABLE 6.6)} The guarantee was being provided by COFACE, the French government's Export Credit Insurance Company. COFACE customarily extended similar cover for French exports, and although Paris refused a Chinese request for 90% coverage of the value of the agreement, the French government may have agreed to cover 80% of the contract.\textsuperscript{70} Despite securing these quantities of grain from Canada and France the Chinese still needed to import another 1.83 million tonnes of grain in the first half of 1962. While, the Australians had not ruled out providing a small portion of this wheat they had come under increased pressure from the US to halt credit grain sales to China. Canada and France, because of other commitments, were adamant that they would be unable to negotiate additional grain contracts with the Chinese in the first half of 1962.

\textsuperscript{69} NAC: RG\#20: Vol.819, File 10-33, Vol.9, to DTC, Ottawa from Canadian trade commissioner, Hong Kong, 19 December 1961.

### TABLE 6.5

**Chinese-Canadian Grain Contracts: December 1961**

[in tonnes (trade grain weight) and % of total Canadian grain exports and total Chinese grain imports]

| Date of Contract and # of Contract Under the Chinese-Canadian Thirty Month Grain Agreement (Signed on 22 April 1961) | Type of Grain | Quality | Quantity and % of total Canadian wheat/flour exports and total Chinese grain imports | Price | Terms | Delivery |
|---|---|---|---|---|---|---|---|
| credit contract #4; 18 December 1961 | wheat | MN#1, MN#2, MN#3 | 833,158 (up to 25% of which was MN#1 and MN#3) | under terms of the long-term Chinese-Canadian grain agreement, 25% cash balance in nine months (273 days), interest rate 5.5% | ex Pacific Canadian ports: January 1962-May 1962 |
| | barley | MN#1, MN#2 | 193,049 (4%) Chinese | | |
| credit contract #5; 19 December 1961 | wheat | MN#1 | 35,380 (.4%) Canadian (.7%) Chinese | “” | “” | ex Pacific Canadian ports: December 1961-January 1962 |
| credit contract #6; 22 December 1961 | wheat | | 81,646 (.8%) Canadian (2%) Chinese | “” | “” | ex St Lawrence and Atlantic Canadian ports: February 1962-May 1962 |

* Market Price.

**TABLE 6.6\]**

Franco-Chinese Grain Agreement: December 1961

[In tonnes (trade grain weight) and % of total Chinese grain imports]

<table>
<thead>
<tr>
<th>Date</th>
<th>Firm</th>
<th>Type</th>
<th>Quantity *** (in tonnes) and % of total Chinese grain imports</th>
<th>Delivery</th>
<th>Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>22 December 1961*</td>
<td>Louis Dreyfus Co. (beginning in October 1962; revised in October 1962)</td>
<td>Barley / Wheat</td>
<td>254,012 Barley (5%) Chinese 406,419 Wheat** (8%) Chinese 304,814 Barley (5%) Chinese 304,814 Barley (4%) Chinese</td>
<td>1962</td>
<td>25% down; 75% in twelve months - COFACE guarantee. (increased to eighteen month terms in November 1962)</td>
</tr>
</tbody>
</table>

* Details pertaining to the agreement were provided directly to the CWB by Ozzie Thomas of Louis Dreyfus, under orders from Theo Joseph (also of Louis Dreyfus), because management of the French firm was concerned about various incorrect or misleading media reports covering the accord. This was a three year 'umbrella' agreement similar to the Chinese-Canadian agreement. However, the agreement was revised in October 1962 when Goldsmith and Louis Dreyfus agreed to provide the Chinese with considerably more grain in 1962-63 (SEE TEXT).

** As part of the revised agreement signed in October 1962 this figure was increased. A sales contract under the revised agreement covered the sale of 716,313 tonnes of French grain to China between November 1962 and July 1963 at fixed prices under twelve month credit terms. Simultaneously, the French agreed to sell the Chinese 381,018 tonnes of French wheat between August and December 1963 and 304,814 tonnes during 1964. Prices for these sales were not agreed upon in October 1962.

*** Precise annual amounts, and the price, of wheat and barley were to be negotiated in 1963 and 1964 and determined by French annual harvests.

CHAPTER 7

Chinese-Western Grain Negotiations and Further American Reactions: December to June 1962
Ball and Rostow Advocate the Use of Credits as a Lever To Shape Chinese Behaviour

Chinese statistics confirm that beginning in 1962 output figures of the various Chinese grains began to increase steadily. (SEE TABLE A1.1 APPENDIX TO CHAPTER 1). However, in January 1962 the Chinese still needed to secure an additional 1.83 million tonnes of grain for delivery in 1962. In January 1962 the Australians were willing to provide a small portion of this grain, but the French and Canadians, because of other commitments, were adamant that they were unable to negotiate more grain contracts with the Chinese in the first half of 1962. While some Chinese leaders remained interested in purchasing US grain others opposed this strategy. The US government was also divided over the issue of American grain sales to China. Despite the 'Kaysen meeting' of 21 December from 15 December onwards a 'middle-of-the-road' approach to future Western and possible US grain sales to China was gaining popularity with American officials. This strategy accepted that cash wheat sales to China were a necessary outlet for Western wheat growers and also helped to reduce Chinese currency reserves. However, it also maintained that credit grain sales to China were a form of foreign aid which was helping the Chinese to rebuild their economy and such transactions should be discontinued unless Chinese foreign policy was deemed acceptable by Western governments. In this manner credit facilities could be used as a tool to shape Chinese foreign policy.

The Americans viewed Mao's editorial "Politics Flow from the Barrel of a Gun", which appeared in China's People's Daily on 10 December 1961, as further indication of increased Chinese involvement in Vietnam. On 15 December Inspector-General Marshal Ye Jiangying, leading a Chinese goodwill delegation, arrived in Hanoi. During a banquet that evening Marshal Ye and Vietnamese General Võ Nguyên Giáp gave speeches which mentioned the close ties between China and Vietnam and the PLA and the Vietnam People's Army.¹ That same day in a letter to Ngo Dinh Diem President Kennedy agreed that the North Vietnamese government was directing and supporting "...the current campaign of force and terror waged against the South Vietnamese government....The (US) would immediately increase its assistance to defend South Vietnam."²

On 15 December US Under-Secretary of State George Ball sent a telegram to American embassies at Canberra and Ottawa - with copies to Taipei and Hong Kong - asking, in light of escalating tensions in Vietnam and China's role there, that the Canadians and Australians reevaluate

¹ Ang Cheng Guan, Vietnamese Communists' Relations with China and the Second Indochina Conflict, 1956-1962, p.211.
² Ibid., based on Public Papers of the Presidents of the United States: John F. Kennedy, 1961, pp.505-506.
their position on credit grain sales to Beijing. The US government accepted that Canada and Australia had a right to sell grain to China, especially in light of domestic political pressures favouring such sales, and had not objected to the transactions although Washington believed

...that...free world wheat...(had) been important...in mitigating...(China's) famine and...thus...(helping to limit the) regime's internal difficulties....Sales on commercial terms...absorb....Chinese...foreign exchange, and...divert...exchange from investment in military buildup....Credit...(sales) provide...measurable aid to...(China)....Australia and Canada...(are) well aware of the Chinese threat to South East Asia and might...avoid...providing aid, some of which goes directly to feeding Chinese...troops.

...(thus possibly making) the Chinese...more hesitant about expanding external adventures, particularly if the coming crop year starts inauspiciously and if (they)...(are) unsure (of) how much backing they might get from the Soviets. It might be effective if Australia...and Canada...inform(ed) the Chinese...that the decision not to extend further credit is linked with increased Communist aggressiveness in Vietnam."

Much later, on 27 November 1962, a CIA report, reviewing developments in Chinese-Western trade during 1961, concluded that Western grain shipments to China had "...contributed significantly to...(China's) strength...(and were)...the only economic lever the Western world has against the regime..."4

However, on 20 December 1961, US ambassador Belton in Canberra advised Washington that proposals to use credits as a lever on the Chinese government would probably be received unenthusiastically by the Australian government because of the upcoming Australian election. Belton added that

...in the next few months in its attempts to regain the confidence of the electorate...(the Australian government) will avoid controversial actions....Because (such) restrictions must come through government persuasion and pressure on the...(AWB)...rather than through direct government action, the political danger...(in agreeing to the US proposal would be) all the greater.5

On 21 December Marshall Green, American consul in Hong Kong, responded to Ball's recommendation of 15 December by stressing that the time to persuade Western wheat exporters to withhold credit from the Chinese had passed.6 Indeed, a 'credit race' was well under way.

3 JFKL: Thomson Papers, Box 15, to American embassies-Canberra, Ottawa, Taipei, Hong Kong, from Acting Secretary of State, Ball, 15 December 1961.
5 JFKL: Thomson Papers, Box 15, from US embassy, Canberra to Secretary of State, 20 December 1961.
6 JFKL: Thomson Papers, Box 15, to Secretary of State, from US consul Green, Hong Kong, 21 December 1961.
Ball's recommendation did not reject the possibility of American cash grain sales to China, although he felt the matter should be given more consideration from a strategic perspective. In a letter to Averill Harriman on 19 December Ball stated:

...little constructive thought...(has) been devoted to how...(Chinese food shortages) could be exploited to serve...(US) political and economic objectives....We should...(not) wait for some isolated future episode to determine...(US) policy...with respect to starvation in China, or...the...question of...food requirements.7

During side talks at the Joint US-Canadian Committee on Trade and Economic Affairs in Ottawa on 12 and 13 January 1962, Ball, Secretary of the Treasury Dillon and Secretary of Agriculture Freeman suggested to the Canadian and Australian ambassadors to the US that Western allies work together to regulate the amount of wheat available to the Chinese, depending on Chinese behaviour. Ball also emphasised that Washington was even more concerned about the situation in Vietnam than that in Berlin. Drawing attention to the recent US white paper on Vietnam, Ball told Heeney and Beale that Washington was convinced that "...China was behind the aggressive and subversive activities of the D.R.V.N." Washington felt that, if recent American assistance to South Vietnam in the form of military equipment and non-combatant military personnel did not achieve the desired result, general war could follow. If American efforts failed and "...South Vietnam did fall...the whole of Southeast Asia would be in dire danger - including, ultimately, Australia and New Zealand...." Ball then stated that if Canberra and Ottawa shared Washington's concerns about these developments they might consider using future grain sales to China as a political lever to help shape Beijing's foreign policies in South-East Asia. He suggested notifying the Beijing government that grain shipments from Western sources would be halted unless the Chinese were "...willing to stop their stimulation and support of subversion and aggression in Vietnam."

Australian ambassador Beale doubted that this action would help achieve peace in Vietnam. He pointed out that the Canadians had agreed to participate in the I.C.S.C. which helped the US assistance programme in this region. Canadian ambassador Heeney said that CIRECO's wheat negotiators had "...high political auspices from Peking"° and that, rather than delivering an ultimatum to the Chinese, it might be more productive to use established Chinese-Western commercial contacts to explore the possibility of reaching a Vietnam agreement. Heeney mentioned that this

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7 JFKL: Thomson Papers, Box 15, and USNA: RG#59:, CDF 1960-63, Box 2883, 893.20/12-19-61, to Harriman, from Acting Secretary Ball, 19 December 1961.

"...would be less provocative...(and) less likely to have negative consequences."\(^9\)

When Heeney and Beale met with Ball and Rostow again on 16 January Ball again emphasised that Washington hoped Canada and Australia would agree to "explore ...(the) possible use of commercial wheat sales to...China as a political lever on...Chinese behaviour...." Rostow, who had been removed as Deputy Assistant for National Security Affairs and appointed Under-Secretary for Political Affairs) as chairman of the State Department's Policy Planning Council (S/P) during the 'Thanksgiving Day Massacre', stated that until recently the Chinese had not taken a very active position in regard to South Vietnam but it seemed...(probable) that they were now using the...(Chinese-Soviet) split to get closer to Hanoi. He instanced the recent...Chinese Military Mission to Hanoi...(and) the possibility of building up North Vietnam's defensive capability....The war in Vietnam was of a nature which lent itself to subtle degrees of escalation, and degrees of aggression should be matched by restraints on our part if the...Chinese chose to get more involved...(Ball and Rostow also) stressed the importance of (any Western governmental) contacts with...China in addition to the Geneva (Conference on Laos) and the Warsaw (talks).\(^10\)

Rostow almost certainly based his remarks partly on a Department of State memorandum, circulating amongst the S/P on 5 January 1962, entitled "Chinese Communist Food Deficits and US Policy". James C. Thomson later stated that it was the first US government report to seriously consider that the Sino-Soviet split was more than a concept discussed by journalists and academics. The report emphasised that since the 22nd CPSU Congress "the Sino-Soviet dispute had entered a new and perhaps decisive phase." Apart from the Chinese-Soviet ideological dispute the Chinese were being forced to become less dependent on Russian capital goods for industry. Other indications of a deterioration in Chinese-Soviet relations included the growth of Chinese-Western trade, the discontinuation of sales of Chinese gold through Soviet agencies, Beijing's decision to purchase British Viscount aircraft (SEE APPENDIX 1), and its provision of economic support to Albania despite the Soviet embargo against that country. The report emphasised that it was probable

...that each side has been acting against the other's interests, with the U.S.S.R. applying continuing and additional economic pressures on the Chinese in an effort to force their submission to Soviet political demands...with...China taking initial steps in developing alternatives to Soviet supplies in order to lessen Soviet political leverage or...to enhance the Chinese bargaining position in trade matters with the Soviet bloc....This...could facilitate considerably the emergence of an open split between the Moscow and Beijing regimes...

\(^9\) Ibid.

The report stated that relief shipments of American grain to China under UN supervision or cash grain sales might be a possibility. However, it emphasised the US should not sell the Chinese grain on credit terms because this would not result in improved Chinese behaviour towards the West. A Sino-Soviet split could greatly benefit the West and

...unsurmountable road blocks...(should not be placed) in the path of an emerging Chinese...policy designed to lessen...(China's) dependence...(on the USSR)...The U.S. should consider a policy of neither encouraging nor discouraging its allies from selling food products and other non-strategic goods to the Chinese....Such sales by U.S. allies are not likely to expand precipitately.\(^{11}\)

Also on 16 January Ball emphasised to Heeney and Beale that Washington was not advocating that Canberra and Ottawa should terminate the sales, provided 'excessive' credit terms were not involved. Possibly more cash sales would result, thus reducing the wheat surplus and draining the amount of Chinese foreign exchange available for industrial purposes.\(^{12}\)

Then the Australian ambassador again indicated that, because of the reduced majority of the Australian government, the political situation did not allow much room for manoeuvre. He added that, because of the pressure applied by powerful Australian wheat growers, Canberra would probably have to be convinced that there existed a good chance of success before using sales as a lever. However, Beele and Heeney agreed to forward to Canberra and Ottawa an American proposal that Australia, Canada and the US participate in a joint study group with respect to using wheat sales to pressure Beijing. They also agreed that the French government should not participate in the study group but should be contacted privately about this matter.\(^{13}\)

On 5 February 1962 the Canadian government told the Australians that Ottawa had reservations about the potential effectiveness of this proposal and

...about the quality and reliability of American estimates of Chinese intentions generally and in relation to Vietnam....A broad study...(was) an opportunity to scrutinize American assumptions and conclusions more effectively than if the study were confined to Vietnam.\(^{14}\)

On 20 February Australian DEA Minister, Sir Garfield Barwick, told ambassador Beale that Canberra doubted that Australian and Canadian threats to withhold wheat supplies would deter further Chinese

\(^{11}\) JFKL: Thomson papers, Box 15, S/P 'think paper' by Mose Harvey: 'Chinese Communist Food Deficits and US Policy', 5 January 1962.


\(^{13}\) Ibid.

\(^{14}\) NAA: A1838/2 766/1/4, pt.2, from Australian High Commission, Ottawa to DEA, Canberra, 5 February 1962.
involvement in Vietnam for several reasons. First, the Australian government felt that withholding grain would not directly affect China's military capacity because it was the general population which, during times of shortages, always had its grain rations reduced first. Second, Beijing could obtain the grain elsewhere. Third, Western grain purchases were only a small part of the Chinese food supply. Finally, a decision by the Australian government to withhold wheat supplies might be used by the Chinese for propaganda purposes — i.e., Beijing could claim that Australian grain export policy ran contrary to humanitarian principles.15

The Canadian-Australian decision not to participate in tripartite talks was eventually reported to the Americans on 8 March at which time the Australians offered to engage in bilateral talks with the Americans on the general topic of China. The Americans received this proposal well.16 When Ball met Canadian government officials on 3 March he had expressed interest in bilateral talks "...motivated largely by the fact that the USA needed to learn a good deal more about...China...."17

Meanwhile, on 19 February Edward Rice, Deputy Assistant Secretary of State for Far Eastern Affairs since January 1962, told Australian embassy officials in Washington that he was not authorised to discuss China trade and hoped that his remarks would remain confidential. He then stated that the West should

...seek to make more contacts with China. One field that this could be done was in...trade. Emphasizing that he was speaking personally and was not...seeking to acquire part of Australia's new wheat market in China for the USA, Rice recalled that President Kennedy had some time back not excluded altogether the idea of supplying foodstuffs to ease the famine in...China. Rice then speculated whether the USA might attempt to arrange wheat supplies, since this would at least open the door to contacts with the Chinese.18

Canberra reacted with disbelief and irritation, wondering how this would operate alongside Ball and Rostow's recent proposal that Canberra and Ottawa work 'with' the US to use wheat sales as a political lever on Beijing.

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Chinese-Australian Grain
Trade: January to February 1962

In January an AWB delegation was dispatched to Hong Kong to convey to CIRECO the Board's 30 November decision not to extend improved credit terms to Beijing or offer to sell the Chinese more than 254,012 tonnes of FAQ wheat and 254,012 tonnes off-grade wheat in 1962. The Chinese expressed their dissatisfaction with the quantity being offered because they said that they hoped to purchase at least one million tonnes from Australia in 1962 under improved credit terms. Nevertheless, during the last week of February CIRECO was negotiating with AWB officials for the latter's portion of the 1.83 million tonnes of wheat it hoped to purchase from Canada and Australia for delivery during 1962.19 Again the AWB was divided over whether to extend credits to China without a government guarantee, but eventually agreed to extend credits to cover new contracts. However, the AWB had mostly off-grade wheat available for export and subsequently refused to sell more than the 254,012 tonnes of FAQ wheat to China, although it did agree to increase the quantity of off-grade wheat supplied under contracts signed on 27 and 28 February.(SEE TABLE 7.1)

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19 Based on the quantities contracted for and shipped to China by the AWB and CWB between 27 February and 26 March 1962.
<table>
<thead>
<tr>
<th>Date of Contract</th>
<th>Type of Grain</th>
<th>Quality</th>
<th>Quantity (tonnes) and % of total Australian wheat exports and total Chinese grain imports</th>
<th>Price (per long ton) FOB</th>
<th>Terms</th>
<th>Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>credit contract #3: 27 February 1962</td>
<td>wheat</td>
<td>FAQ</td>
<td>254,012 (10% option more or less) (6%) Australian (5%) Chinese</td>
<td>£21.12s.</td>
<td>10% cash, 40% in six months, 50% in twelve months, buyers option more or less.</td>
<td>June 1962-July 1962</td>
</tr>
<tr>
<td>credit contract #4: 28 February 1962</td>
<td>wheat</td>
<td>NSW off grade</td>
<td>355,616 (10% option more or less) (8%) Australian (7%) Chinese</td>
<td>£20.14s.6d.</td>
<td>&quot; &quot;</td>
<td>June 1962-July 1962</td>
</tr>
<tr>
<td></td>
<td>wheat</td>
<td>NSW off grade Premium wheat from Northern NSW</td>
<td>50,802 (10% option more or less) (1%) Australian (1%) Chinese</td>
<td>£22 (a premium price over the FAQ price)</td>
<td>&quot; &quot;</td>
<td></td>
</tr>
</tbody>
</table>

Chinese-Canadian Grain Trade: January to April 1962

The Chinese remained eager to secure at least an additional 1.1 million tonnes for delivery between May and December 1962 which the AWB was unable to supply. In late January the Chinese were again involved in discussions with the AWB and the CWB about the terms of grain negotiations in 1962. On 26 January Bu told CWB officials "...that earlier discussion...(of the long-term agreement is) particularly useful in our principal's efforts to plan foodstuffs imports and booking ocean freight." On 29 January CWB officials told CIRECO representatives that the Chinese current and prospective grain supply position was unfavourable. The Chinese then asked if the Canadian position "...expressed to us in (the CWB's) cable...to us) over the weekend...remains (un)receptive to the conclusion of a contract at this time covering shipment of wheat to the end of 1962." CWB officials then explained that the Board was willing to ship 300,000 tonnes of grain to China in July and August, but the Canadian government was not prepared to meet Chinese demands for improved credit terms. Bu, immediately replied "Is that all you have to convey?" Forsyth-Smith reported that on 8 February Bu

...buttonholed...(me) to tell me how important it was that the next wheat contract should be finalized as soon as possible...emphasizing that his principals like to work out an annual plan and if we do not soon settle the matter it may be too late....My own impression is that they are getting pretty anxious and will be putting increasing pressure on us.

CIRECO was simultaneously involved in negotiations to purchase Argentinian wheat and maize and in early February West German interests applied for export licenses covering the sale to China of 270,000 tonnes of flour. According to rumours, either West German exporters were selling the Chinese flour milled from Argentinian, Canadian, American and French wheat or else wheat from these sources was replacing West German flour exported to China. During further discussions with CIRECO in December 1961 and January 1962 CWB negotiators maintained that the Board probably did not have adequate supplies to meet additional Chinese demand. The 1961 Canadian wheat crop had been the smallest since 1937 and in 1961-62

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21 Ibid.
22 Ibid.
domestic wheat supplies were at the lowest level in ten years. Chinese purchases of Canadian grain had helped greatly to reduce the Canadian surplus from 14,941,336 million tonnes in 1958-59 to approximately 5,443,109 million tonnes in December 1961. However, on 21 February, after returning to Canada, CWB assistant chief commissioner Riddel reviewed the Canadian grain supply situation and suddenly decided that the Board could offer CIRECO 1.1 million tonnes in monthly shipments of 150,000 tonnes between June and December. While it is not known where this quantity of grain originated, in August 1962 the Dominion Bureau of Statistics revised upwards its estimates of Canadian wheat supplies by 2.3 million tonnes - the first such revision since 1957-58. It may be relevant that, as early as June 1961, undetermined quantities of grain were entering Canada from the US under USDA programmes. For example, at the International Lead and Zinc study group in Mexico in April 1961 the American government, hoping to reduce domestic agricultural surpluses and improve trade relations with allies, ended its lead import embargo (introduced in 1958) by announcing a new programme to barter American agricultural commodities in exchange for lead. The Associated Press reported on 9 June 1961 that an agreement had been reached under which the USDA would sell $10 million dollars worth of wheat, corn, rice, tobacco, and cotton to the Canadian firm Consolidated Mining and Smelting Co. in exchange for 55,000 tonnes of lead. The USDA also reached an almost identical transaction with Broken Hill Associated Smelters Pty. Ltd. of Newcastle, NSW, Australia.

On 7 March 1962 the Acting Canadian Minister of Agriculture authorised the CWB to proceed with negotiations with CIRECO in Hong Kong. On 26 March CIRECO signed a contract with the CWB to purchase approximately 1.1 million tonnes of Canadian grain for delivery between May and December 1962. (See Table 7.2)

Another indication that the signing of this contract brought some stability to the Chinese grain situation was that in April L.C. Bu, CIRECO's top grain negotiator, returned to China where he emerged in late 1962 as CHINATEX (Beijing) assistant managing director. In this key

29 See footnote #18; See also chapter 2 footnote 19 and chapter 6 footnote 30.
# TABLE 7.2

**Chinese-Canadian Grain Contract: March 1962**

[in tonnes (trade grain weight) and % of total Canadian grain exports and total Chinese grain imports]

<table>
<thead>
<tr>
<th>Date of Contract and # of Contract Under the Chinese-Canadian Thirty Month Grain Agreement (Signed on 22 April 1961)</th>
<th>Type of Grain</th>
<th>Quality</th>
<th>Quantity and % of total Canadian wheat/flour exports and total Chinese grain imports in year delivered</th>
<th>Price</th>
<th>Terms</th>
<th>Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>credit contract #7: 26 March 1962</td>
<td>wheat</td>
<td>n.a.</td>
<td>152,406 (2%) Canadian (3%) Chinese</td>
<td><em>Export price per bushel (36,744 bushels in 1 tonne) was the highest since the Canadians began to sell wheat to the Chinese in January 1961. Total value of the contract was approximately $75 million (Canadian)</em></td>
<td>Under terms of the thirty month Chinese-Canadian agreement 25% cash, balance in nine months (273 days) interest rate of 5.5%</td>
<td>76,203 tonnes delivered ex Eastern Canadian Ports (Halifax, East/West St. John N.B.) in April 1962; Another 76,203 tonnes delivered ex St Lawrence ports in May 1962.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>908,992 (9%) Canadian (18%) Chinese</td>
<td></td>
<td></td>
<td>908,992 tonnes delivered ex Canadian Pacific ports June 1962-December 1962</td>
</tr>
</tbody>
</table>

*market price

position he handled trade promotion and played a prominent role in Chinese-Western trade negotiations.31

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Franco-Chinese Grain Trade: Early 1962

Owing to other commitments France did not have extra supplies of grain (in addition to those specified under the Franco-Chinese grain agreement of December 1961) to offer the Chinese during the first half of 1962. In January 1962 US embassy officials in Paris told French Foreign Ministry officials that Washington was concerned "...that liberal credit terms for grain might enable the Chinese to create additional difficulties in South-East Asia".32 The French responded by saying that, if the Chinese became involved in any serious political incidents - especially in the Algerian war - grain deliveries could be terminated.33

A considerable portion of grain exported by Louis Dreyfus of France may have originated in the US. In May, as American government officials debated whether or not to sanction the export of US grain to China, the USDA was investigating claims that Louis Dreyfus Company of New York was involved in reexporting US grain to China. The New York firm was the third largest exporter of PL 480 grain, and between 1954 and 1961 the USDA had transferred $391 million dollars worth of US grain to the firm, some of which was rumoured to have been shipped to China.34 Louis Dreyfus' eagerness in late 1961 to obtain scarce wheat from world grain stocks for export to China led to increased concerns about reexportation of US grain.

Setrostad, Louis Dreyfus' Panama subsidiary, may have participated in this type of transaction: US-produced grain may have been shipped to Europe or Canada and then on to China, although 'on paper' it was shipped first to Panama where it was transferred to Socef Company of Zurich which operated on behalf of Louis Dreyfus for certain transactions. Dan Morgan contends that Socef was involved in some of Louis Dreyfus' initial grain exports to China in the early 1960s.35

In May 1962, Raymond Ioanes of the Foreign Agricultural Service admitted to the House of Representatives Select Committee on

31 CIRECO representatives had initially told Western officials that he had left to take sick leave in Shanghai.
32 USNA: RG#59: CPPF, CDF, Box 1037, 493.409/1-562, from Gauvin, Paris, to Secretary of State, 6 January, 1962.
33 USNA: RG#59: CPPF, CDF 1960-63, Box 1038, 493.519/1-1362, to Secretary of State, from Gauvin, American embassy, Paris, 13 January 1962.
35 Morgan, Merchants of Grain, pp.204, 206.
Export Controls that, while Washington did not encourage other nations to trade with China, it could not prevent Louis Dreyfus from following French foreign policy. Select Committee member James Naughton added that, if the owners of Louis Dreyfus, New York, were not US citizens, then "...we could...(not) expect them to shape their policies out of loyalty to the...(US)...". When Ioanes replied that, if a US firm was involved in exporting grain to China, Washington would take action, Naughton asked two important questions: "...what procedures...ensure that only US firms are permitted to participate in export transactions under title I Public Law 480? What is your definition of a US firm?" Then, Rulon Gibb, a top official from USDA's Commodity Credit Corporation...{replied} that this was all explained in the regulations. As the inquiry continued, it became apparent that, as Louis Dreyfus Co. of New York was a private multinational corporation, it would be 'difficult' to obtain records to substantiate the allegations.

However, officials of other governments were interested in these developments. For instance, when George Patterson sent the Australian DTC a newspaper clipping reporting these allegations against Louis Dreyfus he added that

In Hong Kong there...appear(s) to be a great deal of suspicion concerning the sale, and it is quite possible, we think, that some switch has occurred and there has been quite a definite feeling that the wheat used for the...(French and West German) flour sales was largely from the U.S.A....

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37 Ibid.
38 Ibid. ; NAA: A1804/28 201/12/1, pt.3, to Secretary Department of Trade from Patterson, Hong Kong: 'French Wheat Sales to China', undated.
Until Beijing secured 1.83 million tonnes of grain from the AWB and CWB in February and March 1962, Chinese government officials had still considered the possibility of purchasing US grain. Reports of possible Chinese government interest in a US-Chinese grain deal caused an intensification, between March and June 1962, in the ongoing debate in Washington about the merits of such a transaction. In early January 1962 ITC representatives told Braga that they felt the time was right to apply for an export licence and encouraged 'BIRMINGHAM' (Jay) to contact his principals in Beijing to request authority to conclude a contract. However, when Jay did this he learned that the Chinese government remained divided about purchasing US grain. In early February 1962, when Jay learned that a final debate on this issue was underway in Beijing, he was also closely following US reaction to the ITC application. He was intrigued by the fact that Washington had not immediately refused to approve the sale and was taking a good deal more interest in the ITC proposal than was acknowledged publicly.

Nelson's enquiry with the USDA in November 1961 had started a long debate at all levels of the US government over an appropriate contingency plan regarding possible sales or donations of US grain to China. In mid-January 1962, ITC's president Nelson filed a formal application to obtain a US government licence to export American grain to China. On 26 January the NSC Standing Group in Washington met to consider the procedure for authorising the proposed ITC-Chinese-North Korean grain deal. The day before the meeting, Martin and Harriman told Under-Secretary for Political Affairs, George McGhee, about the application and expressed doubt as to whether the Chinese had actually asked to buy US grain emphasizing that

A decision to permit the sale would require a fundamental examination of...US policy in light of the Sino-Soviet conflict and of our assumptions as to the vulnerability of the Chinese...economy arising from its recent economic difficulties. Any decision would be a fundamental one, and a thorough study within the Government would seem desirable....

Although the President possessed "the authority without recourse to the Congress to permit sales of grain to...China by private traders

and to permit gifts of grain by private or inter Governmental agencies," such action in this instance was doubtful as it would leave the administration open to political attack from the 'China Lobby'. Sales to China were illegal under Department of Commerce Export Control Regulations unless Commerce gave special approval for a licence. In addition to bunkering controls discussed earlier difficulties could also arise over the fact that, under the Agricultural Act of 1961 (Section 2 c), the US would "in no manner either subsidize the export, sell, or make available any subsidized agricultural commodity to any nations other than friendly nations."

It was also illegal under the Battle Act for Washington to provide credit facilities to China if the credit was deemed to be economic assistance. In addition, credits of more than 180 days extended by private sources would be subject to the Johnson Act which disallowed credit to governments which had defaulted on credit obligations to the US.42

Harriman recommended that Washington investigate the proposed US-Chinese grain sale to see if Beijing was really interested in purchasing US wheat. He suggested too that the State Department explore various policy alternatives and then make a recommendation to the President. The NSC Standing Group's record of actions from the 26 January meeting noted that the CIA would seek further information and the State Department would prepare relevant recommendations to submit to President Kennedy regarding the proposed sale.43

Meanwhile, during a 24 January conversation between US State Department officials and Chiang Kai shek, the ROC President was reported as saying that he felt "...the GRC's...position is eroding and...(his) continuing apprehensions over US policy are...leading him to consider more and more a final gamble (to return to the Mainland)."44 On 29 January Robert Komer of the NSC staff told McGeorge Bundy

"...Harriman is looking into a Seattle firm's claims that...(Beijing) wants to buy...(US) grain on a normal commercial basis. His inclination is to...(proceed), largely because...(Chinese) dollars spent for food leave that much less for industrial buildup. But let's think thrice before

41 JFKL: NSF: Hilsman papers, Box 1, 'Executive Authority Needed For Grain Shipments to China', undated.
43 FRUS, vol.XXII, 1996, p.183 See: footnote 4 Department of State memorandum 3/3-NSC Files Lot 70 D 265, NSC Standing Group 26 January 1962 from Martin and Harriman to McGhee; and pp.208-209 footnote 4 draft memorandum from Secretary of State Rusk to President Kennedy, 4 April 1962.
we go down this road: (a) ... (Chinese) needs are so much greater than piddling 400,000 tons... This feeler, if valid, is just to see whether we'll play; (b) ... (Chiang Kai shek) will surely blow his top if we start feeding (China) when he wants to push them over... (c) What about the effect on the new trade bill passage if we start trading with (China) at this point?  

In late January 1962 Chester Bowles, President Kennedy's Special Representative and Advisor on African, Asian and Latin American Affairs since the 'Thanksgiving Day massacre', was preparing to depart for Asia and the Middle East when he suggested to the President that, after leaving New Delhi on 3 March, the visit Rangoon to discuss possible US food shipments to China with Prime Minister U Nu. At this time US government officials in Washington were considering a military assistance programme to Burma. Bowles' memorandum to Kennedy on 6 February emphasised the seriousness and probable long-term nature of Chinese food shortages. It stressed that China's dependence on foreign grain

... offers the non-Communist world an opportunity to gain some important leverage in its economic relations with the Peiping regime... (especially) in the wake of the Sino-Soviet rift.... This administration should give urgent and intensive study to the key role which...(American, Canadian and Australian) agricultural resources...(could play) in meeting... China's food crisis, either through direct commercial transactions, or in return for a relaxation of Chinese pressure in Southeast Asia and elsewhere... It would be a serious mistake for our government not... to probe the impasse with... China... when China's needs are so great, when our own advantage is so clear, and particularly when we have so much at stake in Southeast Asia....

Bowles later recalled that during their conversation in late January he asked President Kennedy if he would first allow an emergency wheat sale, of a limited amount to China

... for hard currency and without political conditions... (and) if China... (agreed) not to attempt to change its existing borders by force (without necessarily forfeiting its claims to territories outside its present borders)... (Secondly) to offer much larger quantities of wheat on a continuing, low interest, long-term basis?

According to Bowles' memoirs, Kennedy

... 'readily agreed' to the first proposal, suggesting as much

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45 Ibid.
46 Chester Bowles, Promises to Keep: My Years in Public Life 1941-1969, pp.401-403.
48 JFKL: Thomson Papers, Box 15, for President Kennedy from Bowles: 'U.S. initiative regarding the China Mainland food crisis', February 6, 1962.
49 See Bowles, Promises to Keep, pp.401-403. No government document was found to confirm Bowles account although Kennedy's appointment book indicated that both met for 25 minutes on 6 February.
as 3 to 5 million tons. Concerning the second proposal Kennedy said that 'if some reliable means of communication could be opened up', he would consider an agreement to sell 10 to 12 million tons of American wheat annually on a long-term, easy credit basis 'provided China agreed to abandon its present military-political pressures on its neighbours...Kennedy agreed that Bowles could advance these proposals with U Nu, describing them as proposals that he had discussed in general terms with the President but which had not been formally approved.50

In mid-February Bowles discussed the plan (confidentially) with Indian Prime Minister Nehru "...who was most responsive...[wishing] Bowles luck and offer[ing] some advice on how to approach U Nu." To avoid media attention Bowles' appointment with U Nu was arranged through the Burmese embassy in New Delhi as a "routine courtesy call." Bowles was scheduled to leave New Delhi for Burma on 3 March, but on 2 March 1962 U Nu's government was overthrown by General Ne Win's forces, which opposed Burma accepting foreign aid and investment. Nevertheless, when Bowles returned to Washington he suggested to Kennedy that the US offer grain to the Chinese through the Warsaw talks51 Although cancelled by the Burmese military coup, the proposed date of the Bowles-U Nu meeting is important in light of K.C. Jay's information about the scheduled high level meeting in Beijing around this time to discuss a possible approach to the Americans for grain.

On 14 February 1962 Braga had finally visited the American consulate in Hong Kong where he told American consul John Lacey that he had been approached by a Chinese representative one year earlier about purchasing US grain. He also indicated that the ITC was the firm negotiating with the Chinese, and that Oliphant of the Hong Kong and Shanghai Bank (which was considering providing credits to facilitate the sale) was the only other person aware of the details of the negotiations. Braga again met with Oliphant on 15 February.52 On 17 February Lacey visited Braga to learn more about the ITC-Chinese negotiations. It was then he learned that Jay had first contacted Braga in February 1961 about Chinese interest in purchasing US grain, provided that the "Zhou group" was able to prevail over "Liu's group" in the internal debate on grain purchasing. After being approached by Jay about providing credits for a US-Chinese grain sale, Oliphant told the Chinese banker that his own bank would probably provide the necessary credits if the British government raised no objections.53 Convinced that Braga was being straightforward, Lacey told him that Washington had to be convinced that Beijing genuinely

50 Ibid.
51 Ibid.
52 NLA: MS4300, Box 61, Braga's: 'Collins Compact Diary 1962', See: February meetings.
53 USNA: RG#59: CFFF, CDF 1961-63, 493.119/2-1862, to Secretary of State, from Lacey, Hong Kong, 18 February 1962.
intended to buy US grain before an export licence could be approved. Lacey then offered to meet with Jay if the Chinese banker would find it useful. Braga agreed to pass on Lacey's offer to Jay but speculated that such a meeting would also require Beijing's approval. Shortly after this Jay told Braga that supporters of "Zhou's group" at the Bank of China in Hong Kong had decided to send a "most important emissary" to Beijing sometime between 21 and 24 February in order to strengthen Zhou's hand in the debate over purchasing US grain. However, Jay warned Braga that any hint from the Americans that the Chinese desperately needed US grain and were 'crawling to the Americans' would enable Liu's group to prevail over Zhou's group and block the sale.\(^5\)

On 21 February Braga met with a "most important emissary" who told him through an interpreter (Braga spoke Cantonese but no Mandarin) that he was travelling immediately to Beijing to attend a meeting on 4 March, where a final decision on the proposed ITC-Chinese/North Korean grain sale would be made.\(^5\) The emissary was probably Zhang Shizhao, the 79 year old former president of Beijing University and political advisor to Mao Zedong and Zhou Enlai.\(^5\) The 'emissary's' return to Beijing at this time would have coincided with the enlarged meeting of the CPC Central Committee working conference being held in the capital between 21 and 23 February to discuss the 1962 budget and the Chinese economy. In Mao's absence, Liu Shaoqi - who along with Zhou Enlai and Chen Yun had regained control of the running of the Chinese economy since the 'decisive stage of all-round readjustment' began immediately following the CPC Central Committee working Conference in Beijing on 7 February 1962 - presided over the conference. Also on 21 February the emissary told Braga to tell the Americans that Beijing was not begging for US grain and, "...while mindful of practical considerations and policy questions, China now considers that she is asking to buy from a merchant"\(^5\) and that the Chinese needed the grain to feed people in the eastern port cities in order to reduce the burden on the overworked domestic transportation system. He insisted that there was no overall grain shortage in China.

Zhou Enlai was in Guangzhou on 2 March to address the State Scientific Commission Conference. His presence there in late February and early March bolsters Braga's statements about unofficial US-Chinese/North Korean grain sale negotiations. Late in February or in early March, Yu

\(^5\) USNA: RG#59: CFPF, CDF 1960-1963, Box 1037, 493.119/2-2262, to Secretary of State, from US consulate, Hong Kong, 22 February 1962.
\(^5\) Ibid.


\(^5\) USNA: RG#59: CFPF, CDF 1960-1963, Box 1037, 493.119/2-2262, to Secretary of State, from US consulate, Hong Kong, 22 February 1962.
Chol-min again contacted Braga about the North Korean portion of the proposed transaction with ITC. Yu was just returning to Hong Kong from a meeting with North Korean officials in Guangzhou. He told Braga that the North Korean government had initially approached him on behalf of Beijing - which did not want Westerners to know the magnitude of Chinese grain requirements - to place a portion of the purchases of American grain under the name of the North Korean purchasing agency. In relating this development to US consulate officials in Hong Kong on 9 March, Braga stated that Yu had been authorised to make this explanation; otherwise Washington might question the authority of the entire proposed transaction on the grounds that North Korea could not utilise so much grain.\textsuperscript{58}

At a news conference on 14 March President Kennedy was asked to comment on reports that the US government was considering an application to export grain to China and if there was "any bona fide request from the Chinese for...(US) wheat."\textsuperscript{59} Kennedy's response was

...two companies in the USA...have put in a request for a license. One was the...(ITC)...but there is no information that they are working on an assignment or as an agent, and the US...government...(has) no information that the Chinese...have requested us for wheat.\textsuperscript{60}

On 18 March, when Thomas Pelly, Representative from Washington, contacted the office of the Secretary of Commerce, to enquire about rumours concerning a possible US-Chinese grain sale, he was told that the White House was making the final decision on the matter. The next day when Pelly informed the House of these developments, he emphasised that food was high on the list of strategic materials and a US-Chinese grain deal would probably set the stage for Chinese admission to the UN and "...constitute...the final betrayal of the Chiang Kai shek government." He then asked that Democrat and Republican representatives urge President Kennedy to reassure the American people that export licenses would not be granted for a US-Chinese grain deal and that American China policy would not be weakened.\textsuperscript{61}

Meanwhile, in mid-March 1962 ITC chairman, Nelson, was waiting to receive word from the emissary of the Hong Kong branch of the Bank of China who was expected to return shortly from Beijing. Nelson wrote to President Kennedy on 20 March to ask that the US export licenses be

\begin{footnotes}
\item[58] USNA: RG#59: CFPF, CDF 1960-1963, Box 1037, 493.119/3-962, to Secretary of State, from American consulate, Hong Kong (corrected copy), 9 March 1962.
\item[60] Ibid.
\item[61] US Congressional Record, House, 19 March 1962, pp.4471-4472
\end{footnotes}
granted to enable his firm to export grain to China.\textsuperscript{62} When on 22 March 1962 Julius Mayer, executive vice-president of Continental Grain Company, was in Hong Kong en route from Japan for what he described as a nine day pleasure trip he reportedly told Hong Kong media representatives that he did not discount the possibility of US-Chinese grain negotiations because he felt that Americans generally believed in feeding hungry people.\textsuperscript{63}

Finally, at a White House meeting on 23 March, the ITC's application to export grain to China was discussed. Those present at the meeting included President Kennedy, Commerce Secretary Luther Hodges, State Department legal advisor Abram Chayes, Secretary of State Rusk, Treasury Secretary Dillon, and S/P chairman Rostow.

The meeting opened with Rusk and Rostow suggesting that the application be approved if the grain could be used as a weapon to shape Chinese policies. When President Kennedy asked Hodges for his views on the application the Commerce Secretary drew attention to the positions of House Speaker John McCormack, a Democrat from Massachusetts and sponsor of the Committee of One Million\textsuperscript{64}, and Paul Kitchin the chairman of the House Select Committee on Export Controls (Democratic Representative, North Carolina) who had also endorsed the work of the Committee of One Million.\textsuperscript{65} McCormack and Kitchin had asked Hodges to inform President Kennedy that they opposed the sale and said that, if it proceeded they would initiate a full investigation and were "...ready to light a Congressional bonfire if it was approved."\textsuperscript{66} They felt that such a sale would serve to bolster Beijing at a time when Washington should be attempting to bring about the demise of the CCP government. McCormack


\textsuperscript{64} Bachrack, The Committee of One Million, p.67.

\textsuperscript{65} Kitchin's name appeared on the May 1962 list of Committee of One Million Congressional endorsers see: JFKL, Thomson Papers, Box 10, to 'Dear Friend' from H.V. Kaltenborn, The Committee of One Million Against the Admission of Communist China to the United Nations, New York and Attached List of Congressional Endorsers, 30 May 1962.


Allen had been a non-Congressional member of the Committee of One Million since 1953. 'The Allen-Scott Report' appeared in national US and international newspapers on a regular basis and helped 'Committee' interests by alerting readers to signs of change in US or allied 'China policies'. Membership in the 'Committee' sometimes provided Allen and Scott with inside information about 'confidential' US government 'China policy' debates.
and Kitchin warned that such a transaction would provoke a Congressional
debate on US China policy that would jeopardise the passage of Kennedy's
Trade Expansion Act. Hodges then told the President that he himself also
opposed the proposed transaction unless Kennedy ruled that it would be
in the best interest of the US.

Recognising the merits of both arguments, Kennedy said that he
was unwilling to take action that would provoke a Congressional debate
on US China policy and to jeopardise the successful passing of
legislation aimed at replacing US foreign aid with trade - to help remedy
the growing US balance-of-payments deficit. Kennedy then told Hodges that
the Commerce Department should not grant an export license to the ITC.
(A 26 March memorandum from Edward Rice to Harriman stated that he had
been told by Chayes that the main purpose of the decision to reject the
license was "...to forestall a prospective congressional resolution
opposing any grain sale to China." On 23 March Hodges announced to the
press that the Department of Commerce had rejected the ITC's export
license application because Washington had not received information
confirming that the Chinese government was interested in purchasing
American wheat. However, this two-line statement left open the
possibility of US grain exports to China in the future.

On 27 March when Akira Nishiyama, Minister at the Japanese
embassy in Washington, asked Deputy Assistant Secretary for Economic
Affairs, Philip Trezise, why White House officials had discussed the ITC
proposal Trezise explained that this was because the US Congress had
taken an increased interest in exporting US grain to China. Trezise then
said the ITC's application was rejected by the Department of Commerce
because the ITC and the Chinese had not negotiated a contract. He also
stated that, although Beijing had recently exhibited a more positive
approach to trade with US allies, it was not ready to buy US grain.
Trezise added that, even if Beijing did wish to purchase US grain,
Washington would find it difficult to approve a Chinese-US grain deal.

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67 Emphasis President Kennedy placed on the passing of this piece
of legislation see: Schlesinger, A Thousand Days, pp.846-847; and
Mayall, J.B. (editor), Survey of International Affairs 1963, Chapter
Files, Lot 64, D 25, Communist China.
69 NAA: A1838/2 766/1/4, pt.2, p.6, Felix Belair Jr., 'U.S.
Forbids Sale of Grain to Reds', Seattle Daily Times, 23 March 1962;
NLA: Manuscript Division, MS 4300, Braga Papers, Box 52, 'ITC Grain
Deal Application Rejected', 23 March 1962; 'Washington Rejects U.S.
Firm's Application No Request by Peking', South China Morning Post.
70 Ibid.
71 USNA: RG#59: CFPF, CDF 1960-1963, Box 1037, 493.119/3-2762,
memorandum of conversation:'International Trading Company's Proposal
to Sell Wheat to communist China', participants: Nishiyama, Trezise,
Nishiyama had made this enquiry because Tokyo remained interested in the possibility of shipping relief grain supplies to China. On 21 February 1961 the Japanese Cabinet had agreed to offer relief food to China, but on 28 February 1961 Chen Yi told Kumaichi Yamamoto that such an offer would be rejected.

When Herschel Newsom, Head of National Grange (which had 300,000 farm members) criticised, on 29 March the US trade embargo against China he was supported by the National Wheat Growers Association in Kansas.\(^72\) Then on 30 March 1962 Klaus Pringsheim, a University of Kansas Asian studies Professor, told US consulate officials in Hong Kong that the Kansas wheat growers were very interested in selling wheat to China. Then when visiting with his old friend Fritz Cordt, vice-consul of the West German consulate in Hong Kong, Pringsheim asked Cordt to speak to Bu of CIRECO about Beijing's stand on possible US-Chinese grain sales. Predictably, in light of Washington's 23 March decision to reject the ITC export license, and the large CIRECO-CWB wheat sale contract three days later, the Chinese were unenthusiastic about Pringsheim's enquiry. On 4 April, after speaking to Chinese officials in Beijing, Bu told Cordt that the Chinese

...cannot accept wheat from the US so long as the US is unfriendly to China (and)...that there could be no dealings with such hostile people as the (Americans)...The Chinese...have no interest in either buying or being given US wheat.\(^73\)

Pringsheim relayed this message to the US consulate in Hong Kong on 6 April.

Not knowing that the Chinese had lost interest in purchasing US grain after the events of 23 to 26 March Braga, on 16 April, told US officials in Hong Kong that he expected the Bank of China's emissary to return soon from Beijing with the Chinese government's position on the proposed ITC grain sale. US consulate officials told Braga they planned to send any evidence of Chinese interest in purchasing US grain to Washington immediately.\(^74\)

Meanwhile, on 3 April Harriman told Rusk that State Department officials had finally reached a general consensus regarding recommendations, requested by the NSC Standing Group at its 26 January

\(^72\) NLA: Braga Papers MS 4300, Box 52, Donald Jansen, 'Grange Head Hits Grain Ban to Peiping', *New York Times*, 29 March 1962.

\(^73\) USNA: RG#59: CFFP, CDF 1960-1963, Box 1037, 493.119/4-1062 from American consulate general, Hong Kong, to Washington: 'Kansas Professor Inquires About Sale of U.S. Wheat to Communist China,' 10 April 1962; memorandum of conversation, participants: Pringsheim, Miss Kwok Hsui-ping, Pringsheim's fiancee; and American consul-general, Hong Kong, place: Hong Kong, 31 March 1962.

\(^74\) USNA: RG#59: CFFP, CDF 1960-1963, Box 1037, 493.119/4-1662, to Secretary of State, from US consulate Hong Kong, 16 April 1962.
meeting, regarding possible US grain sales to China. The recommendations included one proposal that "...Ambassador Cabot, in his talks with Wang...(Bingnan)...raise the possibility of such sales if the Chinese ran out of other sources of grain." However, on 6 April U. Alexis Johnson, Deputy Under-Secretary of State for Political Affairs, told Rusk that, because the Chinese had rejected previous US overtures toward China, Washington should wait for the Chinese to approach the US government first. Johnson thought that such an American initiative might make Beijing think that Washington had caved in under pressure from American grain interests and that the Beijing government was making progress on the issue of Taiwan and Chinese representation in the UN. He emphasised that "...if and when the Chinese...have a genuine interest in...(purchasing) American grain, we will unmistakably know it - not directly, for they will never mention it at Warsaw, but rather indirectly." Ball who shared Johnson's reservations "...thought 'it would be a mistake to interject the possibility of grain sales into the Warsaw talks!" Then on 13 April Harriman emphasised to Rusk that...Internal and external difficulties must...be breeding differences within...(the Chinese) leadership. Evidence that the US would be willing to play a part in moving our relationship away from one of implacable mutual hostility might strengthen the hand of any elements which might favor doing so....We should not have our historical record be one of having refused to sell food to a people...when food was greatly needed. That...might one day rise to haunt us....We can (make overtures toward China) more gracefully now than...after the Chinese...have exploded a nuclear device...when overtures might be interpreted as motivated by apprehension.

...A policy of immobility...(cannot) serve us well in a world where change is the rule."

Bowles supported Harriman's proposal emphasising that there was little point in continuing with the Warsaw talks if such matters could not be raised and tested there.79

75 *FRUS*, vol.XXII, 1996, pp.208-211, see: Department of State Central files 411.9341/4-462 from Secretary of State Rusk to President Kennedy, drafted by Rice 4 April 1962, it was attached to the 3 April memorandum from Harriman to Rusk; JFKL: Thomson papers, Box 15, to Secretary of State Rusk, from Harriman: 'United States Policy On Shipments of Medicine and Food Grains To Communist China', 13 April, 1962.

76 *FRUS*, vol.XXII, 1996, central files 611.93/4-662, drafted by U. Alexis Johnson to Rusk, 6 April 1962.

77 *FRUS*, vol.XXII, 1996, p.213 source (at bottom of page): from Ball to Rusk, 9 April attached to Department of State Central Files 611.93/4-662: drafted by U. Alexis Johnson to: Rusk, Ball, McGhee, Harriman, and Ball 6 April 1962.

78 JFKL: Thomson papers, Box 15, to the Secretary of State, from Harriman: 'United States Policy on Shipments of Medicine and Food Grains to Communist China', 13 April, 1962.

79 JFKL: Thomson papers, Box 15, from Bowles, to Secretary of State: 'United States Policy on Shipments of Food Grains to Communist China', 16 April, 1962.
The April 1962 Hong Kong Refugee Crisis and the West's Response

In late April 1962 the Chinese government relaxed border controls to allow refugees to attempt to cross the 'frontier fence' into Hong Kong. Chinese government officials organised special trains to transport Chinese refugees to the Hong Kong border. At this time Hong Kong authorities began arresting increased numbers of Chinese refugees crossing the border illegally, mostly at night. These arrests increased dramatically between 4 and 23 May when the crisis peaked and 5,620 arrests were made. Many Western observers viewed this influx of refugees as evidence that conditions in China continued to deteriorate. When asked at a press conference on 23 May whether the US would consider making an offer to China under the Food for Peace programme President Kennedy stated that the Chinese government had not informed the US government that it had an interest in receiving US food and added

...We would...have to have some idea as to whether the food was needed and under what conditions it might be distributed...We have no such indications.81

When the Canadian ambassador in Washington met with President Kennedy around this time Kennedy enquired about the terms of Canadian credits extended to China. A US State Department draft discussion paper of 24 May (to be discussed by the NSC Standing Group the next day) stated that according to USDA information China might soon exhaust non-US grain supplies and recommended that ambassador Cabot at Warsaw be instructed...to inform Wang Bingnan at the earliest opportunity that if China...(asked) the Americans...(for) U.S. grain Washington would reconsider its policy...83 It suggested that Cabot tell the Chinese that the outcome of any Chinese-American grain negotiations would be influenced by both US public opinion and Chinese goodwill gestures such as offers to release US POWs and that the US would not use any Chinese requests for food for propaganda purposes. On 26 May INR advised Rusk that the only way the Chinese might purchase US food would be if excellent credit and price concessions were offered, which Beijing could use as a bargaining tool against the CWB and AWB. According to INR

...(The effect of a large US-Chinese credit) grain transaction on the relative position of the

81 Public Papers of the Presidents of the United States John F. Kennedy: Containing the Public Messages, Speeches, and Statements of the President (1962), p.431.
supposed... (Chinese government) factions... would be marginal in itself....But... (if) the grain appeared to the Chinese to make a difference in their ability to solve their economic and agricultural problems and especially if it seemed desirable to continue them over a period of years, there would ensue a period of at least muted hostility during which the other, dominant factors would have time to work. The result... could be either good or bad, depending on the nature of the other factors. The grain transaction... (would not be) likely by itself to bring about changes in the internal political structure of China, but might make it possible for other forces to bring about such changes."

INR reminded Rusk too that the Taiwanese government would be very concerned if the US government decided to offer American grain to China because of "... its implications of a 'two-China' policy and its adverse impact on... the ROC's hopes for U.S. support for their 'return to the mainland' operations." Although most Americans in the Midwestern grain-producing region previously supported the ROC government, INR stressed that Taibei could no longer depend on as much support from this region.

The State Department's Europe/Soviet Bureau also warned that an American offer to ship large quantities of grain to China on credit terms might be portrayed by both Beijing and Moscow as a propaganda trick viewed by the Soviets as a move to exacerbate Chinese-Soviet tensions.

Meanwhile, between 20 and 26 May the US, British, and Japanese discussed the possibility of assembling an international consortium to ship grain to China. However, conditions in China had actually been improving since January 1962. The April/May 1962 Hong Kong refugee crisis coincided with the working conference of the Standing Committee of the Political Bureau of the CFC Central Committee in Beijing between 7 and 11 May, where, based on Chen Yun's proposals, made almost a year earlier, measures were adopted to reduce the urban population between five and ten million people by August 1962. After China's borders were sealed again on 26 May 1962 the flow of refugees across the land frontier stopped, but clandestine refugee entries by sea, directly from China or via Macau, increased substantially until August 1962. Between late April and 26 May over 26,400 people were apprehended and returned to China, but the Hong Kong authorities later estimated that almost 60,000 Chinese refugees

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84 JFKL: Thomson Papers, Box 15, to Secretary of State from Hilsman INR: 'Proposed U.S. Food Offer to Communist China', 26 May 1962.
85 Ibid.
86 Ibid.
eluded border authorities and illegally entered the colony.\(^8\)

Western observers remained unaware that Hong Kong's refugee crisis was the result of the Chinese government's urban population reduction strategy rather than a continuing 'descending spiral' in China's food situation. Thus, when Rusk met with President Kennedy on 29 May he drew on the final version of the 24 May US State Department paper on possible US grain exports to China. This paper opposed long-term credit wheat sales to China, but stressed that the US should not establish a record of denying hungry people access to US grain, especially during times of surplus.

On 30 May a US State Department telegram to Warsaw stated that "...Cabot would probably be instructed to raise a new matter of business at his next meeting with Wang...the item should be raised as soon as it was possible...in a normal low key manner."\(^9\) The telegram also asked that the 111th meeting of the Warsaw talks be moved back from 12 July to mid-June if possible. However, US embassy officials then reminded Washington that because the meeting had been scheduled for July at the request of the US government an approach to the Chinese to change the date "...would indicate something unusual...(and) that the date should not be changed."\(^9\)

On 1 June, Canadian embassy officials in Washington reported to Ottawa that

\[
...A senior official in the General Sales Manager's Office of...(the USDA's Department of) Foreign Agriculture has intimated to us that he would favor the supply of commodities...(to China) on commercial terms if the President...authoriz(ed) a transaction.\(^9\)
\]

On 4 June officials of the British and American governments met in London to discuss the idea of shipping grain to China through an international consortium. At that time the British questioned the practicality of the 'consortium proposal' because the US would need to provide most of the grain - a source which the Chinese had already rejected. Nevertheless, the British remained interested in the 'consortium proposal' as a contingency plan in case conditions in China deteriorated in the future.\(^9\)

However, during the week of 29 May to 4 June the Chinese indicated that they would reject an offer of US grain. Speaking at Nepalese King Mahendra's birthday reception in Beijing on 11 June, Chen

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\(^8\) Hong Kong: Report for the Year 1962.
\(^9\) FRUS, vol.XXII, 1996, p.233, from Warsaw, 31 May and 2 June 611.93/5-3162 and 611.93/6-262, to Warsaw, 4 June.
\(^9\) USNA: RG#59: CPF, CDF 1960-1963, Box 2882, 893.49/6-562, to Secretary of State, from Bruce American embassy, 5 June 1962.
Yi made it very clear that the Chinese government would not accept aid shipments of Western grain.\textsuperscript{93}

As asked at a press conference on 14 June why the US government did not send food aid to China, President Kennedy replied...

...We ought to stick with our policy which is to do nothing on the food (issue) until there is some indication that the Chinese...desire it, and then consider it on an independent basis at that time.\textsuperscript{94}

On 25 June when Rusk told Lord Home in London that this statement by Kennedy purposely left open the question of shipping food to China, Home reminded Rusk that the 'recent' British charge in Beijing was convinced that Beijing would never ask for aid.\textsuperscript{95}

However, in late 1962, following a poor wheat harvest in France, the Chinese again became concerned about obtaining adequate supplies of Western grain on credit terms. Beginning in late 1962 when France was unable to fulfill the role of China's third major grain supplier the Chinese were forced to look for other sources of grain.

***

\textsuperscript{93} PRO: FO371/164904: FC1022/5, from Morgan, Peking, 12 June 1962.

\textsuperscript{94} Public Papers of the Presidents of the United States John F. Kennedy, pp.487-488.

CHAPTER 8

Western Competition Intensifies in the Chinese Grain Market: June 1962-December 1963
In 1962 Canada, Australia, and France continued to be the major exporters of grain to China. Although Canadian textile producers were against any increase in Canadian imports of Chinese textiles, required to help finance Canadian wheat sales to China, in Canada and France there was little opposition to such sales. However, in Australia various questions about the grain trade with China were being raised, matters which the Australian government was eager to distance itself from. In May 1962 controversy arose in Canberra concerning the visit the previous October of Governor Coombs of the Reserve Bank of Australia to Beijing.\(^1\) During an informal meeting in May 1962 to discuss research on China, Sir John Crawford (director of the School of Pacific Studies, Professor of economics and chief advisor to the Minister of Trade McEwen), stated that he believed the Reserve Bank of Australia had provided a form of financial guarantee to facilitate AWB grain sales to China.\(^2\) Also according to Crawford, Coombs had visited China to satisfy himself that it would be reasonably safe for the bank to guarantee the credit sales. Crawford's remarks caused considerable agitation within the Australian DEA just as the Australian government was considering a proposal that Dao Zhuru, President of the People's Bank of China, and Han Lei and Min Yimen, senior officials of the same bank, visit Australia in the summer of 1962. Newspaper reports suggested that, in the absence of Australian diplomatic recognition of the Chinese government, the AWB, DPI, CTB, and the Australian Reserve Bank, had replaced the DEA in handling Chinese-Australian relations.

An Australian investigation of Crawford's claim was inconclusive. On 7 June DEA officials admitted they had found no evidence in department files suggesting that the Reserve Bank had provided a guarantee to the Chinese. The DEA explained that Cabinet had rejected the extension of such guarantees twice in 1961. However, DEA officials concluded

\[...\text{this is not to say that Dr. Coombs may not...have advised the trading banks with which the...}(AWB)\text{deals that China was a good risk, but it would not be easy to establish the existence of an arrangement of this kind.}^3\]

Sir John Teasdale, who had opposed the Australian credit sales to China and maintained that Perrett and Coombs were 'fellow travellers', believed that there was no direct connection between the credit for wheat sales and Coombs' visit. Teasdale pointed out that the visit was planned months in advance of the conclusion of the credit deal, although he conceded

\(^1\) See footnotes 7 to 9 in chapter 6.
\(^3\) NAA: A1838/2 766/1/4, pt.2, for Peachey, 7 June 1962.
that Coombs might be examining China's ability to pay for Australian imports under credit terms.4

Meanwhile, when the Australian Cabinet met on 24 May to discuss the proposed visit of Chinese banking officials it agreed to issue visas to the bankers, but stipulated that Coombs release a public statement making 
...clear that the invitation was issued by the Reserve Bank in accordance with the customary practice between Reserve Banks...(and) that every care should be taken to avoid association of the Government with the issue of the invitation and with the visitors.5

If Washington was critical of these developments, Australian government advisors suggested that

It could be pointed out that the visits have been arranged privately...and that Sino-Australian trade has developed strictly on commercial terms without governmental action on Australia's part.6

The Chinese banking delegation arrived in Sydney on 14 June and then travelled to Melbourne for what Reserve Bank officials described as an exchange on banking and economic conditions in the two countries. Observers guessed that the Australian government had agreed to set up an official banking link with China.7

On 4 June 1962 a four man Chinese commercial delegation, travelling in a private capacity, was in Australia selling products and discussing purchases of wool, steel, wheat, barley and oats. In 1962 Australia imported $3.8 million worth of Chinese goods on MFN terms. Bunge was one grain trading firm which helped the Chinese to earn currency to pay for grain imports by dumping low-priced Chinese textiles and other goods on the Australian market through its subsidiary Bunge (Australia) Pty. Ltd. in Melbourne.8

In June and July Canberra was already under domestic political pressure from Australians concerned about imports of Chinese low-cost

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5 NAA: Prime Minister's Department, Cabinet decision no.245, Sydney: 'Proposed Visit By the President of the People's Bank of China', 24 May 1962.
6 NAA: 1838/2 766/1/4, pt.2: to the Secretary, from Assistant Secretary regarding conversation with USA charge d'affaires Belton: 'Visit of Governor of the Reserve Bank of Communist China', 30 May 1962.
textiles and footwear. In mid-1962 Melbourne newspapers carried reports that the Chinese were copying Western product designs and dumping them in local markets. They had reportedly copied Australian football boots and were producing a better quality than the Australian original as well as mens and boys' shoes. These sold at greatly reduced prices. Australian 'lasts', and £500 worth of women's fashion shoes, were rumoured to have been sent to China for copying and Chinese 'dumping' activities had become a by-election issue in Broadmeadows in June 1962. Opposition Leader Stoneham supported remarks made by Victoria Shoe Manufacturers Association president, J.C. Harkness and Broadmeadows ALP candidate, J.T. Wilton, who stressed that Chinese imports threatened the Australian shoe industry.9

Dash and Petchel of the Commonwealth Trading Bank visited China in August 1962 as guests of the Bank of China. On 19 September Australian Trade Commission officials in Hong Kong reported that:

The Americans have...received from 'a reliable Chinese source' information that the bankers went to Peking to look at the colour of Chinese money and that they received adequate assurances on this point....If...(this) is true then, at least among ourselves, the bankers might have been more forthcoming.10

***

Chinese-Australian Grain Negotiations: August to December 1962

In late August or early September 1962 the AWB offered the Chinese limited amounts of wheat and in September another contract was signed in Hong Kong. The Chinese had pressed for credits of more than twelve months and, to facilitate this sale, the AWB eased credit terms. (SEE TABLE 8.1) When announcing the sale on 11 October the AWB said that it might make further sales to China when the size of the Australian harvest was known. The same day Australian government officials told Canadian embassy officials in Canberra that they still wished to exchange information with the CWB relating to grain sales to China.11 The Australian government's comparatively relaxed textile quota policy and the AWB's decision to ease credit terms to China in September 1962 were

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# TABLE 8.1

**Australian-Chinese Wheat Contract: September 1962**

[in tonnes (trade grain weight) and % of total Chinese grain imports]

<table>
<thead>
<tr>
<th>Date of Contract</th>
<th>Quality</th>
<th>Contractual Quantities and % of Total Australian wheat exports and Chinese grain imports in year delivered</th>
<th>Quantities Shipped</th>
<th>Delivery</th>
<th>Payment Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>credit contract #5: September 1962 (announced by the AWB on 11 October 1962)</td>
<td>FAQ wheat (10% option more or less)</td>
<td>101,605 (10% option more or less) (2%) Chinese</td>
<td>136,076 from the 1961-62 crop</td>
<td>for delivery in October and November 1962</td>
<td>Credit: 10% cash, 20% in six months, 20% in nine months with the remainder in twelve months, interest rate 4.5%.*</td>
</tr>
<tr>
<td></td>
<td>Off-grade</td>
<td>22,353 (.4%) Chinese</td>
<td>544,307 from the 1962-1963 crop</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>wheat (from new seasons crop)</td>
<td>508,023 (10% option more or less) (10%) Chinese</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Credit terms that the AWB previously extended to the Chinese were 10% cash, 40% in six months, with the balance due in twelve months.

**Sources:** NAA: 1804/28 201/12/1, pt.3, to Australian embassy, Brussels from Acting Secretary AWB: 'Grain Sales to China' and Attached Report (which says only sales of a confidential nature are included); to Ward MP Commonwealth Parliament Offices Sydney N.S.W., from Adermann and Attachment A, 19 June 1963; to Secretary DTC, from commercial councillor Hudsputh: 'Sale of Canadian Wheat To Chins', 6 April 1963; Perrett, *A Record of Constitutional Developments*, pp.202-209.
significant factors in the Canadian government's decision to revise its position on credits for China and on import restrictions on Chinese goods.\textsuperscript{12}

By the time the new AWB chairman, J.V. Moroney, took over on 26 October the Australian wheat surplus problem had been resolved.\textsuperscript{13} However, in November and December, NSW Labour politicians spoke out against continued Australian grain sales to China in light of the Chinese-Indian border conflict.\textsuperscript{14}

Chinese-Indian skirmishes had begun on the Himalayan frontier on 22 October. On 24 October the Chinese government proposed talks with the Indian government to resolve their border crisis. However, on 26 October, the Indians declared a state of emergency and full-scale war followed during which India asked for military aid from the US, France, Britain and Canada. A cease-fire was eventually reached on 21 November and the Chinese completed troop withdrawal from Indian territory in early December. Following this cease-fire the US State Department did not attempt to persuade the Australian government to terminate grain sales to China although it decided in December that if China

...resume(d) their attack on India, multilateral consultations with Australia and other countries may become desirable to determine whether economic sanctions, including perhaps the imposition of tightened controls on trade with...China are needed to assist India.

The Department is concerned over the possibility that credit terms...(extended) to the Chinese...may progressively lengthen...\textsuperscript{15}

Then on 16 January 1963 Rusk told Sir Howard Beale that if the US was

...compelled to offer massive assistance to India he would expect all the Commonwealth countries to...come to the party....The sale of wheat to China by Australia and Canada, whatever might be said in the past, now had a 'political content' and if there were a show-down between India and ...China, these sales would have to be examined 'very closely'\textsuperscript{16}

On 29 January when Sir Wilfred Kent Hughes, an Australian Liberal backbencher in the federal parliament, wrote to Prime Minister Menzies to criticize the Australian government for attempting to avoid responsibility for Australian wheat sales to China, Hughes stressed

\begin{footnotesize}
\begin{enumerate}
\item NAC: RG#20: Vol 819, File 10-33, pt.11, to DTC, Ottawa, from Nickson, 30 November 1962.
\item Perrett, \textit{A Record of Constitutional Developments}, pp.206-207. Moroney succeeded Sir John Teasdale, who had died.
\item USNA: RG#59: CCFP, CDF 1960-1963, Box 2882, 893.10/12-762, to Washington, from US embassy, Canberra, 7 December 1962.
\item NAA: A1209/106 61/428, Prime Minister's Department memorandum, 8 March 1963.
\end{enumerate}
\end{footnotesize}
...in Canada the Government decides the policy, which is the opposite to what happens in Australia. The Canadian Government apparently knows that it is dealing with a dictatorship, which has openly asserted...that they cannot divorce politics from economics...(The Canadian government has) both the courage and realism as to the responsibility for such trade.

Where...(does the credit race in the China market) end, and why should...France, Canada and Australia act as a hire purchase agency for...(Beijing's) overseas propaganda and subversive tactics?¹⁷

Meanwhile, in October or November, the French government had agreed to provide a guarantee of eighteen months (previously twelve months) to facilitate further grain sales under a revised Franco-Chinese long-term agreement. Then on 8 and 9 December the Chinese had signed two contracts with the CWB to purchase approximately 950,000 tonnes of wheat. These contracts were facilitated by improved credits of twelve months guaranteed by the Canadian government. Also on 9 December Perrett had headed another AWB delegation to Hong Kong to negotiate further wheat sales. The Chinese maintained that the AWB must reduce prices. "...otherwise they would refrain from buying, which in terms of their large population would only mean reducing consumption by a negligible...(amount)".¹⁸ However, the AWB could not offer improved credit terms or reduced prices at that time and serious AWB-Chinese grain sale negotiations did not resume until April 1963.

***


Total world wheat production in 1962-63 was estimated at a record 237.7 million tonnes. All major wheat-producing areas reported excellent harvests and demand for wheat imports decreased by 8%, to 40.1 million tonnes, from the previous year. As mentioned earlier Canadian grain supply figures were revised upwards by the Dominion Bureau of Statistics by 2.3 million tonnes in August 1962. In 1962-63 US wheat exports, 76% of which were under surplus disposal programmes, comprised 43% of the world total and thus the Chinese market continued to be an important outlet for non-American exporters.19

In September 1962 the AWB signed another large credit sale contract with the Chinese.20 Also in October or November the French extended government-guaranteed twelve to eighteen month credits to the Chinese. CWB officials expected the Chinese to press for improved credit terms when negotiations resumed on 16 November 1962.21 Prices for various grades of Canadian wheat had also risen by about 20 cents per bushel by December over the previous year but the Chinese pressed the CWB for improved terms of trade.22

However, in late October the Canadian Interdepartmental Committee on low-cost imports had decided that the method of calculating duty imports could not be altered to accommodate a more Chinese imports to Canada. It stressed that the Japanese, who also purchased Canadian grain, had maintained restraints on their exports to Canada23 and that domestic Canadian textile interests would protest any Canadian government decision to significantly increase quotas on Chinese textile imports. While CIRECO officials pressed for concessions on further grain purchases and the CWB refused to reduce prices, on 1 November Cabinet agreed to increase the credit guarantee for the Chinese from nine to twelve months if a new contract were negotiated.24 On 5 November Alvin Hamilton warned Cabinet that little time should be wasted before reexamining import restrictions on Chinese textiles. He suggested that a list of less sensitive textiles be drawn up and that Ottawa increase imports of

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Chinese goods to the maximum of $4 million dollars.\(^{25}\)

Owing to the Chinese-Indian border skirmishes on 22 October, the Canadian Cabinet on 23 October decided not to grant export permits covering exports to China with the exception of grain.\(^{26}\) This decision was not relayed to the Chinese government, but Canadian officials were instructed to let Ottawa know immediately if the Chinese began to suspect that these Canadian export controls had been implemented.\(^{27}\)

On 5 December McGeorge Bundy asked Canadian Under-Secretary of State for External Affairs Ritchie if the Sino-Indian hostilities had led Ottawa to reconsider its grain sales to China. Ritchie replied that the Canadian government was not considering changing its policy given the importance of the Chinese market to Canadian grain producers and the intense competition in international wheat markets.\(^{28}\)

Meanwhile, on 19 and 20 November when CIRECO officials 'forcibly' raised the issue of duty valuation during preliminary negotiations with the CWB, the Canadians listed acceptable imports of Chinese goods, including details relating to duty. CIRECO negotiators immediately said that they were disappointed that more textiles were not listed.\(^{29}\) However, this exchange did not prevent CIRECO and the CWB reaching two more grain contracts on 8 and 9 December covering approximately 950,000 tonnes. These contracts were facilitated by the Canadian Cabinet's earlier decision to increase the necessary credit guarantee from nine to twelve months. (SEE TABLE 8.2)

However, on 20 December the Canadian embassy in Washington learned that the US Treasury had written to Standard Oil Company of New Jersey charging it with FAC violations carried out by its Canadian subsidiary Imperial Oil in Vancouver which had been providing bunkers to vessels carrying Canadian grain to China. The US Treasury's actions ignored President Kennedy's earlier efforts to resolve an identical dispute in February 1961. Nevertheless, the December 1962 controversy seems to have been resolved quietly after Standard Oil Company officials made representations to the US State Department.\(^{30}\)

Chinese-Canadian grain sale negotiations did not resume until May 1963.


\(^{26}\) John D. Diefenbaker, One Canada, p.182


### Table 8.2

**Final Contracts (#8 and #9) Signed Under the Initial Thirty Month Chinese-Canadian Grain Agreement**

[in tonnes (trade grain weight) and % of total Canadian grain exports and total Chinese grain imports]

<table>
<thead>
<tr>
<th>Number of Contract Signed Under the Thirty Month Agreement Resolved on 22 April 1961</th>
<th>Date of Contract</th>
<th>Quantity/Type (tonnes) and % of total Canadian wheat/flour exports and total Chinese grain imports in year delivered</th>
<th>Delivery</th>
<th>Ports</th>
</tr>
</thead>
<tbody>
<tr>
<td>credit contract # 8**</td>
<td>8/9 December 1962</td>
<td>928,043 wheat (10%) Canadian (15%) Chinese</td>
<td>January 1963-June 1963</td>
<td>ex Pacific</td>
</tr>
<tr>
<td>credit contract #9**</td>
<td>8/9 December 1962</td>
<td>23,949 barley</td>
<td>January 1963-February 1964</td>
<td>ex Pacific</td>
</tr>
</tbody>
</table>

**Between 22 April 1961 and 16 June 1961 Chinese purchases of Canadian grain were facilitated by Canadian government guaranteed credits of $50 million over nine months (25% down 75% in 273 days). On 16 June the credit guarantee had been increased to $100 million by the Canadian Cabinet. To facilitate the signing of the Chinese-Canadian grain sale contracts signed on 8 and 9 December the Canadian Cabinet eased credit terms to a down payment of 25% with the balance to be paid in twelve months.**

Chinese Grain Negotiations With
Louis Dreyfus Co.: Autumn 1962

In June 1962, on the suggestion of Leopold Stern, one of three directors of Louis Dreyfus Corporations New York operations, Louis Dreyfus executives began providing information relating to the Chinese purchases of Western grain to US embassy officials in Paris. During the summer of 1962, information was passed directly to US ambassador Gavin by Pierre Louis Dreyfus who was one of three family members who ran the multinational corporation. At that time Stern also told Gavin that, if the US government wanted to export grain to China, his firm "...would be glad to make discrete inquiries...." In August and September Jack Lang of Louis Dreyfus was in Hong Kong discussing future contracts under the December 1961 Franco-Chinese long-term grain agreement.

On 22 October Stern briefed Averell Harriman and Representative Emanuel Celler about Franco-Chinese grain sales. This meeting coincided with increasing US government concern about the potential Chinese threat to India because of the Chinese-Indian border conflict. During the meeting Stern gave Harriman details about Louis Dreyfus' sales of French, South African and Federation of Rhodesia and Nyasaland grain sales to China between January 1961 and October 1962 (SEE TABLE 8.3. TABLES 8.4 and 8.5 are provided for comparison). Stern also said that earlier in October Louis Dreyfus Co. and the Chinese had revised their long-term grain agreement. In the autumn of 1962 the French had a surplus of wheat of high moisture content and they were eager to sell it even at below market prices. On 2 November ONIC officials confirmed to US embassy officials in Paris that under the revised version of the agreement Louis Dreyfus and Goldsmith, one of the interests of Anglo-French financier Sir James Goldsmith, would supply the Chinese with considerably more grain in 1962-63 and 1963-64. (SEE TABLE 6.6 for figures under the initial agreement signed in December 1961) In addition to the 400,000 to be exported in 1962-63 under the old agreement the revised agreement made provision for Louis Dreyfus to ship another 580,000 tonnes of wheat to China in that year. 716,313 tonnes was to be shipped between November and July 1962 at fixed prices under twelve month credit terms. (increased to eighteen month terms in November 1962)


32 Morgan, Merchants of Grain, pp.87,90,94.


### TABLE 8.3

**Louis Dreyfus Grain Sales To China* in 1961 and 1962 (up to 22 October 1962)**

[in tonnes (trade grain weight) and % of total Chinese grain imports]

<table>
<thead>
<tr>
<th>Year</th>
<th>Grain**</th>
<th>Quantity and % of total Chinese grain imports in year delivered</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961</td>
<td>barley</td>
<td>289,573 (5%)</td>
</tr>
<tr>
<td></td>
<td>French wheat</td>
<td>127,006 (2%)</td>
</tr>
<tr>
<td>1962</td>
<td>Argentinian wheat</td>
<td>35,562 (0.7%)</td>
</tr>
<tr>
<td></td>
<td>Rhodesian maize***</td>
<td>15,241 (3%)</td>
</tr>
<tr>
<td></td>
<td>French wheat (purchased in the spring)</td>
<td>254,012 (5%)</td>
</tr>
<tr>
<td></td>
<td>wheat (purchased in October)</td>
<td>716,313 (14%)</td>
</tr>
</tbody>
</table>

*Information provided by Leopold Stern Director Louis Dreyfus' New York operations.

** These sales were facilitated by credits of twelve months in duration guaranteed by the French government agency COFACE.

*** SEE TABLE 8.4

### TABLE 8.4

**Chinese Purchases of White Maize From South Africa and the Federation of Rhodesia and Nyasaland: 1961-1963**

[in tonnes (trade grain weight) and % of total Chinese grain imports]

<table>
<thead>
<tr>
<th>Date of Contract</th>
<th>Supplier</th>
<th>Grain</th>
<th>Quantity and % of Total Chinese Grain Imports in Year Delivered</th>
<th>Terms</th>
<th>Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>first half of 1961*</td>
<td>Federation of Rhodesia and Nyasaland</td>
<td>white maize</td>
<td>53,000-60,000 (9%-11%)</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>14 November 1962*</td>
<td>Louis Dreyfus acting on behalf of the South African Maize Board</td>
<td>white maize (bagged by the South African Maize Board)</td>
<td>153,000-160,000 (2%-3%)</td>
<td>credits of 12% cash 75% in six months 50% in twelve months arranged by Louis Dreyfus with a guarantee provided by COFACE</td>
<td>January to April 1963</td>
</tr>
</tbody>
</table>

* In the summer of 1962 South Africa had a two million tonne export surplus of white maize, and although South African Maize Board officials denied being interested in the Chinese market, between 19 and 25 August of that year a Board delegation visited Hong Kong (en route) to Tokyo, where Jack Lang introduced them to CIRECO officials. On 14 November 1962 a Chinese-Louis Dreyfus contract was signed covering the sale of South African Maize to China on credit terms (SEE TABLE 8.3) The South African Maize Board organised financing of the transaction after the French government agreed to provide a credit guarantee. These maize purchases from South Africa and the Federation of Rhodesia and Nyasaland were the only African grain sales to China between 1960 and 1964. (See: NAC: RG#20: Vol.819, File 10-33, pt.10, to McNamara, CWB, from Thompson, Hong Kong, 6 September 1962; to McNamara, CWB, from Thompson, Hong Kong, 6 September 1962; Eckstein, p.227. Eckstein's source: Food and Agriculture Organization of the United Nations, Annual World Grain trade Statistics. NAA: 1838/28 201/12/1, pt.3: 'Maize: S. Africa Sale to China', 8 February 1963; NAA: 1838/280 3107/38/5 pt.3: 'Maize Purchase From South Africa', 1 April 1963.

TABLE 8.5

Total French Grain Sales To China
Between 1960-61 and 1963-64
[in tonnes (grain: trade grain weight, flour: milled weight) and % of total Chinese grain imports]

<table>
<thead>
<tr>
<th>Year</th>
<th>Wheat</th>
<th>Flour</th>
<th>Barley</th>
<th>Maize</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-61</td>
<td>-</td>
<td>-</td>
<td>26,800</td>
<td>(4%)</td>
</tr>
<tr>
<td>1961-62</td>
<td>177,600 (3%)</td>
<td>81,800 (2%)</td>
<td>287,600 (6%)</td>
<td>-</td>
</tr>
<tr>
<td>1962-63</td>
<td>994,000* (16%)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1963-64</td>
<td>187,200 (3%)</td>
<td>34,000 (5%)</td>
<td>127,600 (2%)</td>
<td>700 (.01%)</td>
</tr>
</tbody>
</table>

*This figure includes the 406,419 tonnes of wheat mentioned in the three year Franco-Chinese grain agreement signed in December 1961 and 589,307 tonnes of high moisture content wheat purchased by from Louis Dreyfus and Goldsmith under the revised (in October 1962) Franco-Chinese grain agreement.

Also under this revised agreement, the French agreed to sell the Chinese 381,018 tonnes of wheat between August and December 1963 and 304,814 tonnes during 1964. Precise annual amounts, and the price of wheat and barley were to be negotiated in 1963 and 1964 and determined by French annual harvests. French wheat sales to China in 1962-63 totalled approximately 995,726 tonnes.

Also during the 22 October meeting between Stern and Harriman the Louis Dreyfus director denied that the French government had agreed to extend credits of up to eighteen months to Beijing. He admitted that the Chinese had recently been pressing for eighteen month credit terms and added that French officials "had told him that...[the French government] would be willing to consider making such guarantees on credit sales involving American grain...." Stern emphasised that the Americans were missing an important opportunity to sell grain, while its allies increased grain sales to China. He added that American wheat purchased by West Germany was being sold to the Chinese in the form of flour. He later rephrased this statement by saying that it was impossible to be certain of the country of origin of flour shipments, but that the US was probably an important source of replacement grain for countries exporting to China. When asked what Washington would do if evidence were found suggesting that West German interests were re-exporting US grain to China, Harriman replied that American FAC regulations would be enforced. Harriman added that Washington

...discouraged others from selling foodstuffs to...China. We have worked with our allies to maintain controls on the export of strategic goods and in fact we ...(prefer) to see the Chinese...buy grain as...(opposed to) heavy machinery....

Emmanuel Celler, at the meeting with Harriman and Stern, asked Harriman if the US government was making subsidised wheat sales to West Germany who in turn was exporting it to China as flour. Celler added that the US was losing business to nations willing to trade with China.

As early as two days after Harriman's meeting with Stern, the US State Department launched an investigation into the US-West German flour trade. The US government hoped to strictly enforce rules that American consulates be kept informed of the particulars of ships travelling to the 'Sino-Soviet bloc' prior to approving bunkers. This exercise demonstrated the difficulties of investigating rumours that

subsidised US wheat was being exported indirectly to China. On 24 October Rusk asked the US consulate in Aden to investigate reports that flour delivered to the Yugoslavian vessel Subcevac was either grain milled in the US or flour milled from US wheat in West Germany. Rusk also wanted to know "if...(Caltex officials knew) that the vessel was on its return voyage from a Far East Communist port."\(^{38}\) Caltex, a US-based multinational oil company formed in 1936 in Dallas (Texas), was 50% owned by Chevron and 50% by Texaco. Caltex representatives told US investigators that they were unaware of any reason for denying bunkers to the Subcevac and thus had not consulted the US consulate first - this, despite the fact that Mobil, another US firm, had been hesitant to provide bunkers for the ship and had contacted the US consulate first. Caltex officials in Aden were subsequently warned by US officials that they had acted improperly by not telling the American Consulate there that their firm had provided the Subcevac with bunkers on its return voyage from China. Caltex was instructed to consult with US government officials first in similar cases in the future despite the fact that the consulate concluded that it was "unable to determine whether the flour carried from West Germany to China on the subject vessel was milled in the U.S. or in West Germany from U.S. origin wheat...."\(^{39}\)

Despite successfully renegotiating the Franco-Chinese grain agreement in October 1962, the French were unable to meet their obligations under the accord. Heavy rains in France in autumn 1962 delayed winter wheat planting and severe winter weather damaged the seeded grain. ONIC was thus concerned about France's ability to meet its obligations under long-term grain agreements\(^{40}\) - concerns which proved valid, when in 1963-64 the French were able to provide only a portion of the grain contracted for under the Franco-Chinese agreement. (SEE TABLE 6.6 and APPENDIX TO CHAPTER 8) Consequently, in early 1963 the Chinese made increased efforts to find other sources of grain.

Bumper harvests in Canada, the US, Australia and Argentina in 1963-64 brought estimated world wheat production to 226.3 million tonnes, 5% less than the record crop the previous year. US wheat exports, 58% of which were under surplus disposal programmes, accounted for 42% of total world wheat exports.\(^{41}\) But because of poor crops in Europe and a crop failure in the USSR, demand increased to a record 55.1 million tonnes in


\(^{40}\) USNA: RG#59: CFPF, S-NF 1963, Box 3558, Inco-wheat FR, to Secretary of State, from Bohlen, Paris, 4 February 1961.

1963-64. In that year the Soviets joined the Chinese as major importers of Western grain.

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**Further Chinese and American Interest in Grain Negotiations**

In late 1962 and early 1963, before negotiating agreements with other suppliers to replace grain which was to have been supplied by France, Chinese government officials may again have considered purchasing US grain. Following an almost identical pattern to the previous year, it was reported that between 28 and 30 October 1962 Lancy Jean, the Washington State representative of the Western Wheat Association, had visited Hong Kong where he met US consulate officials. There were rumours that the talks involved possible US-Chinese grain sales. Then in March 1963 J.M. Braga and a business associate again approached the US Consulate in Hong Kong to report further grain negotiations with Chinese officials. These negotiations appear to have been connected with the earlier US-Chinese grain negotiations. However, US officials concluded, as they had prior to rejecting Braga's proposal a year earlier, that he and his associates were attempting to gain the US government's approval for US-Chinese grain negotiations before opening bargaining with the Chinese. Because the Chinese found enough grain from other foreign sources during 1963 to replace that which France was initially to supply, they were not forced to ask the US government for grain.

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42 NLA, MS 4300 Braga Papers, correspondence/notes on rice: 'Portlander Tells of Talks in Hong Kong', Chicago Daily News, 22 November 1962.


44 Ibid.
Chinese-Australian Wheat Negotiations:
April to December 1963

With the Americans out of the running, the Chinese continued negotiations with the Canadians and Australians while they considered opening talks with other grain exporters. Between 1 and 18 April 1963 Ding Kejian and Yu Hosong of CIRECO visited Melbourne for further negotiations with the AWB. Without additional sales to China the AWB was faced with paying storage costs for approximately 1,360,766 tonnes of wheat from the recent harvest. On 4 and 5 April Ding pressured AWB negotiators to initiate action to increase Chinese imports into Australia—especially textiles and hog casings (the latter being a quarantine issue). Ding said that although Chinese wheat import requirements for 1962-63 had already been met, he was eager to secure quantities for 1963-64. He was adamant that the AWB extend credits of eighteen months to facilitate the next sale, reminding the Australians that the Board was faced with paying storage costs on a large quantity of grain if it was not sold. He emphasised that, if the Chinese received an eighteen month credit, they would not consider it a precedent.

On 11 April Ding told Perrett that the Chinese wanted to purchase 1,360,766 tonnes of wheat from the AWB. Perrett promised to consult the Australian government and banking officials about this request, but doubted whether the terms could be met. On hearing Ding’s request DPI, CTB and Reserve Bank officials agreed that they would pursue the matter with Cabinet and the Treasury.Both sides agreed to conduct further negotiations in Hong Kong in May.

When the negotiations resumed on 14 May, CIRECO told AWB negotiators that the Chinese agricultural situation was the best in about three years and that winter wheat crops appeared to be doing well. However, the Australians noted that the Chinese wanted assurances that they could purchase available wheat at any time probably to gain a position of some flexibility with respect to meeting both internal food and external trade requirements... (AWB negotiators felt) that the Chinese...(government) would attempt to force increasing quantities of wheat into the Chinese diet if they could more than offset the costs of...(wheat imports) by increased exports of rice.... (The Chinese) preferred...a longer credit line than actually required so that payments might be made in advance of schedule. (The Chinese) who had...paid in advance of schedule on previous purchases...(took) very seriously that their credit rating would

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automatically...(improve by) paying before the due date...\(^{46}\)

CIRECO officials then said that Australian prices were too high and that they would not accept less than eighteen month credits. But AWB negotiators, having already reduced prices, said that they would not extend more than twelve months’ credit. With the negotiations deadlocked it, appeared as though the bargaining would break down. Indeed, on 24 May two members of the AWB team, assistant general manager L.H. Dorman and NSW member E.G. Hoy, left for Sydney. Only Perrett and AWB chairman Moroney remained when, on 25 May, the Chinese suddenly agreed to accept twelve month credit terms.\(^{47}\) (SEE TABLE 8.6) Following the negotiations, Moroney was quoted as stating that the Chinese seemed disappointed with Chinese-Canadian negotiations and expressed doubts about whether they would result in a new contract.\(^{48}\) The signing of a second Chinese-Canadian thirty month agreement on 1 August 1963, facilitated by eighteen month credit terms, irritated the Australians who felt that, by providing improved terms the Canadians had placed the AWB in a difficult situation with respect to future negotiations.\(^{49}\)

In September the Canadians signed a contract to sell the Soviets 6.8 million tonnes of wheat worth approximately $500 million and on 9 October the American government, announced that it had authorised the sale of up to 4.06 million tonnes of US grain to the USSR to help reduce grain stocks and help strengthen the American balance of payments position. The USSR would pay for grain "...in gold or sell gold for dollars in the London market, thus increasing support of the dollar and decreasing pressure on...(US) gold..."\(^{50}\) US allies, especially the Japanese government, were irritated that they were not warned in advance of this announcement which added to confusion about distinctions in U.S. policy trade policy with respect to China and the Sino-Soviet Bloc as well as and between strategic and non-strategic commodities.\(^{51}\)

\(^{46}\) USNA: RG#59: CFFF, S-NF 1963, Inco-wheat Austral., to Washington from American embassy Canberra: 'Comments on Chicom Negotiations for Purchase of Australian Wheat', 28 August 1963 (information from DEA Assistant Secretary Loveday based on AWB reports).


\(^{48}\) USNA: RG#59: CFFF, S-NF 1963, Box 3635, Inco-wheat Austral., to Secretary of State, from Hopkins, 3 June 1963.

\(^{49}\) NAA: A2051/2 S325, pt.6, to Adermann Minister for Primary Industry, Canberra, from AWB chairman Moroney: 'Wheat Trading Arrangement', 16 August 1963.

\(^{50}\) JFKL: Sorenson Papers, subject files 1961-1964, Box 41, 'Advantages of Permitting Wheat Sale To the Soviet Union'.

TABLE 8.6

Australian-Chinese Wheat Contract: May 1963

<table>
<thead>
<tr>
<th>Date of Contract</th>
<th>Quality</th>
<th>Contractual Quantities and % of total Australian wheat exports and Chinese grain imports in year delivered</th>
<th>Quantities Shipped</th>
<th>Delivery</th>
<th>Payment Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>credit contract #6: 25 May 1963</td>
<td>FAQ, Off grade, and Premium wheat from the 1962-1963 harvest</td>
<td>A total of 1,153,213 (10% option more or less) approximate composition: 711,233 FAQ 111,765 Premium NSW 111,765 Premium Queensland 76,203 NSW off-grade 228,610 Victoria off-grade 25,401 South Australia off-grade (19%) Chinese</td>
<td>On top of the value of the wheat sold at an AWB meeting on 13 June the Board agreed to pay the CIRECO a commission of A$10,000 (£ 8,000 pounds). On 19 June CIRECO complained that this was insufficient and asked instead for a 1% commission.</td>
<td>Prior to mid-December 1963 FOB</td>
<td>Credit: 10% cash, 20% in six months, 20% in nine months, 50% in twelve months from date of shipment. Interest rate 4.5%*</td>
</tr>
</tbody>
</table>

* Credit terms that the AWB previously extended to the Chinese were 10% cash, 40% in six months, with the balance due in twelve months.


USNA RG#59, CFPF 1963, Box 363, FT 1 US XR FT 1 JAP XR INCO WHEAT US, to Secretary of State from ambassador Reischauer, Tokyo, 11 October 1963.
These Soviet purchases affected the Chinese not only because they signalled possible improved relations between Moscow and Washington, but because announcements concerning these large transactions had driven up grain prices and established the USSR as a major competitor for grain supplies. When Chinese-Australian negotiations resumed on 18 October 1963 CIRECO's Yu Dunhua and Xu Bangfai told Perrett and Dorman that they were displeased with the prices and initial quantities of wheat offered by the AWB. They wanted to purchase over three million tonnes of Australian wheat rather than the 900,000 tonnes being offered and again raised the issue of negotiating a long-term agreement...to assist in their long-term agricultural planning. It pays...for them to devote as much land as possible to intensive forms of agriculture, and to import large quantities of wheat...^52

The AWB was not in a position to enter into such an agreement, but on 7 November another contract with the Chinese for one million tonnes was concluded.(SEE TABLE 8.7) The Australians were especially interested that CIRECO negotiators were not particular about whether they purchased FAQ or premium grade wheat.^53

Meanwhile, Australian-Chinese wheat sales again became the focus of US government attention on 17 October 1963, after the AWB informed the Australian government that the Chinese, after learning that Cuba had been hit by a severe hurricane, were diverting a shipment of Australian grain to Cuba. That same day the CWB learned that the Chinese were also diverting Canadian wheat to Cuba. On 19 October 12,396 tonnes of Australian wheat was loaded onto the Greek-owned, Lebanese-registered, S.S. Yanxilias - which was under time charter to the Chinese. Between 19 and 26 or 27 October the ship's captain, anticipating possible difficulties passing through the Suez Canal, refused to follow Chinese instructions to transport the grain. However, after consulting the ship's Greek owners, it set sail for Cuba.^54 The US government agreed not to protest the decision in...light of the Canadian agreement to ship Soviet purchased wheat to Cuba,...(the US) decision to sell wheat to the USSR and Eastern Europe, the devastation caused by the hurricane in Cuba, and the FAO's proposed shipment of foodstuffs to that island.^55

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^53 NAA: A1804/28 201/12/1, pt.3, to Secretary Australian DEA, Canberra, from Australian embassy, Washington, 6 September 1963.
TABLE 8.7
Australian-Chinese Wheat Contract: November 1963
[in tonnes (trade grain weight) and % of total Australian grain exports and total Chinese grain imports]

<table>
<thead>
<tr>
<th>Date of Contract</th>
<th>Quality</th>
<th>Contractual Quantities and % of total Australian wheat exports and Chinese grain imports in year delivered</th>
<th>Quantities Shipped</th>
<th>Delivery</th>
<th>Payment Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>credit contract # 7: November 1963</td>
<td>FAQ, Premium, Off-grade</td>
<td>A total of 1,016,047 tonnes (10% optional more or less) (15%) Chinese dissections of the grades to be declared no later than 15 January.</td>
<td>£ 21 12s. 6d. per long ton FOB</td>
<td>Between 1 January 1964 and 30 June 1964 at the approximate rate of 203,209 tonnes per month</td>
<td>10% cash, 20% in six months, 50% in twelve months.</td>
</tr>
<tr>
<td>FAQ Premium Off-grade</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FAQ Premium Off-grade</td>
<td></td>
<td></td>
<td>£23 12s. 6d. per long ton FOB for Premium wheat over 13% protein (a premium of 45s. over the FAQ price)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FAQ Premium Off-grade</td>
<td></td>
<td></td>
<td>£23 12s. 6d. per long ton FOB for Premium wheat between 12.5% and 13% protein (a premium of 40s.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FAQ Premium Off-grade</td>
<td></td>
<td></td>
<td>£23 7s. 6d. per long ton FOB for Premium wheat between 12% and 12.5% protein content (a premium of 35s.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FAQ Premium Off-grade</td>
<td></td>
<td></td>
<td>£20 2s. 6d. per long ton FOB [discount of 1 2s. 6d. on FAQ price (56 lbs per bushel minimum)]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FAQ Premium Off-grade</td>
<td></td>
<td></td>
<td>£20 2s. 6d. per long ton FOB [discount of 1 10s. (between 54.5 lbs. and 56 lbs. per bushel)]</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Credit terms that the AWB previously extended to the Chinese were 10% cash, 40% in six months, with the balance due in twelve months.

On 21 October Washington informed Canberra that although the US government was not filing a formal protest, President Kennedy was displeased about the diversion. Washington was especially concerned that the wheat had been sold on credit terms and that DEA Minister, Sir Garfield Barwick, had not mentioned this issue while visiting Washington several days earlier. Washington was not relaxing its policy of isolating Cuba economically and politically; nor could US wheat sales to the USSR and Eastern Europe be diverted. Washington did not object to Canadian wheat being diverted to Cuba by the Chinese at this time, because the Chinese had sold it for cash. When the US government discovered that Barwick did not learn of the diversion until he returned to Australia from Washington and that the Chinese were shipping the grain to Cuba for disaster relief, Washington decided to overlook the matter.

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**Chinese-Canadian Grain Negotiations:**

**Spring 1963 to August 1963**

The upcoming spring 1963 Canadian election campaign gave Beijing an excellent opportunity to pressure the Diefenbaker government to increase Chinese textile import quotas by threatening to cut off wheat purchases. The Diefenbaker government hoped to maintain the Chinese-Canadian grain trade in order to preserve crucial support of prairie farmers. On 30 November 1962 the Interdepartmental Committee on low cost imports recommended that a list of acceptable imports - agricultural products, chemicals, raw materials and a few textile items - be given to the Chinese and that Ottawa permit the importation of up to $3 million worth of these Chinese items. However, minimum import duties were to be based on duties paid by other nations exporting similar goods to Canada. Hamilton was unable to convince Cabinet to increase Chinese imports prior to the 6 April 1963 federal election which the Progressive Conservatives lost to L.B. Pearson's Liberal Party.

Although the initial thirty month Chinese-Canadian agreement was not due to expire until December 1963, Chinese purchases of Canadian grain since January 1961 had risen above minimum quantities specified under the agreement. By April 1963 the Chinese and Canadians had fulfilled nine contracts under this agreement, with credits under the final two contracts increased from nine to twelve months.

When the new Liberal government took over in April 1963 it was under pressure from prairie farmers and grain handlers at port and railway facilities to renegotiate the lucrative Chinese-Canadian grain agreement. However, the Chinese had been exasperated with the Canadians for several months because Ottawa had failed to resolve longstanding
Chinese concerns about Canadian quotas on Chinese imports. With their own harvests improving, the Chinese were in a somewhat stronger bargaining position. Between mid-December 1962 and late July 1963 no Chinese-Canadian grain sales were negotiated.

However, in May the Chinese signed another contract with the AWB to purchase over one million tonnes of wheat. Then in May and June 1963 the Chinese and Canadians conducted exploratory talks regarding future grain sales and quotas on Chinese goods entering Canada. Beijing insisted that Ottawa increase Canadian quotas on Chinese textiles and credit terms from twelve to eighteen months or more. On 24 June after Ding Kejian returned to Hong Kong from consultations with Chinese officials in Guangzhou, CIRECO's Chao W.S. told Canadian trade commissioner Thompson that the Chinese were willing to begin negotiations on 2 July providing the Canadians were prepared to make concrete proposals regarding a new wheat agreement and quotas for Chinese goods entering Canada.56

On 1 August 1963 a new thirty month Chinese-Canadian grain agreement was reached under which the first contract, covering the sale of 500,000 tonnes of wheat, was signed. The new agreement and contract were announced in the House the following day by Mitchell Sharp, Canadian Minister of Trade and Commerce.(SEE TABLE 8.8 and 8.9). Apart from increasing the credit guarantee from twelve to eighteen months, Ottawa also agreed to make it easier for Beijing to sell Chinese goods in Canada, subject to safeguards protecting Canadian manufacturers. Canada agreed to the same duty values which it applied to Japanese goods; and Beijing was subsequently permitted to export manufactures (up to the value of $7 million) which had previously been classified as sensitive - although other items continued to be restricted by quotas.

56 NAC: RG#20: Vol.819, File 10-33, from Thompson, Hong Kong to DTC, Ottawa, 24 June 1962.
TABLE 8.8

Terms of the Second Thirty Month Chinese-Canadian Grain Agreement
[in tonnes (trade grain weight)]

<table>
<thead>
<tr>
<th>Date Signed</th>
<th>Terms of Agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 August 1963 (announced on 2 August 1963)</td>
<td>Period Covered: 1 August 1963 to 1 July 1966. This agreement superseded the first thirty month Chinese-Canadian grain agreement which was not due to expire until December 1963.</td>
</tr>
<tr>
<td></td>
<td>Quantities and Type of Grain Involved: an agreement of intent on behalf of the CEROILFOOD to purchase and on behalf of the CWB to supply a minimum of 3,048,116 and a maximum of 5,108,317 tonnes of wheat and a minimum of 609,623 and a maximum of 1,016,765 tonnes of barley over the thirty month period under individual contracts.</td>
</tr>
<tr>
<td></td>
<td>Contracts: Individual contracts to be negotiated periodically and separately with respect to price, terms and quality.</td>
</tr>
<tr>
<td></td>
<td>Credit Terms: The recently elected L.B. Pearson Liberal Government agreed to increase the credit guarantee under this new thirty month agreement from twelve to eighteen months in duration. Terms included a 25% down payment with the balance in eighteen months.</td>
</tr>
</tbody>
</table>
TABLE 8.9
Terms of First the Contract Signed Under
the Second Chinese-Canadian Thirty Month Grain Agreement
[in tonnes (trade grain weight) and % of total Canadian wheat exports and total Chinese grain imports]

<table>
<thead>
<tr>
<th>Date of Contract</th>
<th>Firms/Agencies Involved</th>
<th>Quantity and % of total Canadian wheat/flour imports and total Chinese grain imports in year delivered</th>
<th>Price</th>
<th>Payment*</th>
<th>Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 August 1963</td>
<td>CIReco (on behalf of CIRoilFOOD, Beijing) and the CWB</td>
<td>508,024 tonnes Canada (3%) China (8%)</td>
<td>*Upon declaration of every vessel(s) the buyers were to open an irrevocable letter of credit by the Bank of China (Beijing) in favour of the CWB's agent for 100% invoice value of each shipment, to be advised through a chartered bank in Vancouver. 25% of the FOB value of each shipment together with the agent's commission, charges for trimming and stowage were to be agreed upon by the buyers' and sellers' agents with payment in sterling against sight draft upon presentation of documents. 75% of the FOB value of each shipment was available against draft payable in London in Pounds Sterling at 547 days sight plus interest at 5% per annum from the date of presentation of invoices to the negotiating bank. Buyers had the option of prepaying the issuance draft prior to maturity with interest calculated to the date of actual payment. All banking charges outside the Letter of Credit opening place were to be for account of the seller's agent.</td>
<td>ex Pacific Canadian Coast Ports between 1 August 1963 and 31 January 1964</td>
<td></td>
</tr>
</tbody>
</table>

* Under the second thirty month Chinese-Canadian grain agreement three contracts were facilitated by a Canadian government credit guarantee of 25% cash on the loading of each vessel with the balance (75%) in eighteen months with interest. The maximum amount of credit to be guaranteed at any one time was $100 million.

Source: NAC: RG20: Vol. 819, File 10-33, CWB memorandum to shippers and exporters; 'Re: China', 16 December 1963; and copy of contract signed in Winnipeg between CIRoilFOOD and the CWB, 3 December 1963 (signed by CWB chief commissioner McNamar, CWB commissioner Robertson, and Ding Kejian general manager of CIReco (on behalf of CIRoilFOOD)).
The cease-fire following the Chinese-Indian border war of autumn 1962, the deterioration of Chinese-Soviet relations and continued large sales of grain to China on increasingly generous terms prompted a DEA review of Canadian China policy. US government strategy aimed at stimulating the domestic economy without damaging American economic competitiveness had probably also contributed to this initiative. On 18 July 1963 President Kennedy told the US Congress that apart from the Trade Expansion Act, aimed at resolving US balance of payments problems the US government planned to limit the rapid outflow of capital from the US by placing a 15% tax on equity securities to discourage foreigners from raising capital on the New York market.

In 1962 Canada accounted for 42.3% of American foreign investment and Japan was also a major investor in the New York market but the Canadian and Japanese governments had not been informed of the decision to implement the tax prior to the announcement. The announcement immediately undermined confidence in the Toronto and Tokyo stock markets causing record falls and in July Canada's official reserves fell by almost $100 million. This US policy decision may have had a bearing on the Japanese Cabinet's decision on 22 August to approve a contract under which MITI would guarantee credits of five years in duration to enable a Japanese firm to sell the Chinese a complete vinylon plant, related equipment and technology and technical support. The Cabinet had delayed its decision since April 1963. This was the second Chinese equipment purchase from a non-Communist supplier which was facilitated by government guaranteed long-term credits and was the first Chinese purchase of a complete industrial plant outside the Soviet-bloc. (SEE APPENDIX 2)

Although on 21 July Treasury Secretary Dillon and Charles Ritchie Canadian ambassador to the US announced that President Kennedy could occasionally modify the equalization tax and grant exemptions Ottawa

... (was) unable to secure the extension of an exemption to cover tax on outstanding securities.... (Also) the US Treasury revealed on 23 July that as a quid pro quo for the exemption the Canadians were pledged to take steps, including if necessary the reduction of interest rates, to stop any excessive flow of dollars to Canada.58

Meanwhile when Arnold Smith, the Canadian ambassador in Moscow

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58 Ibid. p.73.
asked Averill Harriman, during the week of 14 to 20 July, if he thought it wise, in terms of long-term Western interests, that the West continue to pursue a policy of isolating China Harriman replied that it was very unwise and that in 1949 he had urged Washington to recognise China diplomatically. However, in light of Chinese economic and political problems since 1960 he opposed Western initiatives which would enhance the Chinese government's prestige. Harriman favoured the development of Soviet-Western relations while the West continued to pressure China.

Smith subsequently told Ottawa that

...by giving greater weight to short-term tactical considerations...(rather) than long-term strategic desiderata...(Harriman) is falling into the same error which has characterized the American Administration in its relations with China throughout the...past 14 years.59

Then on 9 August, in response to questioning by Smith, Senator Fulbright also agreed that US policy aimed at isolating China was unwise and that Canadian China policy "...was more sensible in that...(Canada) traded with China"60 Fulbright added that, although he along with many other officials in Washington viewed attempts to isolate the Chinese as unproductive and harmful in terms of long-term Western strategic interests the Kennedy Administration would not change US China policy because of the "deep(ly) rooted emotional attitude of some sections of the American public."

In August Ottawa was considering how a new Canadian China policy would affect Canadian, Indian, Pakistan and Chinese relations61 and on 24 August during a speech and news conference in Toronto Paul Martin, Canadian Secretary of State for External Affairs, said that any effective disarmament treaty would need to be accepted, in principle, by Beijing. He added:

...we have got to recognize the facts of life, just as we learned in the past two decades the mistake of isolating ourselves from the...(USSR) and the...(USSR) from the free world...(although) anything said in...(this) context did not constitute a change in Canada's attitude towards China.62

Canada was not prepared to recognise the Chinese government diplomatically in order to win Beijing's support for the nuclear test ban treaty, though he hoped that China and France would sign the treaty.

Then on 26 August Martin told Deputy Under-Secretary of State

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U. Alexis Johnson that he was considering a change in Canadian China policy out of concern about Chinese isolation from the world community. Martin and Prime Minister Pearson felt that Canada was uniquely qualified to act as independent mediator "...assert(ing) leadership of the middle powers by undertaking...(to) procure a new draft of a comprehensive disarmament treaty." Washington viewed this proposal as an attempt to "...make a domestic political showing in the field that...(former Canadian Secretary of State for External Affairs Green) appeared to be so active and to take some of the 'curse' off the Pearson administration's recent acquisition of nuclear warheads."

If implemented, the proposal would be an uncoordinated disarmament move that would: damage US-Canadian relations, damage Taiwan's prestige, be regarded by allies as inopportune, and would not affect US policy based on a realistic appraisal of direct contacts with China at Warsaw and Geneva and on Chinese actions in South-East Asia.

On 27 August A.B. Perera, Sri Lanka's ambassador to China until July when he was appointed Minister of Justice, told Canadian embassy officials that before leaving Beijing Chinese officials had told him that the French government would soon recognise the Beijing government.

A Canadian DEA memorandum dated 29 August discussing arguments for and against Canadian diplomatic recognition of China asked whether or not, in light of the advanced stage of the Chinese-Soviet split, there was an opportunity for the West to end China's isolation. One of the best ways to perpetuate the Chinese-Soviet dispute, if this was a desirable goal, would be Chinese representation at the UN and international recognition of the Beijing government. While Washington and Taibei would object to this decision, the memorandum maintained that American opinion on China policy was changing as illustrated by Harriman and Fulbright's remarks to Smith in July and August. South Vietnam, South Korea, the Philippines and Thailand would raise objections as well to such a proposal.

On 30 August, when ambassador Ritchie asked McGeorge Bundy about whether it was sensible to isolate China, Bundy stated that the Chinese government was responsible for its isolation and Beijing could improve relations with the West if it wished.

Washington told Ottawa on 5 September that word of a possible

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63 JFKL: NSF, Box 20, from Ottawa to Secretary of State, 4 September 1963.
64 Ibid.
65 Ibid.
change in Canadian China policy had caused considerable concern in the State Department and if implemented the policy change would damage Canadian-US relations. Basil Robinson, Director BNA, DEA, then explained to the Americans that Martin's initiative arose partly

...out of an approach made by some business interests in Hong Kong to the Canadian...(trade) Commissioner. These interests were obviously anxious to do business with...China...68

Robinson said that he and ambassador Ritchie had warned Ottawa against changes in Canada's China and Cuba policy for the sake of US-Canadian relations and "...was personally rather well convinced that Canada would not rock the boat on this issue."69

During a meeting between Martin and Rusk on 7 September to discuss business of the next UN General Assembly Rusk drew on a State Department briefing paper pertaining to the proposed Canadian initiative. It emphasised that the Chinese-Soviet split had not helped to improve US-Chinese relations because Beijing remained hostile to Washington and Canadian recognition of the Beijing government

...could undermine their challenges to the Soviets should they now become more accommodating toward the U.S....(Beijing is) seeking new issues upon which to base more attacks on the...(US).

Chinese...hostility...(will not) be translated into overt aggression...(soon, but) the security of free Asian nations will continue to depend on the success of our efforts to limit Chinese...expansionism....The military threat to Taiwan is undiminished, and our support in this field will continue. We shall also continue to work to improve the...(Taiwanese government’s) international position as a means of limiting...Chinese...pursuit of their ends by diplomatic means.70

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69 Ibid.
70 JFKL: NSF, Box 20, to Secretary of State from Tyler, 'Briefing Paper for Visit of Canadian External Affairs Minister, Paul Martin, 7 September 1963' and attached 'briefing paper for Visit of Canadian External Affairs Minister Martin'.
In September and October the Soviets purchased large quantities of wheat from Canada and the US. Canada thus became less dependent on the Chinese grain market. These transactions also served to increase grain prices and the Chinese, facing new competition from the Soviets when purchasing grain, became more concerned about securing adequate supplies. On 7 November the Chinese signed another contract with the AWB for an additional one million tonnes of Australian wheat. On 3 December the second contract under the second Chinese-Canadian thirty month agreement was signed covering yet another 500,000 tonnes. (SEE TABLE 8.10)

Meanwhile the Chinese continued to ship grain to their allies. On 17 October 1963, the CWB learned from its agent firm, Agro Co., that 9,144 tonnes of wheat sold to the Chinese under the Chinese-Canadian grain agreement was being diverted to Cuba for hurricane relief. CWB (wheat) sales manager Rowan asked Agro to tell CEROILFOOD that Cuba was not a regular Canadian commercial export market as defined under the Chinese-Canadian grain agreement and thus the CWB "...does not consider...a diversion of grain to...(Cuba) permissible." On 30 October the CWB received a reply from CEROILFOOD stating that humanitarian considerations necessitated the transferral, on 9 October, of 11,620 tonnes of Canadian grain to Cuba. Thus the shipment had taken place nine days before the CWB was informed of the planned diversion by Agro. Not willing to terminate Chinese-Canadian grain sales, CWB chief commissioner McNamara lodged a complaint with a Chinese delegation visiting Winnipeg the following week. He hoped that the deal would not become public knowledge and strain Canada’s relationship with the US. By 23 October Washington became aware of this diversion. However, when Rusk told the Australian government of US concerns about a similar Chinese diversion of Australian wheat to Cuba he explained that the diversion of Canadian grain to Cuba was acceptable because the grain had been sold by the Chinese for "...hard cash, sight draft basis."
TABLE 8.10
Terms of the Second Contract Signed Under
the Second Chinese-Canadian Thirty Month Grain Agreement

<table>
<thead>
<tr>
<th>Date of Contract</th>
<th>Firms/Agencies Involved</th>
<th>Quality</th>
<th>Quantity and % of total Canadian wheat flour imports and total Chinese grain imports in year delivered</th>
<th>Price</th>
<th>Payment</th>
<th>Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 December 1963</td>
<td>CIRECO (on behalf of CEROILFOOD, Beijing) and the CWB</td>
<td>MN92 wheat and/or MN93 wheat and/or MN94 wheat</td>
<td>598,034 tonnes Canada (3%)</td>
<td>MN92 wheat £ 25 13s per long ton</td>
<td><em>Upon declaration of carrying vessel(s) the buyer was to open an irrevocable letter of credit</em></td>
<td>ex Canadian Pacific Coast Ports of Vancouver, New Westminster, Victoria, and Prince Rupert</td>
</tr>
<tr>
<td></td>
<td></td>
<td>MN93 wheat and/or MN94 wheat and/or MN95 wheat</td>
<td>578,034 tonnes</td>
<td>MN93 wheat £ 25 11s per long ton</td>
<td>(without recourse) of the Bank of China (Beijing) in favor of the CWB's agent for 100% of invoice value of each shipment, to be advised through a clustered bank in Vancouver</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>MN95 wheat</td>
<td>Maximum of 25%</td>
<td>MN95 wheat £ 23 11s per long ton</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>wheat and/or MN95 wheat and/or MN96 wheat</td>
<td>Minimum of 20%</td>
<td>basic FOB vessel</td>
<td>10,015 tonnes during February 1964</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>combined (allow a plus or minus) of each cargo's</td>
<td>Balance of the balance of the contract to be in</td>
<td>Canadian Pacific Coast Ports, exclusive of CWB</td>
<td>10,015 tonnes during March 1964</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>minimum in accordance with the specified grades of</td>
<td>75% of the FOB value of each shipment together</td>
<td>and CWB agent's commission</td>
<td>10,015 tonnes during April 1964</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>wheat and/or MN95 wheat</td>
<td>$ 2.00 per ton and trimming and stowing charges and other charges such as bank charges related to the negotiation of documents or interest incurred by the agent in making settlement in sterling with the CWB</td>
<td>which was limited to $ 2.00 per ton and trimming and stowing charges and other charges such as bank charges related to the negotiation of documents or interest incurred by the agent in making settlement in sterling with the CWB</td>
<td>10,015 tonnes during May 1964</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>guaranteed weight, quantity, and condition at port of</td>
<td></td>
<td></td>
<td>10,015 tonnes during June 1964</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>shipment under standard certificate issued by the Board of Grain Commissioners for Canada</td>
<td></td>
<td></td>
<td>To expedite loading, Sellers had the option of loading more than one grade of wheat provided that only one grade of wheat was loaded in each hold</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>The CWB guaranteed weight, quantity, and condition at port of</td>
<td></td>
<td></td>
<td>Buyers to secure vessel space approximating as close as possible to the contract quantity for each shipping period</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>shipment under standard certificate issued by the Board of Grain Commissioners for Canada</td>
<td></td>
<td></td>
<td>Buyers were also to provide Sellers at least 15 days notice of the expected arrival date of each vessel</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>If the Chinese considered the weight and quality of grain at the time of unloading not to conform to the certificates issued the buyers had the right to claim against the CWB for compensation within thirty days after the date of discharge. If after full investigation by both parties the claim was fully justified the CWB agreed to negotiate with the sellers on amicable settlement.</td>
<td></td>
<td></td>
<td>Buyers were also to provide Sellers at least 15 days notice of the expected arrival date of each vessel</td>
<td></td>
</tr>
</tbody>
</table>

*Under the second thirty month China-Canadian grain agreement these contracts were facilitated by a Canadian government credit guarantee of 25% such on the loading of each vessel with the balance (75%) in eighteen months with interest. The maximum amount of credit to be guaranteed at any one time was $100 million.*

Source: NAC; RG29: Vol. 419, file 10-33, CWB memorandum to shippers and exporters; "Re: China", 16 December 1963, and copy of contract signed in Winnipeg between CIRECO and the CWB, 3 December 1963 (signed by CWB chief commissioner McNamara, CWB commissioner Robertson, and Ding Kejiang general manager of CIRECO (on behalf of CEROILFOOD)).

***
Chinese Purchases of Argentinian Grain

Because of the French wheat crop failure in autumn 1962-63 the Chinese had to find another major grain supplier. During the early 1960s the Argentinian government was facing serious balance of payments problems, and the domestic oil and agriculture sectors were the main hope for economic stability. However, there was strong domestic opposition to further development of Argentinian oilfields, while the world grain surplus problem — and the implementation of protectionist policies in the US and EEC — had exacerbated Argentinian agricultural problems.

Owing to the undeveloped state of Argentina’s industrial sector, the farmer had to pay a high price for imported machinery. Argentinian agriculture was unsubsidised and taxed heavily. Owing to domestic farm taxes Argentinian farmers received well below world prices for their produce. Grain and meat accounted for approximately 60% of Argentina’s exports, while total Argentinian agricultural exports accounted for 95% of total exports.74 Argentina’s optimum annual wheat output was approximately 9 million tonnes while annual domestic consumption was usually about 3.8 million tonnes. Between 1952 and 1962 Argentinian wheat stocks fluctuated between 1.02 and 2.03 million tonnes.75

Meanwhile, American surplus disposal programs had cut into traditional Argentinian export markets in Bolivia, Brazil and Peru, while US imports of Argentinian products fell after 1958. EEC agricultural policy restrictions were also a cause of concern for the Argentinians.76 In the late 1950s the Argentine government, and the governments of the other major wheat exporting nations, made representations to Washington about the harmful effect of US import restrictions and PL480.

Between late 1960 and 1963 the Argentinian based firms Bunge, Derera, and Compania Commercio Exterior sold the Chinese relatively small quantities of maize and wheat but negotiations were complicated by the Argentinian government’s lack of enthusiasm about guaranteeing the necessary credits.77 (SEE TABLE 8.11) Then, in October 1963 the Chinese
### TABLE 8.11

**Total Annual Argentinian Grain Sales**

To China: 1960 to 1964

[in tonnes (trade grain weight) and % of total Chinese grain imports]

<table>
<thead>
<tr>
<th>Year</th>
<th>Wheat</th>
<th>Flour</th>
<th>Barley</th>
<th>Maize</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-61</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>29,500 (.5%)</td>
</tr>
<tr>
<td>1961-62</td>
<td>88,200 (2%)</td>
<td>-</td>
<td>-</td>
<td>212,300 (4%)</td>
</tr>
<tr>
<td>1962-63</td>
<td>97,900 (2%)</td>
<td>-</td>
<td>-</td>
<td>169,700 (3%)</td>
</tr>
<tr>
<td>1963-64</td>
<td>988,000 (15%)</td>
<td>-</td>
<td>-</td>
<td>198,600 (3%)</td>
</tr>
</tbody>
</table>


From MacArthur, Tokyo, 15 February 1961; Eckstein, *Communist China's Economic*, p.227
enquired about purchasing wheat from Argentina's bumper crop. Given France's inability to fulfill its obligations under the Franco-Chinese grain agreement, Argentina was presented with an opportunity to replace the French as the third largest exporter of grain to China in 1963-64.

On 23 October the Argentine National Grain Board raised the minimum support price for the 1963-64 crop, a price which had already been increased considerably over the previous year.

Since April 1963 Argentinian prices for 100 kg of bread-making wheat rose by 110 pesos, while prices for the same quantity of wheat rose by 100 pesos. In late 1963 world wheat prices were falling while the value of the peso was increasing. The high domestic support price for Argentinian wheat, introduced on 25 October 1963, combined with these other factors had "...created a substantial gap between the...(FOB) cost of Argentinian wheat and the price which importers were willing to offer." Private grain exporters were unable to operate effectively under these conditions. The Argentine Grain Board was faced with the seemingly impossible task of recovering payments made by the Board to producers by finding a suitable export market. The US government, which was following these developments, estimated that, if the Board could not sell Argentinian grain at the Board's established price, the loss incurred for such expenses as storage could be between 400 to 500 million pesos. In desperation, the Argentinians made further representations to Washington regarding PL480 but seem to have been ready to accept the reality that 1963-64 grain stocks would have to be sold at a loss if at all.

Around 18 December the chairman of the Argentine firm Compania Commercio Exterior signed an agreement with the Chinese in Hong Kong to provide between 1.5 and 2 million tonnes of grain to Beijing in 1963-64. The Chinese promised to pay small premiums over world prices and the chairman of the Argentinian firm was convinced that China represented a lucrative long-term wheat export market. After returning home, he said that he would welcome the opportunity to buy grain from the US for shipment to China. However, after signing three contracts with the Chinese (under the agreement), each covering the sale of 150,000 tonnes of wheat, (SEE TABLE 8.12) Compania Commercio Exterior was unable to secure adequate grain supplies to complete the transactions. In late December 1963 or early 1964 after filing sales declarations with the Argentinian National Grain Board, the Board suddenly withdrew approval to release the 300,000 tonnes (from the uncommitted 700,000 tonnes held in export stocks) required by Compania Commercio Exterior to fulfill its obligations to the Chinese. Compania Commercio Exterior then initiated legal action to obtain the grain from the Board, accusing Louis Dreyfus.

**TABLE 8.12**

Chinese Purchases of Argentinian Grain in 1963-64

[In tonnes (trade grain weight) and % of total Chinese grain imports]

<table>
<thead>
<tr>
<th>Date of Agreement (and initial contracts under the agreement)</th>
<th>Firms and Agencies Involved</th>
<th>Variety and Quantity and % of Total Chinese Grain Imports in Year Delivered</th>
<th>Terms</th>
<th>Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>18 December 1963 (in Hong Kong)</td>
<td>Compania Commercio Exterior</td>
<td>A total of 1.5 million to 2 million tonnes of grain. Composed of a minimum of 500,000 tonnes of wheat with the remaining amount composed of maize and sorghum (22%)</td>
<td>In December three contracts (under the 'umbrella agreement') for the sale of 150,000 tonnes each were negotiated. The Chinese agreed to pay premiums above world prices. European banks extended credits of 180 days to facilitate the sales.</td>
<td>Under the agreement 600,000 tonnes of the grain was scheduled for delivery in early 1964. However, after the first 150,000 shipment was completed the Compania Commercio Exterior was unable to obtain sufficient grain supplies from the Argentine National Grain Board to supply the other 300,000 tonnes to the Chinese.*</td>
</tr>
<tr>
<td>December 1963 and first half of 1964</td>
<td>Argentine National Grain Board</td>
<td>Total Argentinian wheat sales to China in 1963-64 totalled 988,000 tonnes. (15%) Apart from the 150,000 shipped to China by Compania Commercio Exterior in December the rest appears to have been sold directly to the Chinese by the Argentine National Grain Board</td>
<td>n.a.</td>
<td>During 1964</td>
</tr>
</tbody>
</table>

*At this time Compania Commercio Exterior had already filed a sales declaration in order to obtain 300,000 tonnes of the 700,000 tonnes of uncommitted export surplus in the Argentine National Grain Board's grain stocks. While Compania Commercio Exterior executives blamed other private grain trading firms for the situation it is probable that the Chinese reached another deal with the Argentine National Grain Board shortly after the agreement was reached with Compania Commercio Exterior.

and Continental of being responsible for his firm's problems in obtaining
the grain because they filed bogus sales declarations with the Board.79

However, it appears probable that the reason Glassner's firm
was unable to obtain the grain was that the Chinese had made a "very
attractive offer" to purchase grain directly from the Argentine National
Grain Board and made it clear they would accept the Board's first offer.80

In February 1964 negotiations began between the Chinese and
Jorge G. Duchini, President of the Argentine National Grain Board. By the
end of April 1964, 825,000 tonnes of Argentinian grain had been sent to
China on the 1963-64 account and Chinese-Argentinian negotiations
continued. (SEE TABLES 8.11 and 8.12)

***

Mexican Grain Sales to China in 1963-64

On 6 November 1963 Tricerri & Company, a Swiss firm from
Lausanne, signed a contract covering a sale to China of 150,000 tonnes
of Mexican wheat. Tricerri and Company was acting for CONASUPO (the
powerful Mexican government price control agency which answered directly
to the Mexican President) and Andre' and Louis Dreyfus which were
providing the financing for the sale. (SEE TABLE 8.13) On 19 November
representatives from Reinert S.A. told the US embassy in Mexico that they
had been asked by the Tricerri-Andre'-Louis Dreyfus combine to ship the
grain to China. Although Reinert was 51% owned by Mexican interests, de
facto control rested in the hands of the General Steamship Co. of San
Francisco which owned 49% of Reinert. On 22 November 1963 Margret Swartz,
director of FAC, US Treasury Department, told Chester Carre, head officer
Mutual Defense Control, Department of State that although Reinhart was
51% owned by Mexican interests, the fact that US interests held de facto
control of the firm prohibited Reinhart from participating in trade with
China. Swartz also wanted to know if Tricerri's $71,000 performance bond
was in US dollars and which bank issued the bond. She stated that if US
dollar instruments were used to facilitate these purchases the
transaction was prohibited under FAC regulations.81 On 26 November 1963

79 USNA: RG#59, CFPF, S-NF 1963, Box 355, INCO-WHEAT CHICOM XR
STR 12-3 CHICOM-MEX, telegram from Buenos Aires, 19 December 1963.
80 JFKL: James C. Thomson Jr. papers, Box 13, from Buenos Aires,
US Foreign Agricultural Service: 'Argentina Seeks U.S. Assistance in
Displaying of Wheat Surplus', 17 April 1964.
81 USNA: RG#59: CFPF, S-NF 1963, Box 3558, INCO-WHEAT ARG XR STR
12-3 CHICOM to Carre officer in charge, Financial Controls, Mutual
Defense Control, Department of State, from Swartz, director FAC, 22
November 1963.
### TABLE 8.13

**Chinese Purchases of Mexican Wheat in 1963-64**

<table>
<thead>
<tr>
<th>Date of Contract</th>
<th>Firms and Agencies involved</th>
<th>Grain</th>
<th>Quantity and % of Total Chinese Grain Imports in Year Delivered</th>
<th>Price</th>
<th>Terms</th>
<th>Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>6 November 1963</td>
<td>Tricerri*, André-Louis Dreyfus combine on behalf of CONASUPO**</td>
<td>wheat</td>
<td>150,000 (2%)</td>
<td>US$61 per tonne</td>
<td>financing reportedly completed in US dollar instruments by André and Louis Dreyfus</td>
<td>ex West Coast Mexican ports between November 1963 and March 1964</td>
</tr>
<tr>
<td>December 1963***</td>
<td>Northern Sales Limited acting as vehicle rather than assignee for Tricerri who was 'selling' the grain for CONASUPO</td>
<td>wheat</td>
<td>60,000 (.9%)</td>
<td>n.a.</td>
<td>n.a.</td>
<td>The contract was not completed because in May 1964 CONASUPO insisted that Tricerri pay its debts to the Mexican government on the previous contract before loading the grain for shipment. However, the Chinese may have negotiated a deal directly with CONASUPO for the grain</td>
</tr>
<tr>
<td>Other contracts 1963-64</td>
<td>CONASUPO?</td>
<td>wheat</td>
<td>In addition to the 6 November contracts at least another 300,000 tonnes. Bringing total Chinese-Mexican wheat sales in 1963/1964 to 450,000 tonnes (7%)</td>
<td>n.a</td>
<td>during 1964</td>
<td></td>
</tr>
</tbody>
</table>

---

*Tricerri was a Swiss trading firm based in Lausanne*

**CONASUPO - the powerful Mexican Price Control Agency which answered directly to the Mexican President.***

***This transaction ran into difficulties in May 1964 see: 'Delivery' and text. The transaction may have been completed by CONASUPO or other private traders.

this decision was sent from Washington to the US embassy in Mexico City.\textsuperscript{82}

In December Tricerri and the Chinese signed another contract for the sale of Mexican wheat. This time Tricerri used Northern Sales Ltd., a firm of good standing in international trade, as a vehicle of payment so it would appear that the Canadian firm was the assignee. In May 1964 the transaction ran into difficulties because the owner of Tricerri was indebted to CONASUPO for previous contracts. The Mexican government therefore refused to load the Chinese chartered vessel, which was waiting to load the grain for China, until it received payment from Tricerri. With demurrage charges accumulating at $1000 per day, Northern Sales was alarmed that it would be sued for breach of contract and on 9 May company president Charles Swartz asked the Canadian government to ask the Mexican government to release the wheat for loading.\textsuperscript{83} After investigating, Canadian embassy officials in Mexico City felt that Northern Sales rather than CONASUPO had a case against Tricerri although they also concluded that

\ldotswe\ldotsbelieve (a Mexican) wheat shortage may be the reason for this wrangling over the contract, although this was emphatically denied by CONASUPO. If wheat is available it seems unreasonable to refuse nomination of the vessel by Tricerri which CONASUPO did last week.\textsuperscript{84}

However, CONASUPO did have the wheat, as grain trade statistics indicate that during 1963-64 the Chinese purchased 450,000 tonnes of Mexican wheat, the only Chinese purchases of Mexican grain between 1960 and 1964.\textsuperscript{85} The possibility that the Chinese may have made it more lucrative for CONASUPO to sell them the grain directly should be considered. This is because at that time the Chinese may have caused a similar problem for private Argentinian traders when they began buying directly from the Argentine Grain Board. On 16 May W.M. Swartz, the brother of Northern Sales' president arrived in Mexico City for talks with CONASUPO officials. However, although both sides continued discussions regarding compensation for the Canadian firm, on 21 May the Chinese were asked to withdraw the vessel.\textsuperscript{86} Meanwhile, as the Chinese continued to purchase large amounts of Western grain, domestic harvests were gradually improving. After early 1963 Beijing was able to spend increasing amounts of foreign exchange on imports of chemical fertiliser, complete chemical

\textsuperscript{82} USNA: RG#59, CFPF, S-NF 1963, Box 3558, INCO-WHEAT MEX XR STR 12-3 CHICOM-MEX, to American embassy Mexico City, from Treasury and Rusk, 26 November 1963.

\textsuperscript{83} NAC: RG#20: Vol. 819, File 10-33, to Deputy Minister DTC, from DTC, Ottawa, 11 May 1964.

\textsuperscript{84} Ibid.


\textsuperscript{86} NAC: RG#20: Vol.819, File 10-33, from Clark DTC, Washington, to DTC, Ottawa, 22 May 1964.
fertiliser production installations, as well as related technology and technical instruction.

***
### TABLE A8.1

**Total Annual Chinese Cereal Imports: 1960 to 1964 -
According to China Resources Company (CIRECO) Statistics**

[In tonnes (trade grain weight)]

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Cereal Imports</th>
<th>Total Wheat Imports</th>
<th>Total Rice Imports</th>
<th>Total Maize Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>67,364</td>
<td>38,406</td>
<td>28,043</td>
<td>-</td>
</tr>
<tr>
<td>1961</td>
<td>5,902,928</td>
<td>3,943,990</td>
<td>368,825</td>
<td>87,583</td>
</tr>
<tr>
<td>1962</td>
<td>5,001,999</td>
<td>3,592,336</td>
<td>176,894</td>
<td>504,264</td>
</tr>
<tr>
<td>1963</td>
<td>6,047,512</td>
<td>5,677,366</td>
<td>101,808</td>
<td>221,092</td>
</tr>
<tr>
<td>1964</td>
<td>6,675,530</td>
<td>5,454,851</td>
<td>161,653</td>
<td>286,017</td>
</tr>
</tbody>
</table>

**Source:** CIRECO, *1984 Almanac of China's Foreign Economic Relations and Trade*, p.944.
TABLE A8.2
Total Annual Chinese Cereal Imports: 1957 to 1964 -
According to the Chinese Government’s State Statistical Bureau
[in tonnes (trade grain weight)]

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Wheat*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>66,000</td>
<td>38,700</td>
</tr>
<tr>
<td>1961</td>
<td>5,809,700</td>
<td>3,881,700</td>
</tr>
<tr>
<td>1962</td>
<td>4,923,000</td>
<td>3,535,600</td>
</tr>
<tr>
<td>1963</td>
<td>5,952,000</td>
<td>5,587,700</td>
</tr>
<tr>
<td>1964</td>
<td>6,570,100</td>
<td>5,368,700</td>
</tr>
</tbody>
</table>

*No further breakdown by variety of grain provided.

TABLE A8.3

Annual Chinese Cereal* Imports According to Western Trade Statistics: 1960 to 1964
[in tonnes (grain: trade grain weight flour: milled weight)]

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Cereals</th>
<th>Wheat</th>
<th>Wheat Flour</th>
<th>Barley</th>
<th>Oats</th>
<th>Maize</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-61</td>
<td>2,655,800</td>
<td>1,893,800</td>
<td>72,600</td>
<td>594,600</td>
<td>65,300</td>
<td>29,500</td>
</tr>
<tr>
<td>1961-62</td>
<td>5,796,300</td>
<td>4,126,500</td>
<td>469,100</td>
<td>929,000</td>
<td>47,400</td>
<td>224,300</td>
</tr>
<tr>
<td>1962-63</td>
<td>5,458,100</td>
<td>4,828,200</td>
<td>119,800</td>
<td>47,200</td>
<td>26,900</td>
<td>412,500</td>
</tr>
<tr>
<td>1963-64</td>
<td>5,998,100</td>
<td>5,173,100</td>
<td>34,600</td>
<td>449,200</td>
<td>127,600</td>
<td>199,300</td>
</tr>
</tbody>
</table>

* Includes Wheat Flour.

TABLE A8.4
Chinese Grain Purchases From Western Sources:
1960-61 to 1963-64*
[in tonnes (grain: trade grain weight, flour: milled weight)]

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>780,000</td>
<td>1,967,700</td>
<td>1,677,700</td>
<td>1,004,800</td>
</tr>
<tr>
<td>Australia</td>
<td>1,113,000</td>
<td>1,953,000</td>
<td>2,058,600</td>
<td>2,545,100</td>
</tr>
<tr>
<td>Argentina</td>
<td>-</td>
<td>88,200</td>
<td>97,800</td>
<td>988,000</td>
</tr>
<tr>
<td>France</td>
<td>-</td>
<td>177,600</td>
<td>994,000</td>
<td>187,200</td>
</tr>
<tr>
<td>Mexico</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>450,000</td>
</tr>
<tr>
<td>Total</td>
<td>1,893,800</td>
<td>4,126,300</td>
<td>4,828,200</td>
<td>5,173,100</td>
</tr>
<tr>
<td>Wheat Flour**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>61,200</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>West Germany</td>
<td>10,300</td>
<td>387,200</td>
<td>119,800</td>
<td>-</td>
</tr>
<tr>
<td>France</td>
<td>-</td>
<td>81,800</td>
<td>-</td>
<td>34,600</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>200</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Japan</td>
<td>-</td>
<td>100</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>76,600</td>
<td>491,100</td>
<td>119,800</td>
<td>34,600</td>
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<tr>
<td>Barley</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Argentina</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Canada</td>
<td>303,100</td>
<td>304,000</td>
<td>23,600</td>
<td>277,100</td>
</tr>
<tr>
<td>Australia</td>
<td>208,700</td>
<td>137,600</td>
<td>-</td>
<td>11,700</td>
</tr>
<tr>
<td>France</td>
<td>26,800</td>
<td>287,600</td>
<td>-</td>
<td>127,600</td>
</tr>
<tr>
<td>Iraq</td>
<td>-</td>
<td>-</td>
<td>9,900</td>
<td>-</td>
</tr>
<tr>
<td>Syria</td>
<td>-</td>
<td>-</td>
<td>13,700</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>544,600</td>
<td>929,600</td>
<td>34,200</td>
<td>409,200</td>
</tr>
<tr>
<td>Oats</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Argentina</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>27,500</td>
</tr>
<tr>
<td>Australia</td>
<td>65,300</td>
<td>26,900</td>
<td>100,000</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>65,300</td>
<td>26,900</td>
<td>127,600</td>
<td>-</td>
</tr>
</tbody>
</table>
### Grain Exports

<table>
<thead>
<tr>
<th></th>
<th>1962-63</th>
<th>1963-64</th>
<th>1964-65</th>
<th>1965-66</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Maize</strong></td>
<td>29,500</td>
<td>-</td>
<td>169,700</td>
<td>198,600</td>
</tr>
<tr>
<td>Argentina</td>
<td>47,400</td>
<td>36,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Federation of Rhodesia and Nyasaland</td>
<td>-</td>
<td>53,500</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>France</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>700</td>
</tr>
<tr>
<td>South Africa</td>
<td>-</td>
<td>153,300</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>29,500</td>
<td>224,300</td>
<td>412,500</td>
<td>199,300</td>
</tr>
</tbody>
</table>

**All Grains***

<table>
<thead>
<tr>
<th></th>
<th>1962-63</th>
<th>1963-64</th>
<th>1964-65</th>
<th>1965-66</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>1,139,900</td>
<td>2,471,700</td>
<td>1,701,300</td>
<td>1,276,600</td>
</tr>
<tr>
<td>Australia</td>
<td>1,449,100</td>
<td>2,131,800</td>
<td>2,085,500</td>
<td>2,661,900</td>
</tr>
<tr>
<td>Argentina</td>
<td>29,500</td>
<td>300,500</td>
<td>291,100</td>
<td>1,259,500</td>
</tr>
<tr>
<td>France</td>
<td>26,800</td>
<td>487,000</td>
<td>944,000</td>
<td>350,100</td>
</tr>
<tr>
<td>West Germany</td>
<td>10,300</td>
<td>287,200</td>
<td>119,400</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>200</td>
<td>12,100</td>
<td>266,400</td>
<td>450,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,655,800</td>
<td>5,965,300</td>
<td>5,458,100</td>
<td>5,998,100</td>
</tr>
</tbody>
</table>

---

* Table states quantities covering the July to June period each year.

** In wheat equivalent

*** Including sorghum and millet in 1962-63 and 1963-64

CHAPTER 9

Chinese Imports of Japanese and West European Chemical Fertiliser and Fertiliser Production Equipment: 1961-1963
China and the World Fertiliser Market

While imports of Western grain were vital in solving China's economic problems it was also necessary for the Chinese to take direct action to increase domestic agricultural output over the long-term by increasing imports of chemical fertiliser and chemical fertiliser production equipment, related technology and technical instruction. Chinese chemical fertiliser production had not kept pace with agricultural needs of a rapidly growing population. By importing this technology the Chinese hoped to increase domestic fertiliser production and thus in the long run reduce Chinese chemical fertiliser import requirements. Unable to obtain these items from either the USSR, other communist nations, or the US the Chinese were forced to turn to Western Europe and Japan instead. This ushered in a new phase of Chinese trade diplomacy with these countries and set the stage for greatly increased competition between suppliers in the Chinese market.

Intensified Chinese efforts to increase fertiliser imports began in December 1961 following on the heels of the Lushan working conference (of August and September) considered to be the turning point in terms of China's recovery from the economic crisis. Then, in early 1963 - after the CCP decision the previous September to pursue economic relations with the West and Japan in the interest of China's industrial development - the Chinese began negotiating with firms from these countries for equipment, related technology and technical aid.

World chemical fertiliser production expanded drastically during the 1950s and 1960s. As Western chemical fertiliser-producing firms faced the problem of excess capacity, developing nations in Asia, Africa and the Middle East required additional quantities to raise agricultural yields as a strong base for rapid industrialisation.

Overcapacity in the 'Western' chemical fertiliser industry was the most significant factor in decreasing fertiliser prices and Western demand had not kept pace with production. While LDCs had difficulty paying for imported chemical fertiliser, Western exporting firms were interested in expanding exports through unorthodox methods. Fertiliser-deficient countries in Asia which imported fertiliser through state-trading organisations were in a position to drive down prices. These large autonomous organisations with their vast buying power promoted competition among suppliers, driving down prices on world markets and winning political and/or economic concessions.
Renewed Chinese Interest in Importing Japanese Fertiliser

Until the Chinese could afford badly needed Western chemical fertiliser production equipment, China was forced to rely on existing Soviet equipment imported during the 1950s, and large imports of chemical fertiliser. These imports had increased from 117,963 tonnes in 1950 to nearly 2 million tonnes in 1958. (See Table 9.1) Independent West European chemical fertiliser firms provided about 66% of Chinese total fertiliser imports in 1955. (See Table 9.2)

With the termination of Chinese-Japanese trade between 1958 and 1960, following the Nagasaki flag incident, over 98% of Chinese fertiliser imports came from West European firms. Prior to 1958, Japan provided between 22% and 31% of Beijing's chemical fertiliser imports.1 (See Tables 9.2 and 9.3) In 1959 and 1960 the Japanese sold virtually no fertiliser to China, which was a serious setback for Japanese chemical fertiliser producers.

Since Japanese firms were closer to China than their Western European counterparts, they paid less to transport fertiliser to the mainland. Although their production plants were initially smaller, less efficient and more fragmented, by the early 1960s they were becoming more competitive with larger plants which maximised lower domestic nitrogen production costs.2

Chemical fertilisers were Japan's most lucrative chemical export, yet by 1960 competition in export markets was intense. Japan was the largest producer of urea fertiliser in the world, but despite a slowdown in domestic fertiliser purchases Japanese chemical fertiliser producers had increased production. As a result, they needed to reduce export prices in an effort to reduce stocks. Because of a governmental ceiling on domestic fertiliser prices, the Japanese producer was unable to recover losses on foreign exports through domestic sales.3

The Japanese Ammonium Sulphate Export Association (JASEA), the powerful Japanese cartel representing domestic firms4, faced another serious difficulty. In 1960 the US government began talking about eliminating its purchases of Japanese fertiliser under the International Co-operation Administration (ICA).

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TABLE 9.1
Total Annual Chinese Foreign Imports
of Chemical Fertiliser: 1950-1963 (in tonnes)

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports of Chemical Fertiliser</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>117,963</td>
</tr>
<tr>
<td>1951</td>
<td>198,739</td>
</tr>
<tr>
<td>1952</td>
<td>215,097</td>
</tr>
<tr>
<td>1953</td>
<td>365,777</td>
</tr>
<tr>
<td>1954</td>
<td>658,906</td>
</tr>
<tr>
<td>1955</td>
<td>830,110</td>
</tr>
<tr>
<td>1956</td>
<td>1,357,845</td>
</tr>
<tr>
<td>1957</td>
<td>1,236,021</td>
</tr>
<tr>
<td>1958</td>
<td>1,998,463</td>
</tr>
<tr>
<td>1959</td>
<td>1,541,242</td>
</tr>
<tr>
<td>1960</td>
<td>1,270,770</td>
</tr>
<tr>
<td>1961</td>
<td>1,131,135</td>
</tr>
<tr>
<td>1962</td>
<td>1,259,969</td>
</tr>
<tr>
<td>1963</td>
<td>2,573,342</td>
</tr>
</tbody>
</table>

### TABLE 9.2

**Chinese Fertilizer Imports from OECD* Countries and Japan: 1953-1963**  
(in thousand tonnes and $US million)

<table>
<thead>
<tr>
<th>Year</th>
<th>OECD Imports</th>
<th>OECD %</th>
<th>OECD Value</th>
<th>OECD %</th>
<th>Japan Imports</th>
<th>Japan %</th>
<th>Japan Value</th>
<th>Japan %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953</td>
<td>92</td>
<td>72</td>
<td>$4.5</td>
<td>78</td>
<td>30</td>
<td>23</td>
<td>$1.1</td>
<td>19</td>
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<tr>
<td>1954</td>
<td>24</td>
<td>18</td>
<td>$1.1</td>
<td>17</td>
<td>108</td>
<td>82</td>
<td>$5.3</td>
<td>83</td>
</tr>
<tr>
<td>1955</td>
<td>361</td>
<td>66</td>
<td>$19</td>
<td>66</td>
<td>171</td>
<td>31</td>
<td>$8.9</td>
<td>31</td>
</tr>
<tr>
<td>1956</td>
<td>642</td>
<td>66</td>
<td>$32.7</td>
<td>69</td>
<td>318</td>
<td>33</td>
<td>$14.1</td>
<td>30</td>
</tr>
<tr>
<td>1957</td>
<td>742</td>
<td>74</td>
<td>$37.9</td>
<td>73</td>
<td>246</td>
<td>25</td>
<td>$14</td>
<td>27</td>
</tr>
<tr>
<td>1958</td>
<td>1077</td>
<td>77</td>
<td>$45.5</td>
<td>72</td>
<td>313</td>
<td>22</td>
<td>$16.8</td>
<td>26</td>
</tr>
<tr>
<td>1959</td>
<td>1068</td>
<td>99</td>
<td>$41.1</td>
<td>98</td>
<td>-</td>
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<td>1960</td>
<td>851</td>
<td>98</td>
<td>$29</td>
<td>97</td>
<td>2</td>
<td>0</td>
<td>$.1</td>
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</tr>
<tr>
<td>1961</td>
<td>839</td>
<td>95</td>
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<td>5</td>
<td>$1.7</td>
<td>6</td>
</tr>
<tr>
<td>1962</td>
<td>892</td>
<td>90</td>
<td>$26.2</td>
<td>79</td>
<td>99</td>
<td>10</td>
<td>$7.1</td>
<td>21</td>
</tr>
<tr>
<td>1963</td>
<td>1290</td>
<td>72</td>
<td>$36.8</td>
<td>58</td>
<td>499</td>
<td>28</td>
<td>$26.5</td>
<td>42</td>
</tr>
</tbody>
</table>

* OECD countries include: Belgium-Luxemburg, Canada, France, West Germany, Italy, Netherlands, Norway, Portugal, Sweden, UK


Liu's Source: for Japanese exports: *Nihon boeki nenpyo* (Japanese Trade Yearbook) - Okurasho (Ministry of Finance) (before 1961 this publication was called *Nihon gaikoku boeki nenpyo* (annual Return of the Foreign Trade of Japan - by the Ministry of Finance; for OECD statistics see: (up to 1958) from OEEC Statistical Bulletins: Foreign Trade Series IV; After 1958 OECD, Statistical Bulletins: Foreign Trade Service C).
### TABLE 9.3

**Chinese Fertiliser Imports from Japan: 1952-1963**

*(in thousand tonnes)*

<table>
<thead>
<tr>
<th>Year</th>
<th>Ammonia Sulfate (20.5% N)</th>
<th>Ammonia Chloride (25% N)</th>
<th>Urea (45% N)</th>
<th>Other Nitrogen (20% N)</th>
<th>Total*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>1953</td>
<td></td>
<td></td>
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<td>29.8</td>
</tr>
<tr>
<td>1954</td>
<td>42.5</td>
<td>1.5</td>
<td></td>
<td></td>
<td>107.9</td>
</tr>
<tr>
<td>1955</td>
<td>41.2</td>
<td>8.2</td>
<td></td>
<td></td>
<td>171.3</td>
</tr>
<tr>
<td>1956</td>
<td>77.5</td>
<td>4.5</td>
<td>10</td>
<td></td>
<td>317.8</td>
</tr>
<tr>
<td>1957</td>
<td>35.2</td>
<td>16.2</td>
<td>52.1</td>
<td></td>
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<td>1958</td>
<td>203.2</td>
<td>23.5</td>
<td>43.7</td>
<td></td>
<td>313.1</td>
</tr>
<tr>
<td>1959</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>1960</td>
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<td>42.2</td>
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<td>42.2</td>
</tr>
<tr>
<td>1962</td>
<td>5.4</td>
<td>84.1</td>
<td>9.4</td>
<td></td>
<td>98.9</td>
</tr>
<tr>
<td>1963</td>
<td>2.8</td>
<td>247</td>
<td>243</td>
<td>6.3</td>
<td>499.1</td>
</tr>
</tbody>
</table>

* Includes phosphate and composite fertiliser

**Source:** Liu Jung-chao, *China’s Fertilizer Economy*, pp. 66-67.

* Liu’s Source: *Nihon gaikoku boeki nenpyo* (Annual Report of the Foreign Trade of Japan) - in 1961 the name changed to *Nihon boeki nenpyo* (Trade of Japan), Okura-sho (Ministry of Finance); *Hiryonekan* (Fertiliser Yearbook), *Nihon hiryo kyokai* (Japanese Fertilizer Association), Tokyo.
The ICA, formed on 30 June 1955, had taken over the role of Foreign Operations Administration in handling American foreign technical and financial aid programmes. After 1958 40% of Japanese chemical fertiliser exports had been financed by ICA and reexported, mainly to South Korea. (Apart from the ICA, Taiwan and South Korea were the major importers of Japanese fertilisers.) Owing to increasing balance of payments concerns, and to protests from US Congress and American fertiliser producers, Washington planned to terminate Japanese ICA fertiliser purchases beginning in November 1961.

In the summer of 1960, at the time when Washington announced plans to terminate large purchases of Japanese chemical fertiliser under ICA, Beijing began to make friendly overtures to Tokyo for the first time since early 1958.

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Background of Chinese-Japanese Economic Relations

While the Japanese Liberal Democratic Party (LDP) (in power since WWII) leaned towards the US, economic circumstances had resulted in Party members becoming increasingly divided over the issue of trade with China. The Japanese Socialist Party and growing numbers of Japanese people favoured trade with China. In late August 1960 Zhou Enlai met with Japan-China Trade Promotion Association (JCTPA) director Kazuo Suzuki and Japanese Socialist Party (JSP) officials in Beijing. Zhou told Suzuki that Beijing was reconsidering its embargo on trade with Japan, but political and trade issues were inseparable. Although the Chinese wanted to trade with Japan, they could do so only if a government to government agreement was reached - an impossibility because the Japanese did not recognise Beijing diplomatically. However, Zhou said that trade could still develop through private contacts or by special consideration, through 'friendly firms' recommended by CCPIT and what he referred to as 'progressive organisations' - the JCTPA, Japan International Trade Promotion Association (JITPA), Japan-China Friendship Society (JCFS), and the Japan Peace Council (JPC).

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5 Established by businessmen JCTPA was considered, by US officials, to be a 'left wing' organisation. During the 1950s its name was changed to China-Japan Trade Association, but after the termination in trade between the two countries in 1958 was renamed JCTPA.

6 Formed on 22 September 1954 by political officials it promoted Chinese-Japanese personnel and economic interchange. Between 1958 and 1960 JITPA played an active role in promoting the resumption of trade between the two nations.
On returning to Japan in autumn 1960, Suzuki began to accept applications from firms recommended by the 'progressive organisations' and other firms interested in trading with China. The initial 'friendly firm' contract was signed by the Chinese and Mitsumi, a 'dummy firm' of Sumitomo Shoji, on 17 November 1960. 'Friendly firms' were soon to include major Japanese banks, one major trading firm, and a score of Japanese 'dummy firms' - 'fronts' for bonafide major Japanese firms seeking to hide their involvement in Sino-Japanese trade. At first, only firms adhering to Zhou's three principles were recommended for 'friendly firm trade', but soon Beijing agreed to trade with Japanese interests that were not hostile toward China. Japanese companies that traded frequently with Taiwanese interests generally were not considered 'friendly firms'. The participating firms were mostly small trading interests - some of which were Chinese-owned. Others included the major trading firm Nichimen Jitsugyo; Mitsui Bussan's dummy firms - Mitsubishi Shoji and C. Itoh. and Co., ten major banks including the Bank of Tokyo, five shipping lines and several dummy firms for major shipping lines, three insurance firms, two inspection companies, and six co-operatives.

But although the Japanese population generally appeared to favour increased trade with China many Japanese businessmen tended to be cautious, having suffered serious losses after Beijing's 1958 decision to cut off trade with Japan. They recognised the need for an official Chinese-Japanese trade agreement if the volume of trade between the two countries was to increase significantly. Representatives of the Japanese chemical fertiliser, rayon yarn, shipping, shipbuilding and agricultural/agricultural chemical industries seemed especially interested in the Chinese market. Many of these businessmen considered China, not Taiwan, the market of the future.

In the autumn of 1960 Beijing wanted to purchase Japanese fertiliser, but the Japanese considered the price offered unreasonably low. On 14 December a Japanese delegation arrived in Beijing to discuss potential trade opportunities. The Chinese, already negotiating with the AWB for large grain purchases, enquired about purchasing small Japanese tractors and offered a higher price for Japanese fertiliser - an offer the Japanese still considered too low. Delegation leader, left wing Japanese Socialist Party (JSP) Diet member Shichiro Matsumoto also met with Mao Zedong who emphasised that Beijing hoped to purchase Japanese tractors, chemical fertiliser and steel in exchange for Chinese soybean.

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salt and coal.  

In January 1961, when another Japanese trade delegation arrived in Beijing, the Chinese suggested that the next group of Japanese officials visiting China should include a banker. Tokyo felt that this suggestion reflected Beijing's interest in laying a firm financial foundation for an increased volume of Chinese-Japanese trade. The Chinese also stated that they hoped to be granted an open account system, which the Japanese immediately refused on the grounds that it was an antiquated procedure. During the negotiations the Chinese again made a somewhat higher offer for Japanese chemical fertiliser, but still too low to be acceptable.

Shortly thereafter, the Bank of Tokyo head office told officials of its Hong Kong branch to ask American consulate officials in the colony for Washington's position on a possible Chinese-Japanese trade agreement. Under such an agreement it was expected that the Bank of Tokyo in Hong Kong would deal directly with the Hong Kong branch of the Bank of China. On 11 January 1961 Tatsunosuke Takasaki, who had been former Japanese Trade Minister in 1958-59 and was now a Diet member and one of the more influential economic specialists within the LDP government as well as chairman of Toyo Seikan Kaisha Ltd., travelled to Washington. While there Takasaki probably discussed Tokyo's rationale for having started reevaluating its position on trade with China. Tokyo had agreed to change regulations demanding that all Chinese-Japanese trade be on a barter basis. Washington was probably concerned because the Japanese Ministry of International Trade and Industry (MITI) had recently agreed to accept payment in sterling for Japanese exports to China. Also, for the first time since 1958, Japanese cargo vessels were making direct runs between Kobe and Tianjin.

In early to mid-February 1961 JSP member Shichiro Matsumoto and JSP members Hisao Kuroda, Haruo Okada and Toshio Tanaka travelled to Beijing for trade talks with Mao, Zhou and Liao Chengzhi, the Chinese government's top Japan specialist. While Zhou told the guests that the Ikeda government was not held in any higher esteem than the former Kishi

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administration, he said that Beijing would welcome any Japanese representatives who "bear goodwill toward China". Mao stated that Beijing hoped to acquire Japanese steel in exchange for salt, soybeans and coal while encouraging the JSP to "...exploit the Parliamentary system through the development of mass movements." Both Mao and Zhou emphasised that, although a governmental trade agreement between the two countries was probably impossible at present, private trade should be expanded.

Liao also told Matsumoto that the Chinese hoped to obtain Japanese steel and fertiliser, stressing that a large increase in the volume of trade would require a Chinese-Japanese governmental agreement - preferably one involving deferred payments. However, Liao acknowledged that he was fully aware of the difficulties in reaching such an agreement - mainly because Beijing had limited quantities of agricultural products available for export. The Japanese also remembered that, when they faced coal shortages in 1957, the Chinese had raised their export prices, forcing the Japanese to increase coal imports from alternate suppliers such as West Virginia, USA.

On returning to Japan, Matsumoto gave an optimistic account of discussions with the Chinese and prospects for private trade with China. However, when Kuroda, Okada and Tanaka returned home on 12 February they portrayed their hosts as inflexible regarding various political concessions which Beijing sought before improved relations began. Kuroda maintained that the Chinese "have not wavered in their belief that politics and economics are indivisible and quoted... (Chinese) leaders as saying that they have no illusion that Ikeda is better than Kishi."

During February the Japanese government announced plans to revitalise Japan-China Export Import Association (JCEIA). Prior to the suspension of Chinese-Japanese trade in May 1958, JCEIA played a central role in trade relations between the two countries. MITI continued to provide an annual subsidy to JCEIA of approximately 60 million Yen. However, JCEIA had seen its membership fall from 400 to 240 and staff reduced from sixty to twelve between 1957 and 1961, thus becoming insignificant compared to the 'left wing' pro-China trade groups such as JITPA and JCTPA. MITI Minister Etsusaburo Shiina and Takeo Fuskuda, LDP policy board chairman, had both recently stated that Tokyo intended to restore JCEIA's position as the prime representative of Japanese business

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13 USNA: RG#59: CPFF, CDF 1960-1963, Box 1038, 493.94/2-1061, to Secretary of State, from American embassy, Tokyo, 10 February 1961; USNA: RG#59: CPFF, CDF 1960-1963, Box 2885, 893.49/2-1561 HBS, to Secretary of State, from American embassy, Tokyo, 15 February 1961.

14 USNA: RG#59: CPFF, CDF 1960-1963, Box 2885, 893.49/2-1561 HBS, to Secretary of State, from ambassador MacArthur, Tokyo, 15 February 1961.

Also in February 1961 Prime Minister Ikeda asked MITI to prepare tentative plans for a Japanese trade fair in Shanghai. Japanese trading firms and manufacturers were seeking to use industry-wide associations to strengthen Japan's negotiating position with Beijing. This would eliminate the need for 'friendly firms' which tended to favour the Chinese government. US ambassador MacArthur concluded that Ikeda hoped...

to convince the public that the (Japanese) Government is not blindly subservient to...(US) policies in the Far East...(and to demonstrate that Tokyo's policies arise) directly from a Japanese assessment of where Japan's interests lie....

On 15 May 1961 first secretary Mikanagi of the Japanese embassy in London asked a senior Australian DEA official about the type of credits the AWB extended to Beijing in May. Mikanagi was especially interested in obtaining Canberra's views on Beijing's ability to meet credit payments, explaining that...

...it was important to Japan to consider what sort of resources...(Beijing) had to fall back on...(to cover credit wheat purchase) commitments....Difficulty...in meeting such commitments...would indicate that...(the Chinese) may not have the required resources for much increase in trade with Japan....

***


In early summer 1961 the Japanese continued to make representations to the US regarding Washington's reduced chemical fertiliser procurement policy due to go into effect in November 1961. On 26 June 1961, JASEA chairman Masao Anzai told Peyton Kerr, US Deputy Assistant Secretary of State for Economic Affairs,

...that the dollar defense measures are causing a grave effect to...(Japan's) ammonia industry....Japanese fertilizers have been well acquainted among the consumers of those countries which are receiving...dollar aid and the geographical position of Japan enables delivery of the goods at the desired time. I sincerely wish you would take the above into account and...give...special treatment to relax the dollar defense measure from the viewpoint of Japan-American economic co-operation.19

However, on 5 October Washington decided to terminate non-US participation in the $17 million 1962 AID chemical fertiliser tender scheduled for 15 November 1961.20 Undeterred by this announcement, the Japanese made further representations to the Americans during the first meeting of the Joint US-Japan Committee on Trade and Economic Affairs at Hakone between 2 and 4 November 1961. The purpose of this high level conference was to exchange information and views to assist Chinese-American trade and economic collaboration as well as eliminate conflict in their respective policies. Edwin Reischauer, who had replaced MacArthur as American ambassador in mid-1961, was increasingly critical of US policy towards Japan, especially with respect to trade.21

Washington eventually caved in to Japanese pressure and announced that an open worldwide chemical fertiliser tender under AID would be held after all on 15 November. This decision provoked an immediate and angry response from American chemical fertiliser producers and the US Congress. As a result, on the morning of 15 November, shortly before the tender was to be held, Washington again decided that only US firms were eligible to compete in the 1962 tender.22 American indecisiveness regarding the AID fertiliser tender prompted Masao Anzai to tell ambassador Reischauer on 4 December 1961 that the US government's handling of the AID fertiliser issue had

19 USNA: RG#59: CFPF, CDF 1960-1963, Box 2900, 894.3972/6-2661, to Kerr Deputy Assistant Secretary of State For Economic Affairs, from Anzai chairman of the Japanese Ammonium Sulphate Industry Association, 26 June 1961.

20 USNA: RG#59: CFPF, CDF 1960-1963, Box 290, 894.3972/6-2661, from JASEA, to ambassador Reischauer, Tokyo, 4 December 1961.

21 JFKL: NSF: countries, Box 123, to Secretary of State, from Hakone, 4 November 1961.

...caused great confusion among the Japanese fertilizer industry....

This US action is not conducive to the spirit of American-Japanese friendship and co-operation, material and moral, that was confirmed at the recent session of the... (US-Japan) Joint Committee....

Meanwhile, since early 1961, Beijing, in considering ways to obtain extra currency to purchase chemical fertilizer, began issuing fertilizer bonds

...interest bearing shares sold by overseas branches of the Bank of China for the purpose of contributing to the Chinese agricultural effort. Subscribers...(paid) in foreign currency and... (were) credited in China with... (Yuan).

By October 1961, overseas Chinese who hoped to help their relatives living in China obtain exit permits were being told by the Chinese government to remit funds to I Chiang Hong Company in Hong Kong - a firm established to handle donations enabling Beijing to purchase more fertilizer.

In early December 1961 the Chinese made a fresh offer to purchase Japanese fertilizer - one which JASEA considered much more reasonable than earlier offers. On 14 December, a Japanese chemical fertilizer delegation was sent to Beijing. Tabei responded by threatening to cancel their annual imports of 304,814 to 355,616 tonnes of Japanese ammonium sulphate fertilizer if the volume of Japanese trade with China continued to grow. Tokyo then sent a representative to Taibei to discuss the situation.

The Japanese, desperate to increase fertilizer exports, around this time reduced export prices so Indonesia could purchase 101,605 tonnes of urea and 25,401 tonnes of ammonium sulphate. But since the oversupply problem still confronted JASEA, the Chinese market was becoming increasingly attractive to Japanese chemical fertilizer producers.

Americans officials subsequently concluded that Beijing was combining

...its own economic necessity with a pseudo-sympathetic

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23 USNA: RG#59: CFFP, CDF 1960-1963, Box 2900, 894.397/2/6-2661, to ambassador Reischauer, from Anzai chairman JASEA, 4 December 1961.
response to pleas of a suffering Japanese industry by once again buying Japanese fertilizer. At the very least the CHICOMs can be expected to give the appearance of receptivity to entreaties of the fertilizer industry representatives, and this will have considerable propaganda impact in Japan.28

In early January 1962 Toyo Koatsu sold the Chinese 101,605 tonnes of urea for $76.50 US per ton C&F while Tokyo continued to make representations to Washington regarding the reduced fertiliser procurement decision. On 6 February representatives of the Japanese Federation of Synthetic Chemistry Workers' Unions, an affiliate of the 'left wing' Sohyo organisation, told Americans that Washington's reduced procurement policy under AID has cut down exports to South-East Asia and Korea... (and) the... (US) has discouraged the Japanese industry from developing its only other logical outlet in... China...29

The leader of this Japanese group, Masaharu Irie, represented a growing number of Japanese who opposed the US AID decision and advocated increased trade with the China and the USSR.30 To overcome the effects of the loss of the US AID procurements, Tokyo instituted partner agreements and liberal credit terms for deferred payments for exports to non-Communist countries. The Japanese ammonium sulphate industry was subsequently allowed to dispose of export losses by charging them away as a tax deduction over a ten year period. The industry was also given a seven to ten billion Yen low interest loan to stimulate modernisation and diversification from ammonium sulphate production to other products.31

In addition Tokyo began to give more serious consideration to having China as a long-term market for Japanese chemical fertiliser. Meanwhile, further negotiations covering Chinese-Japanese fertiliser sales continued.

Following talks between Zhou Enlai and Kenzo Matsumura of the LDP in September 1962 Tatsunosuke Takasaki travelled to China where on 9 November he and Liao Chengzhi signed an unofficial/private memorandum concerning a five year Chinese-Japanese 'non-government' trade agreement [known as the Liao-Takasaki (L-T) agreement]. The agreement had the official backing of MITI and between 1963 and 1967 the Chinese would export soybean, maize, miscellaneous beans, coal, iron ore, salt, tin and


29 USNA: RG#59: CFPF, CDF 1960-1963, Box 2900, 894.3972/6-2661, to American ambassador Tokyo, from Japanese Federation of Synthetic Chemistry Workers Union, 6 February 1962.


other commodities while the Japanese would export special and regular steel, chemical fertiliser, insecticides, agricultural machinery, and complete industrial equipment. Annual trade contracts worth approximately $100 million were to be signed under the memorandum. The L-T agreement was the starting point for a new stage in Chinese-Japan trade relations. On the basis of the memorandum the Japan-China Overall Trade Liaison Council (JCOTLC) - a voluntary organisation of manufacturers of consumer items provided for under the agreement - was established. In mid-November JITPA director-general Suzuki visited China, accompanied by Eiichi Shukutani and Ichizo Kimura of JITPA, as a guest of CCPIT chairman Nan Hanzhen for discussions. On 27 December 1962 the Suzuki-Nan Chinese-Japanese trade protocol concerning 'friendly firms' trade was signed, reaffirming the principles of this trade and plans to organise reciprocal trade fairs in both China and Japan.

In January 1963 several Japanese trade delegations left for China including: an agricultural chemicals delegation headed by Kiyooki Takahashi of Sankyo Co. (16 January); an agricultural machinery delegation headed by Yoshiiichi Nishimoto of Kita Farm Machinery Co. (16 January); a special steel delegations headed by Osamu Kodaira of Japan Special Steel Co.(29 January); and a urea fertiliser delegation headed by Eikichi Udagowa of Toyo Koatsu Co.(19 January). Beijing told the Japanese that they would have to extend credits if they wanted to compete with NITREX, the recently formed West European chemical fertiliser cartel, for China's 1963 fertiliser purchases. Tokyo had seriously begun to consider following the lead of Western governments by granting medium and long-term credits of progressively lengthening duration. In 1962, as Tokyo became more concerned about the domestic chemical fertiliser surplus, NITREX extended twelve month credits to facilitate the large-sale of fertiliser to China. The Japanese were also aware that a West European firm had also extended eighteen month credits covering further fertiliser sales to China.

On 29 January 1963 Prime Minister Ikeda stated that when examining Sino-Japanese trade:

On deferred payments, we have to consider...(China's) foreign exchange situation...(and) whether Japan can collect the money....(Because) funds of the Japan Export-Import Bank are...limited....I do not want to extend deferred payment privileges...to the ...Communists....(The Japanese government will make its decision on) credit terms for China trade on the basis of surveys being made of terms of credit which other European countries now allowed for exports of each commodity to...China and of the domestic situation of local industries here....(Tokyo) will not give approval on deferred payment for the sale of steel mill products and agricultural machinery so easily...(but) is now studying the deferred
payment for the above items.\footnote{32}

On 12 February the Bank of Tokyo and the Bank of China reached a one year trial banking agreement involving opening branches in both countries. Meanwhile, on 11 January 1963 the Japanese sold the Chinese 254,012 tonnes of urea and 203,209 tonnes of ammonium sulphate - the first contract signed under the L-T agreement. To facilitate the sale of ammonium sulphate Tokyo agreed to purchase 450,000 tonnes of Chinese salt and extended eighteen months credit with no down payment.\footnote{33} The Japanese Ex-Im Bank covered 80\% of the financing, with the remainder extended by other banks. The fertiliser companies received the loans directly and covered 90\% of the cost of the fertiliser exported to China under export insurance.\footnote{34} The Japanese refrained from selling larger quantities of ammonium sulphate to Beijing in 1963 to avoid angering the Taiwanese government and risk losing a lucrative share of the Taiwan fertiliser market.

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\textbf{West European Sales of Fertiliser to China: 1953-1961}

Because West European chemical fertiliser production plants were larger than those in Japan and often utilised natural gas as a feedstock thus production costs were lower. By sometimes utilising relatively low-cost storage warehouses in Hong Kong, the West Europeans were also able to offset proportionately higher shipping costs to China. Prior to 1957-58 individual firms from several Western countries exported quantities of fertiliser to China.\footnote{32} (See Table 9.4) Between 1949 and 1959 West Germany and Belgium with Luxembourg were the major Western suppliers of fertiliser to China, but beginning in 1956-57 the Netherlands and Italy exported large quantities to China. France also entered this market. French and Italian plants using natural gas to produce chemical fertiliser had substantially lower production costs,
**TABLE 9.4**

Major West European Exporters of Chemical Fertiliser to China: 1953 -1961
(in tonnes and value in million $US)

<table>
<thead>
<tr>
<th>Year</th>
<th>BELGIUM-LUXEMBURG (Consortie Beige de l'Azote)</th>
<th>France (Syndicat Professionnel du L'Industrie des Engrais Azotes Compiègne Français de l'Azote)</th>
<th>FRG (BASF AG, Hoechst AG, Ruhr-Stickstoff AG)</th>
<th>ITALY (ENI, Monteantini, Edison)</th>
<th>NORWAY (Norsk Hydroelektrisk Kvalitetsfaktiselskap)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953</td>
<td>57 (2.6)</td>
<td>-</td>
<td>22 (1.2)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1954</td>
<td>-</td>
<td>-</td>
<td>22 (1.0)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1955</td>
<td>106 (5.5)</td>
<td>-</td>
<td>236 (12.5)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1956</td>
<td>264 (13.3)</td>
<td>-</td>
<td>258 (13.4)</td>
<td>-</td>
<td>1 (0.1)</td>
</tr>
<tr>
<td>1957</td>
<td>292 (13.6)</td>
<td>-</td>
<td>248 (13.6)</td>
<td>154 (8.4)</td>
<td>-</td>
</tr>
<tr>
<td>1958</td>
<td>414 (16.4)</td>
<td>-</td>
<td>430 (18.2)</td>
<td>150 (7.6)</td>
<td>3 (0.3)</td>
</tr>
<tr>
<td>1959</td>
<td>398 (14.3)</td>
<td>-</td>
<td>202 (7.8)</td>
<td>361 (14.1)</td>
<td>24 (2.1)</td>
</tr>
<tr>
<td>1960</td>
<td>251 (8.0)</td>
<td>10 (0.3)</td>
<td>232 (7.6)</td>
<td>287 (10.6)</td>
<td>7 (0.5)</td>
</tr>
<tr>
<td>1961</td>
<td>248 (17.6)</td>
<td>31 (0.8)</td>
<td>121 (3.6)</td>
<td>369 (12.7)</td>
<td>23 (1.6)</td>
</tr>
</tbody>
</table>


thus undermining the competition.\textsuperscript{35} Azienda Nationale Idrogenajione Cumbustibili (ANIC), of the Ente National Idrocarburi (ENI) group, was in an especially good position to increase exports to China.

Established in 1936, ANIC had become an ENI subsidiary on 10 February 1953 when state-owned Italian hydro-carbon firms moved under control of ENI of Milan which was granted exclusive rights to the Po Valley resources near Ravenna. ENI had subsequently built three petrochemical plants there and used gas fields to produce fertiliser at a cost which was about the lowest in Europe.

Although Italian firms had not sold fertiliser to China between 1949 and 1957, beginning in 1957 they made annual sales. In 1960 Italy became the largest Western supplier of fertiliser to China. Italian fertiliser producers exporting to China included ANIC and Seifa Societa per Io Sviluppo dei Consumifertilizzanti (SEIFA), a Montecatini and Edison subsidiary.

Formed in 1888, the Milan firm of Montecatini built Italy's first synthetic ammonia plant during WWII and later Europe's first petrochemical plant at Ferrara. By the late 1950s Montecatini was one of the world largest producers of compound fertilisers, but by this juncture the firm was 'overextended' and suffering financially. Edison was also suffering from financial problems.

While the Italian Parliament was technically supposed to exercise control over ENI operations, Rome also stated that it had no effective direct control over the private companies under ENI.\textsuperscript{36} Because of this fact, and ENI's controversial history of operations during the 1950s and 1960s, ENI was sometimes referred to as a state within a state.\textsuperscript{37} ENI was thought to contribute funds to a number of Italian politicians and political parties which in turn provided ENI with wide support in Parliament and the public sector.\textsuperscript{38}

ENI founder and president, Enrico Mattei, had a poor relationship with the major international oil companies and the US government. Beginning in 1957 ENI through its 'private' subsidiaries began to enter the Middle East and African development markets by extending an unprecedented 75% split on profits to host nations - a serious irritant


\textsuperscript{36} Charles Dechert, \textit{Ente Nazionale Irocarburi: Profile of a State Corporation}, pp.4-5.


to the large international private oil firms.\textsuperscript{39}

In 1958, following his firm's initial fertiliser sales to China, Mattei (after first visiting Moscow) led an ENI and (Societa Nazionale Metanodotti-Progetti (SNAM)\textsuperscript{40} [the ENI natural gas pipeline subsidiary] delegation to China. Officially they discussed Chinese purchases of Italian fertiliser, but from the composition of the delegation it is apparent that Mattei planned to discuss the possibility of Chinese-ENI/SNAM co-operation in the Chinese petrochemical industry. After China cut off trade with Japan in 1958 the ENI chemical fertiliser firm ANIC increased considerably its exports of fertiliser to China. (SEE TABLE 9.5)

\begin{table}[h]
\centering
\caption{ANIC/ENI Sales of Chemical Fertiliser to China: 1958-1963 (in tonnes)}
\begin{tabular}{lcc}
\hline
Year & Nitrogenous & Total \\
\hline
1958 & - & 20,000 \\
1959 & 3,500 & 82,500 \\
1960 & 5,700 & 50,900 \\
1961 & 3,200 & 96,000 \\
1962 & 510 & 14,700 \\
1963 & 1,480 & 92,760 \\
\hline
\end{tabular}
\end{table}


Between 1957 and 1962 individual firms from Italy, the Netherlands, the FRG, Belgium/Luxemburg competed freely to provide the majority of Chinese fertiliser imports. However, between 1959 and 1962, as Italy and the Netherlands dramatically increased fertiliser exports to China, France and Norway also entered the Chinese market.

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\textsuperscript{39} Ibid.

\textsuperscript{40} The Italian government, formed SNAM in 1941, to build and operate methane pipelines. Despite Italian government orders to liquidate Azienda Generale Italiana Petroli (AGIP)'s bankrupt mining and explorations operations, Mattei, AGIP's newly appointed (1945) regional commissioner began to explore methane deposits in the Po Valley and in 1946 discovered the Caviaga gas field. In 1949 AGIP acquired SNAM to build private and industrial pipelines in northern Italy. AGIP also built oil refineries in Italy. AGIP and SNAM became ENI subsidiaries on 10 February 1953.
The Formation of NITREX and its Operations in the Chinese Market

In 1962, as the Chinese fertiliser market showed signs of opening up, it was reported that the Chinese would begin to import as much as 2.03 to 3.05 million tons of chemical fertiliser annually. These reports of potentially lucrative 'long-term' chemical fertiliser export opportunities in China were a major reason why ten major West European firms decided to form the NITREX AG cartel. With its headquarters in Zurich, this was a centralised sales organisation which provided fertiliser-producing firms from West European countries with an alternative to the open market when selling goods in Asia. The cartel was especially unwilling to divulge information about its organisation and transactions. Observers were often uncertain about which chemical firms were actually NITREX members and what share of the cartel individual firms controlled. Composed from various archival sources TABLE 9.6 lists the member firms.

NITREX AG handled sales of member firms only in Middle Eastern and Asian markets with nations that utilised 'state-trading' organisations, such as Pakistan, Ceylon, India, Egypt and China, when importing fertiliser from the West. By 1960 production surpluses and unstable market conditions had prompted many Western suppliers of goods to form centralised state trading organisations and commodity agreements. The Japanese ammonia sulfate fertiliser producers had already sought similar security by joining JASRE. Member firms also joined NITREX so that deals could be arranged "...beyond the capability of a single country..." Firms party to such agreements could avoid direct negotiations with Beijing because the cartel's negotiating team would first reach a sales contract with the Chinese and then apportion shares of the contract to member firms. After the formation of NITREX in 1962 the Chinese continuously tried to 'break' the cartel.

NITREX member firms determined individually the quantity and variety of fertiliser to be contributed to the central pool - probably fluctuating according to supplies of the various NITREX firms. NITREX's

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### TABLE 9.6
NITREX of Zurich Member Firms (1966)

<table>
<thead>
<tr>
<th>Firm</th>
<th>Country</th>
<th>Headquarters</th>
</tr>
</thead>
<tbody>
<tr>
<td>BASF (Badische Anilin &amp; Soda Fabrik AG)*</td>
<td>West Germany</td>
<td>Ludwigshafen</td>
</tr>
<tr>
<td>Farbwerke Hoechst AG</td>
<td>West Germany</td>
<td>Frankfurt am Main-Hoechst</td>
</tr>
<tr>
<td>Ruhr-Stickstoff AG</td>
<td>West Germany</td>
<td>Bochum</td>
</tr>
<tr>
<td>Lonza AG**</td>
<td>Switzerland</td>
<td>Basel</td>
</tr>
<tr>
<td>Oesterreichische Stickstoffwerke</td>
<td>Austria</td>
<td>Linz</td>
</tr>
<tr>
<td>SEIFA Seifa Societa per lo Sviluppo dei Consumifertilizzanti ***</td>
<td>Italy</td>
<td>Milan</td>
</tr>
<tr>
<td>Norsk Hydroelektrisk Kvaelstofakfieselskab****</td>
<td>Norway</td>
<td>Oslo</td>
</tr>
<tr>
<td>Centraal Stickstoff-Verkoop-Kantoor n.v.</td>
<td>Netherlands</td>
<td>Den Haag</td>
</tr>
<tr>
<td>COBELAZ Comptoir Belge de l'Azote</td>
<td>Belgium</td>
<td>Brussels</td>
</tr>
<tr>
<td>Syndicat Professionel de l'Industriel des Engrais Azotes</td>
<td>France</td>
<td>Paris</td>
</tr>
</tbody>
</table>

* BASF, founded in 1865, and Hoechst, founded in 1863, had grown rapidly since being Farbenindustrie dissolved after WWII.

** A non-exporting NITREX member, Lonza AG, began operations in 1897.

***SEIFA handled the sales of fertilisers for the Montecatini-Edison group (In the early 1960s both Montecatini and Edison, Italy's second largest firm, were having serious financial problems. Edison and Montecatini management already collaborated a great deal by the time Edison was absorbed by Montecatini in 1966).

****Norsk Hydro was established at Oslo in 1905 in order to utilise the country's vast hydro resources for the world's first production of nitrogen fertilisers. It made its first deliveries of fertiliser to China in 1913 and since 1950 had exported fertiliser to China on a regular basis.


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*Note: The table contains a mix of text and numbers.*
Zurich office then set export prices that were considered favourable to NITREX under contemporary market conditions. The ten member firms each had a 10% share in the cartel and divided equally the administrative duties and profits.\footnote{45} If a member firm sold fertiliser 'independently' at below NITREX prices, in the designated territorial jurisdiction, then the firm was obliged to credit the central NITREX fund with the difference between the fixed NITREX price and the quoted contractual price.\footnote{46} Profits from 'independent' sales by member firms within NITREX's jurisdiction at above the cartel's prices were retained by the seller.

Chinese-NITREX negotiations were unsuccessful until late 1962.\footnote{47} Beijing insisted it would only negotiate with individual Western companies and continued to make lucrative offers to specific NITREX firms to sell outside the agreement.\footnote{48} When efforts to split the cartel proved unsuccessful the Chinese began to focus on securing credit terms. In late 1962, after further negotiations, the Chinese purchased 1.08 million tonnes of chemical fertiliser from NITREX under twelve month credits.\footnote{49} They were successful in convincing the West European chemical fertiliser negotiators to sign an agreement to accept Chinese goods in payment at world market prices. While the NITREX 'united front' remained intact, and even enlisted the pledge of JASEA to work with NITREX to maintain a floor price, non-NITREX West European suppliers such as ICI and ANIC (SEE TABLE 9.5) continued to export smaller amounts of fertiliser to China independently.

In 1962 ANIC/ENI extended eighteen month credits to facilitate fertiliser sales to China - for delivery in 1963. By granting these terms to the Chinese ANIC/ENI became the first Western firm to break the unwritten understanding of a twelve month credit ceiling on exports to China. Up until this point the Italians and West Germans had agreed to adhere to Washington's policies aimed at keeping credits extended to Communist countries below the short-term level of 180 days.

NITREX officials were concerned about reducing mounting stocks and about Japan's growing interest in the Chinese fertiliser market. On 11 January 1963 NITREX representatives left Hong Kong for Beijing to negotiate an agreement for the second year of NITREX-Chinese trade. This

was the first time that NITREX had been invited to Beijing. The Chinese continued to offer to purchase Western fertiliser at ridiculously low prices - far below production costs. NITREX officials had already decided in late 1962 that during the 1963 negotiations they would ask the Chinese for a price increase of one shilling per ton in an attempt to reduce credit repayment terms from twelve to three months.

After trying to 'break' the NITREX cartel for several months, the Chinese government now hoped that the organisation would extend generous credit to encourage future Chinese purchases. Lu Xuzhang played a key role in these negotiations while the Chinese side also benefited greatly from the presence of former CIRECO grain negotiator L.C. Bu who had subsequently been appointed CHINATEX's second in command in Beijing. NITREX negotiators were greatly impressed with Chinese negotiators who ...appeared very confident, open-minded and at ease...(and) made no attempt to... (discuss) politics or complaints about discrimination against China and instead discussed business in a thoroughly cordial, business-like manner.

The Chinese negotiators did not ask the West Europeans to sign an agreement to accept payment for fertiliser in Chinese goods. However, Bu spoke separately to the West German NITREX representative to emphasise that the Chinese hoped to sell shirts to West Germany. The Chinese responded to NITREX demands for higher prices by insisting that, apart from being determined by market fluctuation, higher prices were only agreed to when improved credit terms were extended. They also reminded NITREX negotiators that Japan and other non-NITREX West European suppliers were offering more generous credit terms. Takasaki, head of the JCOTLC was working to establish a programme under which credits would be granted for Japanese exports to China through foreign banks rather than through the Export-Import Bank of Japan.

When the 1963 Chinese-NITREX fertiliser agreement was reached, Beijing agreed to purchase 1.2 million tonnes of mainly ammonium sulphate fertiliser for $29.9 million - on nearly identical terms to those of 1962. During the signing ceremony in February 1963 Lu Xuzhang stated that Beijing would purchase another 2.03 million tonnes of fertiliser from

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52 USNA: RG#59: CFPF, S-NF 1963, Box 2881, 893.00/1-1163, from American consulate, Hong Kong: 'Weekly Economic Review No.2, 11 January 1963'.
NITREX in 1964.\textsuperscript{55} NITREX was, however, unable to sell any fertiliser to China in 1964.

Meanwhile, the Chinese continued to promote competition between NITREX, JASEA and the independent fertiliser producers to drive down prices and obtain improved credit. Competition between Western firms and countries interested in the various sectors of the Chinese export market (fertiliser, grain, agricultural machinery, and steel) intensified throughout 1962-63.

On 31 October 1963, a six man Toyo Soda Co. ammonium chloride delegation departed for China and on 12 November a three man Toyo Koatsu nitrogen fertiliser delegation left for Beijing. In late 1963, a Chinese-Japanese chemical fertiliser agreement for 1964 was reached. Tokyo extended eighteen month credits to facilitate a Chinese purchase of 1,046,528 tonnes of fertiliser (ammonium sulphate weight) at higher prices than in 1963.\textsuperscript{56}

When the various Japanese trade delegations returned from China in early January, representatives reported that the Chinese now expected to purchase between 2.03 and 3.05 million tonnes of fertiliser annually and wanted to import pesticides as well as complete fertiliser production plants.\textsuperscript{57} Chinese officials also indicated that they expected their domestic fertiliser output to reach 2.6 million tonnes in 1963. A report originating in China on 12 July confirmed that increased fertiliser production capacity was a top priority and new plants and related transport facilities were being developed.\textsuperscript{58}

\textbf{***}

\textsuperscript{55} USNA: RG#59: S-NF 1963, Box 3635, STR 12-3 CHICOM-W.EUR, from American consulate, Hong Kong, 'NITREX Sales of Fertilizer to Communist China, 23 February 1963.


The Chinese Fertiliser Industry

The emphasis on the construction of small industrial plants during the Great Leap Forward was in accord with the Maoist concept of regional self-sufficiency, the avoidance of excessive bureaucracy, and the attempt to raise the level of technology used by the peasants to create the ideal Communist citizen - 'expert and red'. Small chemical fertiliser plants employed up to 1000 workers, used technology copied from larger modern plants which utilised coal and gas and helped 'diffuse' modern technology to the countryside. The cost of labour, materials and equipment to operate small fertiliser plants was low. Technicians from large factories were often sent to the countryside to train workers. However, production levels per man were low when compared to medium and large plants.

Most synthetic ammonia produced in China was from the Haber process, but some was from gas as a by-product of the manufacture of coke. However, this volume of ammonia produced from gas was reduced because of the cutback in iron and steel production in 1961-62. In 1961 and 1962 complaints in the Chinese press (including letters to the editors) spoke of the poor quality of fertiliser produced in China's own medium and small plants. Despite advances in the Chinese chemical fertiliser industry, shortages of synthetic ammonia, sulfuric acid, nitric acid, and the unreliability of equipment, meant that large modern plants generally operated below capacity. (SEE TABLES 9.7 and 9.8) During the post-Great Leap Forward recovery period between 1961 and 1963 small plants were closed and workers returned to the fields. In 1963 the government again tried to improve small-scale fertiliser production, concentrating on developing standardised small-scale fertiliser production plants, each with an annual capacity of 10,160 to 15,241 tonnes - 3,048 to 5,080 tonnes of which was synthetic ammonia. (SEE TABLE 9.8)

60 Ibid.
<table>
<thead>
<tr>
<th>Year</th>
<th>Total Production</th>
<th>Nitrogen Production</th>
<th>Phosphorus Production</th>
<th>Potassium Production</th>
<th>Foreign Imports</th>
<th>Total Domestic Supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956</td>
<td>.66</td>
<td>.59</td>
<td>.08</td>
<td>-</td>
<td>1.35</td>
<td>2.01</td>
</tr>
<tr>
<td>1957</td>
<td>.80</td>
<td>.68</td>
<td>.12</td>
<td>-</td>
<td>1.34</td>
<td>2.14</td>
</tr>
<tr>
<td>1958</td>
<td>1.35</td>
<td>1.01</td>
<td>.34</td>
<td>-</td>
<td>1.80</td>
<td>3.16</td>
</tr>
<tr>
<td>1959</td>
<td>1.88</td>
<td>1.38</td>
<td>.50</td>
<td>-</td>
<td>1.35</td>
<td>3.23</td>
</tr>
<tr>
<td>1960</td>
<td>2.52</td>
<td>1.72</td>
<td>.80</td>
<td>-</td>
<td>1.08</td>
<td>3.60</td>
</tr>
<tr>
<td>1961</td>
<td>1.85</td>
<td>1.40</td>
<td>.45</td>
<td>-</td>
<td>1.12</td>
<td>2.98</td>
</tr>
<tr>
<td>1962</td>
<td>2.78</td>
<td>2.22</td>
<td>.56</td>
<td>-</td>
<td>1.20</td>
<td>3.98</td>
</tr>
<tr>
<td>1963</td>
<td>3.86</td>
<td>2.71</td>
<td>1.15</td>
<td>-</td>
<td>2.70</td>
<td>6.56</td>
</tr>
</tbody>
</table>

### TABLE 9.8
China's Total Chemical Fertiliser Production and Chinese Nitrogen Production by Large and Small Plants in Standard Units: 1957-1963
(in thousand tonnes)

<table>
<thead>
<tr>
<th>Year</th>
<th>Small Plants</th>
<th>Large Plants</th>
<th>Total Chemical Fertiliser Production*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1957</td>
<td>-</td>
<td>683</td>
<td>803</td>
</tr>
<tr>
<td>1958</td>
<td>-</td>
<td>1,010</td>
<td>1,354</td>
</tr>
<tr>
<td>1959</td>
<td>-</td>
<td>1,376</td>
<td>1,876</td>
</tr>
<tr>
<td>1960</td>
<td>-</td>
<td>1,723</td>
<td>2,523</td>
</tr>
<tr>
<td>1961</td>
<td>20</td>
<td>1,380</td>
<td>1,850</td>
</tr>
<tr>
<td>1962</td>
<td>60</td>
<td>2,160</td>
<td>2,775</td>
</tr>
<tr>
<td>1963</td>
<td>100</td>
<td>2,608</td>
<td>3,857</td>
</tr>
</tbody>
</table>

* Includes ammonia nitrate, phosphorus and potassium.

In January 1963 a Gong Ren Ri Bao editorial stated that construction in the chemical fertiliser industry, mainly of medium and large plants, would increase in 1963. At this time Xiao Kuizhang, Vice-Minister of the Chinese chemical industry, stated that in 1963 Beijing intended to invest much more heavily in this area, developing productive capacities of existing Chinese plants, building new plants, strengthening transportation and the pyrite mining industry. By February the First Ministry of Machine Building Industry reported that 100 factories throughout China, which previously produced other industrial goods, were now changing over to make high-pressure compressors, containers, and synthesis process towers - equipment needed to produce complete sets of equipment for nitrogen fertiliser production factories.

Between 21 February and 2 March, the Chinese Ministry of the Chemical Industry, the First Ministry of Machine Building, and the Shanghai Council for Industrial Promotion sponsored a national conference in Shanghai to plan a strategy to resolve technical problems related to the manufacturing of nitrogenous fertiliser equipment in China. Around this time the First Bureau of the Shanghai government stated that the Shanghai machine building industry could produce up to 90% of component parts needed to operate large synthetic ammonia plants - up from 70% the previous year. However, Beijing also admitted that it was having problems manufacturing approximately 10% of the parts needed to produce nitrogenous fertiliser equipment - higher technology items previously supplied by the Soviets such as large high-pressure synthetic ammonia units. The Chinese conceded that two 25,000 tonne-per-year capacity synthetic ammonia units built for the Zhuzhow plant (Zhejiang Province) and for the Wuqing Chemical Works at Shanghai possessed quality problems. These were only two of seven plants under construction, delayed by the post-'Great Leap' economic crisis.

Beijing decided to import prototype ammonia and urea fertiliser production technology from the West or Japan for use at Nachi near

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65 Ibid.
66 Ibid.
Luzhou, in Sichuan province - one of China's richest agricultural provinces and the major rice producing province.\textsuperscript{67} The Sichuan Basin contained abundant high-sulphur-content (sour) natural gas reserves from which the Chinese government wanted to produce inexpensive fertiliser for increasing rice yields - a situation comparable to Italy's Po Valley at Ravenna where during the 1950s ENI had pioneered a natural-gas-to-ammonia process which produced comparatively low cost fertiliser. Such a process would also allow the Chinese to utilise the gases from oil refining and steel production to produce ammonia fertiliser.\textsuperscript{68}

The ammonia could in turn be used to produce urea - a process for which the Chinese planned to purchase another state-of-the-art prilled/pelletised urea production plant from the West. Urea in the prilled form could be handled and applied easily.\textsuperscript{69}

The Chinese were able to produce only small quantities of inferior quality urea in the 1950s. According to a CIA report in 1975 the growth in Chinese nitrogen fertiliser production

\begin{quote}
...was spurred in the mid-1960s by the purchase of a large... (Dutch) urea plant... which provided... (Beijing) with technology it subsequently copied.... The ability to produce prilled urea in commercial quantities came only after... (purchasing and copying this equipment and technology)... since then a number of standardized urea plants, each with a capacity of 40,642 tonnes per year have been domestically manufactured.... In spite of the major campaign since 1962 to push agriculture ahead with industrial inputs, certain sectors of the chemical, machine tool, and metals industries have been unable to meet the challenge. Only medium-sized... (chemical fertilizer production) plants could be produced through the cooperation of these three industries....\textsuperscript{70}
\end{quote}

By autumn 1963 the Chinese were engaged in negotiations with British, Dutch, Italian and Japanese firms for the purchase of the required ammonia and urea production equipment.

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\textsuperscript{67} Alexandra Close, 'Down To Earth', \textit{FEER}, 8 December 1966.
\textsuperscript{68} George Lauriat, 'Awaiting the Rush of Chinese Crude, if Any', \textit{FEER}, 7 October 1977. After 1964 when oil production began to increase, approximately two thirds of Chinese iron and steel plants used the resulting natural gas. Soon 70\% of nitrogen fertiliser was produced from natural gas.
\textsuperscript{69} CIA Research Aid: 'People's Republic of China: Chemical Fertilizer Supplies 1949-1974'.
\textsuperscript{70} 'Ibid.'
Prilled Urea Technology From the Netherlands

In December 1961 the Chinese had made their first purchase of Western equipment - on which they would be dependent on the supplier for replacement parts and technical instruction - when they purchased British aircraft, and related spare parts and technical training. (SEE APPENDIX 1). This transaction was facilitated by long-term credits of five years in duration - the first time credits of this length had been extended to China by a non-Communist country. Then on 22 August 1963 the Chinese government approved a contract under which MITI would guarantee credits of five years in duration to enable a Japanese firm to sell the Chinese a complete vinylon plant, related equipment and technology and technical support. (SEE CHAPTER 8 AND APPENDIX 2)

In September 1963 Liao Chengzhi told a high-level Japanese banking, governmental, and trade delegation visiting the Chinese capital that

...Beijing's willingness to negotiate a second year of... (Chinese-Japanese trade) represented a vindication of the line advocated by Premier Zhou... Foreign Minister Chen (Yi)... and Liao (Chengzhi)... The context as understood by the Japanese left an impression that opposition to... China's relatively pragmatic and gradualist approach toward Japan was found at very high levels... The Japanese Consulate General speculated that the opposition might have come from Party leaders, perhaps... including Mao... who tended to interpret Japanese developments in misleadingly ideological terms of a revolutionary high tide, or possibly from others who disapproved of a major reorientation of trade away from... Soviet Bloc sources.  

Around this time Toyo Engineering Company (TEC) - established in 1961 as a subsidiary of Toyo Koatsu Industries and part of the Mitsui Keiretsu of Japanese firms - was negotiating with the Chinese for the sale of urea production technology. During 1962 TEC had concluded an agreement for engineering services and technical assistance with the US firm Lummus Co. TEC hoped to expand business in the LDCs and was also negotiating with the Soviets for the sale of five urea plants with 274,333 to 365,777 tonne p/a capacities. Beijing expressed interest in purchasing a 182,888

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71 USNA: RG#59: CFPF, S-NF 1963, FT 2 CHICOM-JAP, to Washington from American consul, Hong Kong: 'Comments on Sino-Japanese Trade, Chinese Communist Leadership and Sino-Soviet Relations by a Member of Recent Japanese Trade Delegation to Peiping', 1 October 1963. (Information provided to US consul by a Japanese government official)

72 USNA: RG#59: CFPF, S-NF 1963, Box 3305, E2-JAP, memorandum of conversation, participants: Chuji Kuno LDP Diet; David Osborn; first secretary Sojizo Surida: 'Pros and Cons of Trade', 15-16 October 1963. (Information provided to State Department by Chuji Kuno).

tonne p/a capacity urea production plant from TEC on credit terms\textsuperscript{74}, but Tokyo, owing to political concerns, was unwilling to guarantee credits. After extending long-term credits to facilitate the sale of a Kurashiki rayon plant and technology to China in August 1963 the Japanese had come under increasing pressure from the Taiwanese and American governments to withhold similar Japanese Ex-Im Bank credits required to finance similar transactions. During 1963-64 the Chinese increasingly turned to Western European firms to supply its larger equipment purchases.

During his tour of Western Europe in the spring of 1963, Lu Xuzhang visited the headquarters of the Dutch firm V.N.F. Storkwerkspoor - the largest Dutch engineering group. On 29 September 1963, the Chinese signed a contract with Storkwerkspoor for a 177,808 tonne p/a capacity prilled urea production plant. They expected to use the plant for both cattle feed and fertiliser. It was to produce urea with ammonia from abundant local natural gas. Terms of the contract were especially favourable for Beijing because the Dutch agreed to handle delivery of the equipment, which was mostly assembled at Storkwerkspoor's Amsterdam headquarters, to the comparatively remote Luzhou in Sichuan Province. (SEE TABLE 9.9)

However, to produce prilled urea from gas at Luzhou the Chinese still needed to import a state-of-the-art ammonia plant and a plant capable of making high density polypropylene moulds. Polypropylene technology would also provide plastic sacks for chemical fertiliser, agricultural piping and would reduce demand for other Chinese resources and currency.

### TABLE 9.9
Initial Chinese Purchases of Complete Industrial Plant Technology - Three Complete Chemical Fertiliser Production Facilities From Western Europe in Autumn 1963

<table>
<thead>
<tr>
<th>Contract#</th>
<th>Date (S) Signed</th>
<th>Firm(s)</th>
<th>Technology and Services Provided</th>
<th>Cost</th>
<th>Payment Terms</th>
<th>Delivery and Location of Construction</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (associated with contract 2)</td>
<td>29 September 1963 (S)</td>
<td>Continental Engineering Co. of V235, Stekkwarkspoor (Amsterdam)</td>
<td>Complete 177,808 tonne/year capacity prilled urea production plant (the plant's capacity was later upgraded under contract terms to 355,616 tonnes per annum), technical training for Chinese engineers</td>
<td>£2 million ($7 million US) 'know-how' cost was probably at least 10% of the contract value</td>
<td>Five year credit facilities (Government guaranteed)</td>
<td>Delivery in 1965, production to begin in October 1966 (Luzhou, Sichuan Province)</td>
</tr>
<tr>
<td>2 (associated with contract 1)</td>
<td>25 October 1963 (S)</td>
<td>Humphrey's and Glasgow</td>
<td>Complete 111,765 tonne per annum capacity synthetic ammonia production plant technology, 305 tonnes per day of ammonia to be fed into Dutch plant process (for production of ammonia from natural gas) and training for Chinese engineers (Twenty British engineers to spend several months providing assistance through their movement was restricted to plant area)</td>
<td>£2.9 million ($8.4 million US) 'know-how' cost was probably at least 10% of the contract value</td>
<td>Five year credit facilities guaranteed by British Government's ECGD: 10% cash within fourteen days of after receiving a copy of the export license and invoice, 10% cash against documents within three days of presentation of the documents in London, 5% within 40 months after the signing date, 5% after 47 months after signing date, 70% payments every six months beginning on the 26 month after signing date, interest rate 4%, Bank of China guarantee. Under Britain's highly selective financial guarantee procedure, between 1961 and 1964, only ten guarantees were extended. Prior to late 1964 only two of these guarantees covered British sales to China.</td>
<td>Delivery of construction materials April 1965, construction to begin by September 1964 completion by June 1967, trial production began September 1967, construction at Naclu near Luzhou, Sichuan Province</td>
</tr>
<tr>
<td>3</td>
<td>14 December (S)</td>
<td>Montecatini (Milan)</td>
<td>Patents and ‘know-how’ for facilities to produce ammonia, nitric acid, and ammonia nitrate fertiliser (included at least one 150,000 tonne ammonium sulphate)</td>
<td>$14.2 million US, ‘know-how’ costs was probably at least 10% of the contract value</td>
<td>Montecatini approached the Italian government for a credit guarantee to cover at least 10% of the balance over three years</td>
<td>Ammonium sulphate plant completed in March 1964 in Albania but the Chinese used the ‘know-how’ for other Chinese plants, the ammonia synthesis chamber may have ended up at Wuxing</td>
</tr>
</tbody>
</table>

**Sub-contracting(s) within British firms**
- produced 90% of the component parts
- motors, switchgears, instruments and cabling

**Sub-contractor(s) to actually build the plants and components parts**
- 30,000 tonnes (minimum) second capacity ammonium nitrate synthesis chamber plus related equipment
- Italian technicians sent to China in early 1965 to train Chinese engineers


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Chinese Welcome Private British Traders and Purchase British Ammonia Plant

On 25 October 1963 Humphreys and Glasgow of London, which officially joined the '48 Group' in 1971, sold the Chinese a 110,000 tonne per year capacity synthetic ammonia plant.\(^{75}\) (SEE TABLE 9.9) The negotiations were completed relatively quickly by Chinese standards. Generous terms extended by the Dutch made the British firms' negotiations with the Chinese more difficult.\(^{76}\) However, Lu Xuzhang intervened and instructed China National Technical Import Corporation (CNTIC) officials that the British contract should be signed as soon as possible.\(^{77}\) The Chinese agreed to an adjustment of details of the repayment schedule after the British Export Credit Guarantee Department (ECGD), which was providing the credit guarantee, voiced objections to the contract on 24 October by telegram—just one day before the signing ceremony was to take place.\(^{78}\)

Zui Zhun, director of CNTIC (complete plants division), and Derek Lennon, sales director of Humphreys and Glasgow, signed the contract in Beijing on 25 October. Lu Xuzhang, who had visited Britain only seven months earlier, was also present and Humphreys and Glasgow officials were subsequently received by Foreign Minister Chen Yi.\(^{79}\) Prior to the announcement that the contract had been signed, the Chinese asked the British officials not to release details of the transaction. The sale was facilitated by a five year ECGD credit guarantee.\(^{80}\)

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\(^{76}\) PRO: FO: 371 170691 FC 1152/51, from British BOT, to Beijing, 'Chinese Purchase of Fertiliser Plant' (Humphreys and Glasgow), 22 October 1963.

\(^{77}\) PRO: FO: 371/170 694 FC1152/55, from Beijing: 'Negotiations For the Sale of Fertiliser Plant by Humphreys and Glasgow', 25 October 1963. (Information to British FO by Lu Xuzhang after the contract was signed.)


This particular sale of British complete plant technology to China was significant because it was the first time that Beijing had agreed to provide a Bank of China guarantee. Beijing's decision to grant this 'concession' was a surprise, but the British FO felt that the guarantee was granted for several reasons. First, Beijing promised to increase purchases of British technology - and in light of other recent Chinese-Western transactions it was under pressure to carry out its promise. Second, Beijing needed to purchase an ammonia plant relatively quickly to complement the Dutch urea plant. Third, Chinese trade officials had been instructed to complete the contract negotiations quickly. Fourth, the British guessed that Beijing's earlier position, not to provide a Bank of China guarantee, was a negotiating strategy - similar to Chinese efforts in 1960-61 to emphasise their disdain for Western import quotas and 'the embargo'. Finally, British officials also realised that the Chinese guarantee was only provided in exchange for a concession - lowering the interest rate for the transaction to 4%.

On 28 November 1963 Zui Zhun told the British that the Chinese Ministry of Foreign Trade intended to make further purchases of 'a wide variety' of British complete industrial plants. Then, in December 1963 Lu Xuzhang told the chairman of Humphreys and Glasgow that China expected to soon purchase between five and ten chemical fertiliser plants for £3 million each - hopefully facilitated by long-term credits.

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81 PRO: FO:371 FC1152/55, from Ross charge d'affaires, Beijing to FO, 16 December 1963.


Chinese Purchases of Italian Chemical Fertiliser Production Equipment

In 1961 Rome declined a request that a Chinese trade delegation visit Italy. The Italians, like the West Germans, were eager not to take steps which might damage their relations with Washington. But between 1961 and 1963 the economic situation in Italy deteriorated. Italian monetary reserves between September 1963 and March 1964 decreased by one billion dollars due to a growing balance of payments deficit and rapid inflation. Powerful industrial interests such as ENI were eager to find new foreign export markets due to industrial overcapacity in key industries. The efforts of other Western nations to expand exports to China through semi-official and private interests had not gone unnoticed in Italy.

Rome had adhered strictly to the US definition of the 'strategic' embargo and the 'credit line' on exports to Communist nations, but embargo politics were increasingly seen by US allies as inequitable.

In early 1963 the Chinese asked Dr. Soverio Santaniello, the Italian Trade Commissioner in Hong Kong (and Italian Socialist Party member), for his views regarding the possibility of improved Chinese-Italian relations. Italy imported Chinese agricultural and animal products and textiles while the Chinese imported Italian chemicals and chemical fertilisers, synthetic yarns, fabrics, and steel. Because of the increased frequency of Western trade delegations visiting China, the Italian government, under continued pressure from the Italian Socialist Party, allowed Santaniello to accept Beijing's longstanding offer. During a two week trip to Beijing, Shanghai and Wuhan in May/June 1963, Santaniello was well received by Chinese officials. However, his efforts to promote Chinese-Italian trade were unproductive. Beijing was more interested in learning from Santaniello whether Rome might agree to provide technical aid for the Chinese industrial sectors - primarily the steel industry. The Chinese stressed that they badly needed technical aid.

Santaniello was also struck by the

...strong anti-Khruschev feelings manifested and uttered....Khruschev was the most hated man among the Chinese because he had withdrawn technicians and economic support for China in its hour of need....

In summer 1963 the Italians organised a chemical exhibition in Hong Kong. By autumn the Chinese were negotiating with the British, Dutch, Japanese, French and Italian suppliers of chemical fertiliser, and

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84 USNA: RG#59: CFFF, S-NF 1963, Box 3437, FT CHICOM-IT, memorandum of conversation between the Italian consul and American consul, Hong Kong: 'Impressions of Two Left-Wing Italians Recently Emerging From Communist China', 14 June 1963.
petroleum equipment. Montecatini and ENI were the main Italian firms involved in negotiations. In September 1963 Santaniello attended the Guangzhou Trade Fair, accompanied by Italian industrial leaders.

Montecatini had sponsored the birth of the Italian petrochemical industry in 1951 and by 1960 was the largest Italian chemical/mining firm and one of the world's major producers of synthetic textile fibres, plastics, special metals, compound fertilisers, and fungicides. In 1963 Professor Giulio Natta of Montecatini's research laboratories was awarded the Nobel Prize in chemistry for discovering the process for manufacturing isostatic polypropylene (thermoplastic).

Despite these successes and the fact that Royal Dutch Shell had begun to invest heavily in Montecatini, the firm was experiencing financial difficulties. Thus, in 1963, Montecatini was very receptive to Chinese offers. While various of Montecatini's patented processes were for sale, including chemical fertiliser production processes, the Italian firm did not actually construct fertiliser plants. On 14 December 1963 Montecatini sold the Chinese the patents, technical assistance and training needed for the construction and operation of fertiliser plants and related equipment. (SEE TABLE 9.9) Montecatini agreed to build two fertiliser plants for the Chinese - one in Albania and one in China - at a cost of about $20 million. Montecatini asked for the Italian government to provide, or guarantee, 10% of the contract value over three years. Montecatini probably also had access to credit from the bankers Lazards. Frenchman Andre' Meyer, who headed the New York branch of Lazards, was one of fifteen Montecatini directors.85 Meyer had recently expressed his support for the government of North Vietnam.86

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Throughout 1963 West European and Japanese firms also began competing to sell the Chinese equipment needed to develop other sectors of industry (especially equipment to produce textiles, gas, petroleum, petrochemicals, and steel). By encouraging such competition, in the manner successfully utilised when purchasing grain and fertiliser beginning in late 1960, the Chinese obtained various concessions to facilitate these purchases. Apart from touring the headquarters and plants of many Western and Japanese businesses in 1962-63 the Chinese began securing long-term government credit guarantees, from a growing number of countries and on increasingly favourable terms. During 1963 Western and Japanese interests began competing for opportunities to

85 Montecatini Societa Generale per l'Industria Minereria e Chimica, Milan Italy', The Times, 2 August 1963.
86 Anthony Sampson, The Sovereign State of IT&T, pp.74-75.
organising trade fairs in China and became interested in establishing reciprocal trade offices with the Chinese. Not only were firms from different nations often competing for the same Chinese contracts, but increasingly firms from private trade associations of a particular nation faced competition from government sponsored or approved trade associations within that same country. The 1961-63 period of Chinese trade diplomacy with western countries and Japan was followed by the intensification of similar contacts and competition in the Chinese market between 1964 and 1966 when the Chinese continued to buy grain and fertiliser and signed at least fifty-five contracts with Western and Japanese firms covering the purchase of equipment and complete industrial plants and related technology.
CONCLUSION
Researchers previously have concentrated on the US government's efforts to hinder Chinese economic development in the 1950s and 1960s by encouraging American allies to participate in 'economic warfare' against China through COMCOM; and on issues such as whether to reverse the 1951 UN decision branding the PRC as 'aggressor' or to continue to recognise the ROC as the government of China. Some observers have also previously drawn attention to the role that trade between the PRC and individual non-Communist nations has had in improving relations between Beijing and these trade partners. While such observers are usually referring to contacts between China and one particular nation at a time, this bilateral view is merely part of the larger picture. The constantly changing economic positions of China and non-Communist nations with which it traded over the 1957 to 1963 period resulted in a complex and interrelated pattern of trade diplomacy. Diplomatic relations between China and individual non-Communist countries did not automatically lead to greater trade. Conversely, Chinese trade contacts with Western countries and Japan were also not always characterised by expedient, friendly and mutually satisfactory exchanges.

Researchers on later periods have tended to overlook the crucial 1957 to 1963 period of China's trade relations with non-Communist countries. My purpose has been to look at actual Chinese trade with the West and Japan between 1957 and 1963 and the diplomacy surrounding these economic contacts. American surplus disposal programmes such as PL480 and strict enforcement of controls on China trade (designed to limit Chinese economic development) served paradoxically to push non-Communist exporters towards the Chinese market between 1957 and autumn 1961.

While the Chinese were well known for concluding business deals through 'unofficial' indirect means, it appears that the same practice was also used by its trading partners. Semi-official marketing boards, trading banks, semi-private trade organisations, delegations and exhibitions were all utilised by non-Communist nations when negotiating and trading with China, as a means to disguise direct involvement. An exception was the Canadian government, which did not seek to hide its direct involvement in Chinese-Canadian trade, and, in fact, the Diefenbaker government was accused of taking too much credit for the Chinese-Canadian grain sales for political purposes. Non-Communist governments' rationale for attempting to camouflage the degree of their involvement in China trade was to avoid criticism from anti-China trade forces at home and from governments who opposed trade or diplomatic relations with China and especially to avoid reprisals from the US government. By conducting trade with China in this manner non-Communist governments were able to test US reaction to violations of stringent controls on China trade.
My research into Chinese trade with non-Communist countries between 1957 and 1963 reveals a sequence of phases which should be seen as the continuation and evolution of a pattern which began to develop prior to 1957 and formed a basis for what occurred after 1963. This continuing pattern of trade diplomacy was merely interrupted during the 'Great Leap' between 1958 and 1960; and later during the most disruptive phase of the Cultural Revolution between 1966 and 1969.

During the first phase, between autumn 1957 and July 1958, serious Chinese regional food shortages, resulting in famine in some areas, indicated that government policies since 1955, aimed at rapid economic development, were leading China towards disaster. More cautious Chinese officials, led by Chen Yun, advocated less ambitious industrial growth targets and a return to the pre-1949 strategy of importing Western grain for the northeastern coastal cities to lessen the burden on grain farmers and on the internal transport system.

The initial Chinese approach to Western firms to purchase grain occurred in early September 1957. This was less than two weeks before Chen Yun's speech to the Third Plenary Session of the Eighth Central Committee where he urged leaders to immediately adopt policies to resolve food and clothing problems. In March 1958 the Chinese signed contracts to buy, for cash payments in sterling, substantial amounts of grain from Western countries which were eager to find new markets to reduce record grain surpluses. While CEROILFOOD handled grain negotiations on the Chinese side, at the autumn 1957 and spring 1958 Guangzhou Trade Fair, CIRECO handled negotiations in Hong Kong and Winnipeg in 1958. Negotiations were carried out on the Western side by representatives of the subsidiaries of the major international grain trading firms although government officials were also involved. The Chinese purchased mostly Canadian grain, as Canada was suffering from the most serious surplus problems. To promote competition among suppliers and encourage these interests to help sell Chinese goods, CIRECO signed contracts to purchase Canadian grain from several suppliers. By spreading out their purchases the Chinese also hoped to encourage Canadian grain handlers, the business community and the public at large to support China trade. These contracts were a factor in the Canadian DEA's decision in early 1958 to undertake the first major reevaluation of its China policy since the Korean War. The DEA subsequently recommended that Canada gradually move towards better relations with the Beijing government through trade. However, the Chinese were disappointed that, because of Canadian quotas on Chinese textile imports, Canadian firms were unenthusiastic about Chinese barter trade proposals. Chinese 'test purchases' were terminated in July 1958 when highly inflated crop reports signalled the gathering momentum of the 'Great Leap'.
During the second phase, between August 1958 and June 1960, 'Great Leap' economic policies dictated that the Chinese export as much grain as possible to earn currency to pay for equipment and materials required for rapid industrial development. After cutting off trade relations with Japan in May 1958, the Chinese turned to other non-Communist countries, which were eager for business owing to surpluses and industrial overcapacity, for these imports. Between 1958 and 1960 the US government - increasingly concerned about Chinese and Soviet efforts to disrupt market conditions in non-Communist countries through strategic buying and selling of commodities - met growing resistance when trying to pressure allies to enforce more stringent controls on China trade. During this period, as the Chinese government terminated imports of foreign grain and increased grain procurements from the countryside to meet the needs of urban industrial workers and to meet export requirements, famine spread throughout China.

The third phase of China's trade diplomacy occurred between June 1960 and February 1961. Chinese officials began realising in June 1960 that 'Great Leap' policies had failed and introduced measures aimed at economic 'readjustment' based on less ambitious industrialisation targets and a much greater focus on agriculture. At that time the Chinese government began receiving reports of depleted grain stockpiles and severe famine throughout the country. In July, as Zhou Enlai continued to attempt to balance grain supplies, conditions worsened when the Soviets, who were engaged in an increasingly bitter ideological dispute with the Beijing government, withdrew aid from China. Under the circumstances this Soviet action amounted to a serious economic sanction. In August urban grain rations were reduced and late in that same month PLA troops along the Hong Kong border had their rations halved. Also in late August Li Fuchun and Zhou Enlai proposed the new economic policy of 'readjustment, consolidation, filling out and improvement' - a policy that was adopted by the Chinese leadership on 30 September.

My research shows that also in late August 1960 the decision was made to gradually resume imports of grain from non-Communist countries. The Chinese signed small contracts to purchase grain between 3 September and 15 December. As they considered the quality, price and availability of grain offered by non-Communist traders, the Beijing government evaluated China's domestic situation. In October and November the PLA and the Chinese leadership began to realise the magnitude of the famine. These factors, combined with Mao's concern that the peasants receive the traditional meal of jiao zi at the New Year, led to the 15 December 1960 decision to implement a temporary large-scale grain import programme, overseen by Zhou Enlai and Chen Yun. Between then and early February 1961 CIRECO successfully created competition between the CWB,
AWB and private West German firms to win price concessions for contracts covering cash sales of grain and flour. However, by early February, although the Chinese had nearly depleted their currency and bullion reserves, they still needed to import large quantities of grain, fertiliser and fertiliser production equipment to pull out of the crisis which resulted in the deaths of at least 20 million people between 1958 and 1962.

During the fourth phase, between February and August 1961, the Chinese secured medium-term credits to facilitate further large grain purchases. After receiving two PLA reports between 20 and 25 February 1961 which emphasised the seriousness of oedema and the food supply situation in the army, PLA chief of staff Luo Ruiging had stated that conditions in the military were worse than previously thought and recommended that immediate emergency measures be taken to solve these problems. Serious CWB-CIRECO negotiations for purchases of even larger quantities of Canadian grain, on credit terms over the long-term, began on 25 February. The Chinese continued to utilise classic 'divide and rule' strategies to create friction among individual grain suppliers and among officials and representatives from the various countries involved in the negotiations. The result was that China obtained grain at lower prices, and received very favourable credit terms. On 22 April the Canadian government agreed to guarantee credit terms of nine months in duration and up to $50 million in total. Government officials from the CWB, Canadian DTC and DEA had participated in initial contract negotiations with CIRECO in Hong Kong. CWB officials were then invited to conclude the negotiations with CEROILFOOD in Beijing. Also during the first half of 1961 West German firms sold the Chinese flour on nine month credit terms - without a down payment. The Canadians were very irritated with the AWB when on 7 May the Board extended twelve month credit terms to facilitate additional large Australian grain sales to China. This signalled the beginning of a credit race in the Chinese market. As with the Chinese-Canadian negotiations, government officials from the AWB, Australian DOT, and DEA had participated in initial contract negotiations with CIRECO in Hong Kong before AWB officials were then invited to conclude the negotiations with CEROILFOOD in Beijing.

Apart from competing with each other in the Chinese market CWB and AWB officials continued to be concerned that the US would soon make large subsidised grain sales to China. The Canadian government was irritated by the US Treasury Department's handling of Foreign Assets Control incidents in February and June involving bunker fuel and vacuator pumps. On 16 June, just as the 'vacuator incident' was resolved, the Canadians agreed to increase China's line of credit for grain purchases from $50 million to $100 million. Meanwhile, between February and May,
Chinese success in promoting a credit race among grain suppliers had prompted Chen Yun to recommend to the CPC Central Committee working conference between 21 May and 12 June 1961 China spend up to half of its foreign exchange earnings on annual grain imports totalling about 5 million tonnes. This programme was not introduced until September and Chinese food supplies remained scarce during the summer of 1961. The food situation in the army at that time continued to be such that the PLA leadership felt China would be in a 'critical position' if it were to be attacked by forces from two countries simultaneously. While PLA food supplies in August 1961 were more abundant than during the winter of 1960-61 shortages continued and the PLA again recommended measures aimed at solving the food supply problem.

Phase five of Chinese trade diplomacy with non-Communist lasted from August 1961 to November 1962. It began at the CPC Central Committee working conference in Lushan between 23 August and 16 September 1961, which was later considered to be the turning point in China's economic recovery. The conference was told that, because production quotas had not been sufficiently reduced, readjustment policies were not working. The conference then officially adopted Chen's more permanent long-term grain import strategy and related measures pertaining to domestic grain consumption, procurement, and sales; and it recognised the need to reduce the urban population. As these readjustment policies continued, the Chinese began negotiations with Western interests for grain to be delivered in 1962. Chinese trade delegations visited Canada and Australia in autumn 1961. At that time Australian banking officials went to China, presumably to discuss credit arrangements for the Chinese-Australian grain sales. However, throughout October and November the Chinese were unable to secure improved credit terms or adequate quantities of grain in their negotiations with the Australians, Canadians and French. During November and December a group of Chinese officials led by Zhou Enlai, supported by Bank of China officials, appear to have been taking a serious interest in purchasing US grain either through Burmese Prime Minister U Nu or Hong Kong middlemen. However, Zhou's group faced opposition from Chinese leaders who were vehemently opposed to trading with the US.

During the first two weeks of December 1961 the Chinese government received disappointing regional harvest reports which indicated that it would have to eliminate grain levies in certain areas and ship more grain to regions affected. At this point the Chinese were desperate to finalise their 1962 grain import programme. Meanwhile, American policymakers were also becoming increasingly divided over the question of possible US grain sales to China. At a meeting on 21 December in Washington a group of US officials led by Carl Kaysen told Quaker
representatives that if a US grain trader negotiated a grain agreement with the Chinese and then applied for an export licence, favourable White House action could be anticipated, but not guaranteed. Between 18 and 22 December the Chinese succeeded in negotiating large contracts with Canada and a three year agreement with France - the latter facilitated by government guaranteed twelve months credits.

As these Western credit grain shipments continued to arrive in early 1962 the worst of the crisis was over, although grain shortages continued to be acute. The Chinese needed to secure another 1.83 million tonnes of Western grain for the first half of 1962, but in January 1962 Australia was willing to supply less than half of this and would not improve credit terms. The Chinese government was preparing to hold a final debate on the issue of purchasing US grain after the enlarged meeting of the CPC Central Committee on the budget and the Chinese economy between 21 and 23 February. However, on 21 February the CWB, which had previously been adamant that it did not have enough grain to meet Chinese requirements in early 1962, suddenly offered the Chinese another 1.1 million tonnes of wheat. A Chinese-Canadian contract covering this amount of grain was signed on 26 March. On 27 and 28 February the Australians also agreed to sell the Chinese approximately 660,000 tonnes of wheat which filled minimum Chinese grain requirements for the first half of 1962.

Throughout 1961 and 1962 there was considerable speculation that international grain trading firms were providing US grain for export to China and/or to replace stocks of grain shipped to China. On 23 March at a White House meeting President Kennedy decided not to approve an application, by the International Trading Company, for a license to sell grain to China although he remained open to the possibility of considering other applications if the Chinese government asked the US government directly for grain. A US government plan to offer the Chinese grain at the Warsaw talks in June was dropped after Chinese officials publicly stated that they would not accept US relief grain shipments. A flood of Chinese refugees across the Hong Kong border during May 1962, which sparked renewed US, British and Japanese interest in shipping relief grain to China, coincided with the working conference of the standing committee of the Political Bureau of the CPC Central Committee between 7 and 11 May where Chen’s earlier proposal to reduce the urban population by 10 million (between January and August 1962) was officially endorsed.

Meanwhile, China was also paying attention to its own grain production. Increasing contacts with Japan since late 1960 resulted in more serious Chinese-Japanese chemical fertiliser negotiations in December 1961. Poor harvests in autumn 1961 provided evidence for the
Chinese leadership that larger quantities of chemical fertiliser were needed to help increase domestic crop yields. As in the case of the grain trade the Chinese were able to take advantage of chemical fertiliser surpluses in the supplying countries, and also of US policies which affected the trade in this commodity. The US government decision on 15 November 1961, which ended earlier American purchases of Japanese fertiliser under Washington’s AID programme resulted in Japan resuming sales of fertiliser to China in 1962. The sales were small and on cash terms, but helped to rebuild Japanese enthusiasm for the Chinese market. This set the stage for Japanese-West European competition in the Chinese fertiliser market. Meanwhile, the Japanese were especially interested in British, Canadian, and Australian methods of expanding trade with China despite US pressure to maintain strict controls on China trade. Tokyo had watched Western grain traders extend medium-term credits of between nine and twelve months in duration. Then in December 1961, despite growing US concern about the situation in Vietnam, the British government had extended five year credits to facilitate aircraft sales to China.¹

The sixth phase in Chinese trade diplomacy with non-communist countries occurred between September 1962 and December 1963. During this period the US failed to restrain non-Communist trade with China whose government reached a consensus regarding the need to pursue more ambitiously trade relations with non-Communist countries that were willing to provide, on generous credit terms items required for Chinese economic development over the long-term. Following the tenth Plenary Session of the Eighth Central Committee of the CPC in Beijing between 24 and 27 September the line was established under which economic relations with the West and Japan would be pursued in the interest of Chinese industrial development. A boost must have been provided to this position when, also during September 1962, the AWB improved slightly the conditions of twelve month credits extended to the Chinese to facilitate additional grain purchases. In October 1962 the French renegotiated their long-term grain agreement with the Chinese and agreed to sell much larger quantities of wheat to China in 1962–63. Then on 23 October, despite the outbreak of the Chinese-Indian border war, the Canadian government decided to continue grain sales to China. On 1 November, as the conflict continued, the Canadian government agreed to increase the credit guarantee on further grain sales from nine to twelve months. These terms were extended to the Chinese in early December when new Chinese-Canadian grain contracts were signed. Meanwhile, during November the French also increased their government credit guarantee on wheat sales to China from twelve to eighteen months.

In late 1962 the NITREX cartel extended twelve month credits to

¹ See Appendix 3.
facilitate large Chinese purchases of fertiliser. This was followed by the independent Italian firm ANIC/ENI extending eighteen month credits to facilitate large fertiliser sales to China. On 9 November 1962 the Liao-Takasaki trade agreement was signed signalling the expansion of Chinese-Japanese trade. On 11 January 1963 the Japanese extended eighteen month credits (with no down payment) to facilitate a large sale of fertiliser to China - the first contract under the L-T agreement. In February NITREX and the Chinese signed a large fertiliser contract for 1963 facilitated by twelve month credits.

In early 1963 the Chinese again became concerned about securing enough grain when the French, owing to a poor harvest, were unable to meet their obligations under the Franco-Chinese grain agreement. Despite renewed concerns about grain supplies, the Chinese had threatened to cut off purchases of Canadian grain if Ottawa did not allow more Chinese textiles to be imported into Canada. This became an issue in the April 1963 Canadian federal election. In May the Chinese signed another large grain contract with the AWB on twelve month credit terms. Then, much to the irritation of the Australians, the new Liberal government in Canada agreed to guarantee credits of eighteen months’ duration to facilitate a new thirty month grain agreement with China. Canadian officials reacting against the Kennedy administration’s exchange equalization tax (introduced in July 1963) and against the US government’s efforts to enforce rigid controls on allied trade with China, and concerned about US policies aimed at isolating the Chinese, began to reevaluate Canadian China policy for the first time since 1958. However, in September 1963 the Canadians again bowed to US pressure not to recognise the PRC.

While the Chinese decided to continue to import large quantities of grain and fertiliser annually, under a ten year plan introduced in January 1963 the Beijing government also planned to acquire from non-Communist countries complete industrial equipment, technology and technical instruction needed for industrial development. Beginning in February the Chinese opened negotiations for these items with non-Communist suppliers. The Japanese government, also adversely affected by the US equalization tax, finally decided on 22 August 1963 to extend Ex-Im Bank financing to facilitate the sale by Kurashiki of a complete vinylon plant, related technology and technical services to China on five month credit terms - a transaction which Tokyo had been considering since April 1963.² It was the second Chinese transaction with a non-Communist country to be facilitated by long-term credits and the first Chinese complete plant purchase from a non-Communist supplier. The Chinese expressed interest in purchasing more Japanese complete plants, if Tokyo agreed to extend long-term credits to cover the sales. However,

² See footnote 4.
immediately after the Kurashiki transaction was announced, the Taiwanese and Americans pressured the Japanese not to extend similar credits in the future. After the Japanese government caved in to this pressure, the Chinese turned to Western European countries to supply complete industrial equipment under long-term credits. Between September and December 1963 the Chinese purchased from West European firms four complete chemical fertiliser production plants with related technology and services - at least two of which were sold under five year government guaranteed credits (the other two probably under three year terms). These important inputs provided the Chinese with state-of-the-art chemical fertiliser production equipment and technology which they copied and dispersed throughout the country. Also in late 1963 the Chinese secured another fertiliser contract with Japan, for delivery in 1964.

In September and October 1963 the USSR also negotiated large contracts to purchase Canadian and US grain. This increased Chinese uncertainty about its own access to grain supplies and made Western exporters less dependent on the Chinese grain market. Nevertheless, in November and December the Chinese concluded further grain contracts with the CWB and AWB and managed to secure large amounts of Argentinian and Mexican grain on credit terms to replace that which the French were to have supplied. The US decision to ship American grain to the USSR left US allies questioning whether Washington’s policies were consistent. As Chinese-Soviet relations deteriorated, the US, partly owing to balance of payments concerns, appeared to be easing controls on trade with the Soviets. American allies could not understand why Washington continued to maintain an inflexible attitude towards non-Communist nations trading with China. Although the US continued to pressure allies to adhere to economic controls on China trade between 1957 and 1963, US allies led by the British government were increasingly resistant to US government pressure upon allies to adhere to American economic - as opposed to military - controls on China trade.³

On 13 December 1963, less than two months after the Chinese purchased a complete ammonia production facility and related technology from the British firm Humphreys and Glasgow⁴, the British chargé d’affaires in Beijing told the British FO that

> ...Only when China has achieved a minimum standard of affluence does it seem possible that the ideas of her leaders may develop in the direction of revisionism....In the past three years, the Chinese economy has taken and survived a much severer dose of economic warfare than the West could ever concoct...⁵

³ See footnote 12 in introduction to thesis.
⁴ See chapter 9.
⁵ PRO: FO: 371 FC1152/68, from British charge d' affaires, Beijing, 13 December 1963.
There were indications that some influential officials in Washington had reached a similar conclusion. Assistant Secretary of State Roger Hilsman's speech in San Francisco that same day, less than a month after President Kennedy was assassinated, indicated new signs of flexibility in US-China policy. Hilsman's speech emphasised that although Washington was concerned about Beijing's fundamentalist approach to Communism, which emphasised violent revolution, the US government was leaving the door open to the possibility of a change in relations with China. With respect to trade, Hilsman stressed that, the Chinese government saw the US as hostile and Beijing continued to adhere to its Maoist position that politics and economics were inseparable. The following day George Ball notified all American diplomatic posts that Hilsman's speech did not signal changes to US-China policy and was rather a "...public presentation of assessment and thinking held for some time within the department..."

The US government's inconsistent application of trade controls and Washington's unwillingness or inability to implement sanctions against American allies who ignored US protests against various trade deals with China led to the near breakdown of allied controls on China trade between 1957 and 1963. Increased Chinese trade with non-Communist countries resulted in growing internal debate in the US government, between autumn 1961 and June 1962, over the possibility of shipping US grain to China. Evidence suggests that between 1961 and 1963 there was a growing sense of ambivalence among US policymakers with respect to China. US-China policy was shaped on the one hand by the pro-Taiwan 'China Lobby' and 'cold war' thinking in the State Department and on the other hand, by domestic grain surplus problems and increasing allied trade with China; and by the rise to positions of influence within the US State Department of officials who favoured a more flexible policy approach toward China. Further questions about the consistency of US policy were raised in autumn 1963 when the US government, which continued to pressure allies to adhere to strict controls on China trade, began to expand trade with the USSR.

Between 1961 and 1963, an increasing number of American policymakers in the White House, State Department and US Department of Agriculture became interested in exporting surplus American grain to China to help relieve America's domestic grain surplus problem, as a humanitarian gesture and as an initial step to help break the impasse.

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7 JFKL: Thomson Papers, Box 10, telegram to all diplomatic posts, action American consulate, Hong Kong, from Under-Secretary of State, 14 December 1963.
between Beijing and Washington. However, of the influential officials in the White House, in the FE Bureau at the State Department, in the US military, and in the Commerce Department opposed the initiative for four main reasons. First, these officials were all subject to pressure from the US Congress which was influenced by 'the Committee of One Million' - an organisation which was a dwindling political force in the early 1960s, but continued to wield considerable influence among US Congressional Representatives. Second, these officials felt that because of China's serious economic crisis the US government should try to put as much pressure as possible on the Beijing government by strictly enforcing existing US trade controls against China designed to limit Chinese economic development. Third, these officials emphasised that (especially in light of Chinese involvement in the growing conflict in Vietnam) the US policy of containing and isolating China must be perpetuated in order to provide leadership, support and encouragement to governments in South-East Asia which were fighting against Chinese influence in the region. Fourth, US government officials were unsure of the seriousness of the Chinese-Soviet dispute and remained cautious about what effect a change in US China policy could have on US-Soviet relations. Owing to US balance of payments concerns and the steady outflow of gold from the US, the American government in 1963 examined the possibility of increased trade with the USSR - which, unlike the Chinese, could pay for imports of US goods with cash (or gold).

These factors shaped the Kennedy administration's approach to China. As has been demonstrated, President Kennedy remained cautious about taking any steps which might incite the wrath of Congressional supporters of the Committee of One Million. Kennedy would have risked reprisals from the 'China Lobby' by shipping grain to China if Beijing asked Washington directly for US grain. However, as with China's trade with other non-Communist countries, the Chinese government insisted on conducting trade, especially during the early stages, through middlemen. Without the establishment of officially sanctioned indirect trade contacts the US and Chinese governments had to rely on political diplomacy. However, in the political sphere both sides remained polarised and unwilling to take initiatives which could leave them open to attack from domestic and international opposition. President Kennedy also did not want to take action which could demoralise forces in South-East Asia opposed to Chinese political, economic and military expansion there. Facing potentially serious domestic economic problems, Kennedy, unless he was asked directly by Beijing for US grain, was unwilling to take action that would jeopardise the successful passing of trade expansion legislation.

Clearly, surpluses of grain, chemical fertiliser, fertiliser
production equipment and technology in non-Communist countries between 1957 and 1963 and serious Chinese shortages of these same items during this period set the stage for a key period in trade diplomacy between the two sides. Heavily financed American surplus disposal activities and Washington's unyielding embargo politics vis-à-vis China, and improving US-Soviet trade relations in 1963 served to push US allies toward the Chinese market. From the Chinese perspective the deterioration in Chinese-Soviet relations, from July 1960 onwards, was the catalyst which forced them to seek out a new trading relationship with non-Communist countries.

While China and its non-Communist trading partners had enjoyed the economic benefits of trade, the diplomacy of trade was also an intensely competitive process often involving tactics associated with economic warfare. Participants arrived at the bargaining table as a result of their own economic requirements. On the Chinese side between August 1960 and mid-1962 the Beijing government needed to import large quantities of grain for emergency famine relief. From mid-1962 onwards the Chinese needed to import additional large annual quantities of grain to support their economic recovery and development. Also beginning in 1962 the Chinese began to increase annual imports of chemical fertiliser required to expand domestic grain output as a basis for industrial development and to feed a rapidly growing population. In 1963 the Chinese purchased chemical fertiliser equipment, related technology and technical support in order to become less reliant on fertiliser imports and produce more fertiliser needed to increase grain yields.

Although the Chinese were desperate to import commodities, equipment and technology from non-Communist countries, the Chinese market represented, for non-Communist nations, one of the only possible outlets for record commodity surpluses and industrial overcapacity which had been exacerbated by US economic and trade policies. Between 1957 and 1963 many business interests within non-Communist countries began to view China rather than Taiwan as the market of the future and sought to gain a foothold there for the sake of their firm's future prospects. The Chinese realised that, in this respect, they were negotiating from a position of strength and they masterfully utilised divide and rule techniques to foster competition among suppliers and obtain economic and political concessions.

During the 1957 to 1963 period trade was successfully used by the Chinese - who were gradually moving away from the USSR in trade and political matters - to create friction in US-allied relations and draw American allies away from the US towards a middle ground. This period of Chinese trade diplomacy with non-Communist countries should be seen not only as a vital landmark in terms of the development of Chinese business
and economic relations with non-Communist countries, but in terms of China’s domestic economic development and the commodity, goods and technology export sectors of non-Communist nations.

***
## APPENDIX 1 TABLE A.1

**Biographical Sketches of Chinese Officials**

*denotes representative of CIRECO or affiliate firm

<table>
<thead>
<tr>
<th>Name / Origin</th>
<th>Pre-1949 Background</th>
<th>Post-1949 Position</th>
<th>Miscellaneous</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bang P.S. *</td>
<td>Xinhua official until 1960. Joined CIRECO, July 1949. Appointed CIRECO chief (general secretary).</td>
<td>Bang's appointment to CIRECO represented the strengthening of Beijing's political interests within the Hong Kong firm.</td>
<td></td>
</tr>
<tr>
<td>Bo L.C. * (thought to be from the Beijing area)</td>
<td>A successful private businessman prior to 1949. He and his business partner visited Canada prior to 1949. He or his partner stayed in Canada and continued to be as a private businessman. CIRECO assistant general manager and top negotiator in the 1950s and early 1960s. In May 1962 he left CIRECO, supposedly because he developed a severe case of possibly incurable rheumatism requiring immediate treatment in Shanghai. Despite being on sick leave in late 1962, he emerged as the assistant managing director of CHINATEX in Beijing - handling trade promotions.</td>
<td>Spoke English well. Denoted as flexible and objective (more than other Chinese officials) as well as fully Westernized - able to understand the Chinese through the eyes of a European.</td>
<td>&quot;</td>
</tr>
<tr>
<td>Chen Wing Shan *</td>
<td>Manager of CIRECO's Cereal and Oils Department. Replaced L.C. Bo as Ding Kejian's translator, May 1962.</td>
<td>Spoke English well.</td>
<td></td>
</tr>
<tr>
<td>Chen Fei Zhang</td>
<td>Official from CEREILFOOD's Shanghai branch, November 1957.</td>
<td>Spoke English well. Highly respected by Western officials for his intelligence and charmism.</td>
<td></td>
</tr>
<tr>
<td>Chen Ming</td>
<td>Appointed deputy director of the Third Bureau of the Chinese Ministry of Foreign Trade, February 1962 (the Third Bureau handled trade with Western countries).</td>
<td>Advocated decentralisation of China's economic system, slow growth, economic planning and material incentives for workers. Opposed Mao's 'rapid advance' economic policies, especially the 'Great Leap Forward' between 1958 and 1960.</td>
<td></td>
</tr>
<tr>
<td>Chey Hong We * - b.1925</td>
<td>Manager of the CIRECO affiliate firm Teck Soon Hong.</td>
<td>Owned a Hong Kong identity card. Member of the Chinese trade delegation which visited Canada in 1962. Participated in trade negotiations in Canada in October 1963.</td>
<td></td>
</tr>
</tbody>
</table>
| Cho Yick-luk * - b. 1924 in Zhejiang, China | Staff member of CIRECO affiliate firm Teck Soon Hong (assistant in charge of the business department). | Owned a Hong Kong certificate of identity. Member of Chinese trade delegation which visited Canada in 1962. Chey Hong We's assistant for negotiations with the Canufirms in October 1963. |"
<table>
<thead>
<tr>
<th>Name</th>
<th>Nationality</th>
<th>Role and Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ding Kejian</td>
<td>* - b.1911</td>
<td>During the 1950s he was Zhou Enlai's economic advisor accompanying him to the Geneva Conference and later to East Berlin and Cairo where he signed the first Chinese-Egyptian trade agreement. He spoke little English and relied on interpreters - who were often CIRECO executives like and Chau.</td>
</tr>
<tr>
<td>Feng Danggu</td>
<td>b. 1922 Jiangsu, China (Shanghai native)</td>
<td>CEREOILFOOD representative. Travelled on a Chinese passport. Represented CEREOILFOOD and was CHENTEX's secretary for a Chinese trade delegation which visited Canada in autumn 1961. Returned to Canada as part of a Chinese trade delegation in August 1962.</td>
</tr>
<tr>
<td>Fu Diania</td>
<td>native of Hainan</td>
<td>Deputy director of the Guangzhou Trade Fair and deputy director of CCPI in 1961. Along with Li Yousheng, Fu signed the initial Chinese-Canadian 30 month grain agreement in April 1961.</td>
</tr>
<tr>
<td>Fu Xing</td>
<td></td>
<td>CEREOILFOOD deputy director in 1961. Travelled on a Chinese passport. CEREOILFOOD and MINMETALS representative during the autumn 1961 delegation to Canada.</td>
</tr>
<tr>
<td>Huang Wenzhun</td>
<td>b.1923 Shanghai</td>
<td>Graduate of Columbia University and the University of Chicago. A multimillionaire businessman who began working with the Bank of China prior to 1949. Returned by the Bank of China after 1949 as one of several assistant managers of its Hong Kong branch. In the early 1960s his children were studying in the US and Canada. He possessed the authority to negotiate commercial aspects of Chinese trade deals often drawn up by CIRECO but required final approval from Beijing. In early 1961 he handled initial contacts with the Canadians about credits for Chinese purchases of Canadian wheat.</td>
</tr>
<tr>
<td>Jing Li</td>
<td>b.1924 Hangzhou (Shanghai native)</td>
<td>Joined CCP in 1929 and underwent telecommunications training. Joined the Radio Bureau. In 1959. Seven-year Vice-Minister of Foreign Trade in 1952. As Economic Counselor to Moscow, he helped negotiate the first Chinese Five Year Plan. After 1955 he was stationed in Beijing specializing in the technology trade with Communist nations. Li believed that the Chinese should import Western technology while remaining 'self-sufficient'. Li met Forsyth-Smith and John Small during their visit to China in May/June 1961. An Interpreter for the Chinese delegation visiting Canada in autumn 1963.</td>
</tr>
<tr>
<td>Li Yuqiang</td>
<td>b.1937 Guangzhou</td>
<td></td>
</tr>
<tr>
<td>Name</td>
<td>Birth Year/Location</td>
<td>Miscellaneous Details</td>
</tr>
<tr>
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<td>--------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Mr. Lui Yi - b. 1922 in Shaanxi</td>
<td></td>
<td>CEROILFOOD's first deputy director and by August 1962 the acting director of CEROILFOOD. Travelled on a Chinese passport. Along with CEROILFOOD deputy director Fu Xing Li signed the initial Chinese-Canadian 20 month grain agreement in April 1961.</td>
</tr>
<tr>
<td>Li Zhanzheng - b. 1981</td>
<td></td>
<td>Non-Communist industrialist who became Minister of Light Industry and Vice-Chairman of CCPT.</td>
</tr>
<tr>
<td>Liao Chengzhai - b. 1908 Tokyo</td>
<td></td>
<td>Returned to Japan from China after his father the KMT leader Liao Zhangkai (who was born in San Francisco) was assassinated at Guangzhou in 1923. Western liaison agent for P&amp;H Docks International (Communist underground movement) between 1928 and 1932. NCNA director briefly at Shanghai and later at Guangzhou between 1933 and 1940. Arrested twice by the KMT during this period he was released in both instances under direct orders from Chiang Kai-shek because of Liao's father's former position in the KMT. After 1949 he was China's top Japan specialist. Went to Japan for meetings of the Chinese and Japanese Red Cross, 1952. President of Asia-Asian Solidarity Committee in 1958. Spoke Japanese fluently. Spoke Japanese fluently. The Liao family had a close relationship with Iran Yat-sen and Song Qingling.</td>
</tr>
<tr>
<td>Liu Yizuo - b. 1911</td>
<td></td>
<td>A CIRBICO assistant general manager responsible for textiles, during the early 1960s. Owned a Hong Kong identity card. Were China's delegation which met with Canadian National Revenue Department officials in Ottawa (regarding Chinese textile imports) on 15 June 1962.</td>
</tr>
<tr>
<td>Lu Liang*</td>
<td></td>
<td>Lu along with L.C. Bu visited Canada in 1957 as part of a CIRBICO delegation. Held a Hong Kong identity card. Along with Lu he conducted Chinese grain sales negotiations with Australia and Canada in Hong Kong in 1958 and August 1961. Liu signed the initial cash grain sale contract on 27 January 1961.</td>
</tr>
<tr>
<td>Liao Xuzhang - b. 1911 in Shanghai</td>
<td></td>
<td>A graduate of the College of Commerce, Shanghai. Attended Imperial College London between 1938 and 1940. By 1946 he was the shipping Department manager of a large Shanghai export firm - a firm which between 1935 and 1940 was managed by Fritz Cordt (who became the West German vice-consul in Hong Kong). Prior to 1940 he was also a Shanghai banker. During the second half of 1949 he was deputy director of the Trade Department of the East China Financial and Economic Committee. After its abolition he was appointed member of the newly-established (January 1950) East China Military and Administrative Committee and was simultaneously deputy director of its trade Department until 1953. In 1950 he also became a CHBIC general manager and was director CCPTC member in May 1952 when it was founded. Appointed director of the Third Bureau of Foreign Trade in September 1953. Appointed assistant to the Minister of Trade in October 1953 and Appointed Deputy Minister of Trade in October 1954. In April 1955 Lu was elected member of the Central Committee of China Democratic National Construction Association, a minor pro-People's party founded in 1949 by members of industrial commercial circles which was later used by the CCP government to carry out socialist transformation of capital industry and commerce. May 1956 he was appointed to the newly established (by CCPTC) Foreign Trade Arbitration Committee. At Berlin in 1953 he participated in the signing of the Chinese-British Trade agreement negotiated in Moscow at the first International Economic Conference. Appointed director of the Third Bureau of Foreign Trade in September 1953. Between 1958 and 1964 he led several trade delegations abroad (usually in the spring of each year). He led a postponed trade delegation to Russia for three weeks beginning in March 1963 which visited many firms and industrial plants.</td>
</tr>
<tr>
<td>Name *</td>
<td>Position</td>
<td>Details</td>
</tr>
<tr>
<td>--------</td>
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</tr>
<tr>
<td>Sun *</td>
<td>Worked with W.S. Chau at CIRECO's Cereals and Oils Department in early 1960s.</td>
<td>Sun returned to Beijing in mid-August 1965 because of a &quot;shake-up&quot; in CIRECOFOOD.</td>
</tr>
<tr>
<td>Sun Li</td>
<td>Director of the Sinmatex Corporation in 1960 and by May/June 1961 was CHINATEX director.</td>
<td></td>
</tr>
<tr>
<td>Wang Bingxun - b.1907</td>
<td>Worked at Liaoyang Military Academy before studying in Tokyo for one year. Then in the early 1930s he studied at the University of Berlin for four years. Closey associated with Zhou Enlai beginning with the Xian Incident for which he returned from Europe via Moscow. After 1949 he became director of the General Office or executive office of the Ministry of Foreign Affairs.</td>
<td>Spoke Japanese and German and was named to Ausa von Blust (author of Ich Kompfte fur Mao).</td>
</tr>
<tr>
<td>Wang Xianzhong - b. Nagoya, Chekiang, China</td>
<td></td>
<td></td>
</tr>
<tr>
<td>De Wang Xianzhong - b. Nagoya, Chekiang, China</td>
<td>Chairman of the Hong Kong Chinese General Chamber of Commerce. Owned many Hong Kong enterprises including shipping interests, emporiums, and restaurants. chairman of Shanghai Development Co., Dahu Hsin Real Estate Co., and Chinese Arts and Crafts (Hong Kong).</td>
<td></td>
</tr>
<tr>
<td>Wang Yaoding</td>
<td>CHINATEX vice-director in summer 1961.</td>
<td>Received John Small and Fosyth-Smith during their trade promotion visit to China in May/June 1961.</td>
</tr>
<tr>
<td>Wei Yirei</td>
<td>Department chief, Complete Industrial Plants CNTIEC in summer 1961.</td>
<td></td>
</tr>
<tr>
<td>Wong Wai-chung * - b.1933</td>
<td>Staff member of Taik Soo Hong.</td>
<td>Govt a Hong Kong identity card. Visited Canada as part of a Chinese trade mission in March 1961.</td>
</tr>
<tr>
<td>Xiao Shafudan</td>
<td>Between November 1954 and July 1960 he was commercial counsellor at the Chinese embassy, London. He returned to China in May to become deputy director of the Export Department, Ministry of Foreign Trade. By the summer of 1961 he had been appointed managing director of MINMETALS, Beijing.</td>
<td>Well versed in Western business practices he accompanied Lin Xiangtang to Britain in March 1963.</td>
</tr>
<tr>
<td>Xu Bangfa *</td>
<td>Manager of CIRECO's Industrial Products and Minerals Department in the early 1960s.</td>
<td></td>
</tr>
<tr>
<td>Yang Lin-hang * - b. 1915 in Rangoon, Burma (a Defence subject)</td>
<td></td>
<td>Acted as Lin Liang's secretary during their visit to Canada in 1961 and in 1962 returned to Canada as member of a Chinese trade delegation.</td>
</tr>
<tr>
<td>Name</td>
<td>Position / Role</td>
<td>Details</td>
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<td>---------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------</td>
</tr>
<tr>
<td>You Dunhuang</td>
<td>1915 Ningbo, Zhejiang</td>
<td>In 1960 he was one of CIRECO's top negotiators and in 1961 was a CIRECO assistant general manager.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Possessed a Hong Kong certificate. Used interpreters when speaking, but could speak and understand English quite well. CIRECO's chief negotiator during negotiations with the CWB in March April 1961. Deputy leader of the Chinese trade delegation which visited Canada in autumn 1961. Was posted back to Beijing in June or July 1965 during a 'shakeup' within CIRECO.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>You P. L.</td>
<td></td>
<td>CIRECO assistant manager during the late 1940s and early 1950s.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Participated in CIRECO's grain sales negotiations with the AWH.</td>
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<td></td>
</tr>
<tr>
<td>Zhao Zhongshu</td>
<td></td>
<td>Vice-director of CNIEC in the early 1950s.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>In 1959 vice-chairman of the Shanghai Trade Fair.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>An old friend of the '48 Group'.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zhang Bing</td>
<td></td>
<td>CIRECO general manager until November 1950 when he was appointed CEROILFOOD deputy director in Beijing. Replaced at CIRECO by Ding Ruijian.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Zhang headed the general trade delegation that visited Australia between August and October 1961.</td>
</tr>
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<td></td>
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</tr>
<tr>
<td>Zhang Guoxian</td>
<td>b. 1910</td>
<td>Manager of Jiangsu Development Corporation Ltd., Hong Kong Importer of Chinese arts and crafts on behalf of the Chinese government.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Owned a Hong Kong identity card.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Included in the Chinese delegation which visited Canada in 1962.</td>
</tr>
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<tr>
<td></td>
<td></td>
<td>One of the most active journalists in the Chinese Nationalist movement in early 1900.</td>
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<td></td>
<td></td>
<td>In 1993 he and a group of other students left the Nanking Military Academy because of a dispute with staff and joined the Akamon (patriotic) Academy—an institution founded by the Chinese educational Society (not by members who stressed the importance of nationalism over education). At Akamon Zhang was appointed Editor of Su Pan, Shanghai’s most influential and radical newspaper which was the centre of the ‘Su Pan Sedition case’ between 1902 and 1903.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>After 1949 he was a member of the National Committee of the Chinese People’s Political Consultative Conference (Policy Advisory Committee) and a member of the Political and Legal Commission in the State Council (headed by Zhou Enlai). He was also president of the Central Historical Museum in Beijing and after 1954 also a University Professor (and also at one time president of Beijing University).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>In the early 1960s Zhang continued to be advisor to Mao Zedong and Zhou Enlai.</td>
</tr>
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<tr>
<td>Dr. Zhi Zhaoxing</td>
<td></td>
<td>In 1957 he was deputy director of CCPIT and a member of a Chinese technical delegation to Britain.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Possessed scientific credentials.</td>
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</tbody>
</table>
### APPENDIX 2 TABLE A.2

**Biographical Sketches of Government Officials and Trade Representatives from Non-Communist Countries**

<table>
<thead>
<tr>
<th>Name</th>
<th>Origins/Pre-1956 Background</th>
<th>Post-1956 Business or Government Position</th>
<th>Miscellaneou s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alderton, Paul D.</td>
<td>Hong Kong manager of Bunge, the Argentine grain trading firm, during the 1950s and early 1960s.</td>
<td>Visited Beijing six times between 1956 and spring 1958 for trade talks. Involved in the 1958 negotiations for Chinese purchases of Canadian wheat.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Name</th>
<th>Origins/Pre-1956 Background</th>
<th>Post-1956 Business or Government Position</th>
<th>Miscellaneou s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amerongen, Otto Wolff von</td>
<td>Owner of Otto Wolff steel firm in Cologne</td>
<td>Negotiated the 1957 Chinese-German grain agreement and his trade delegation acted as intermediaries when Chinese steel and machinery technicians met with officials of several Ruhr area steel firms in summer 1963 at the Chinese embassy, Bonn. Embassy officials invited Amerongen to visit Beijing in early 1964. Throughout the 1950s Dr. Albert Voss was Otto Wolff's Far Eastern representative in Hong Kong. Voss did business with Bunge and Company. During the 1950s Otto Wolff sold the Burmese a large amount of equipment needed for domestic economic development.</td>
<td></td>
</tr>
</tbody>
</table>

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Amerongen's close friend and fellow adventurist, Fritz Berg. The ODW (also Cologne based) was a 'semi-private' organisation composed of the same members as BDI and was headed by Otto Wolff von Amerongen's close friend and fellow adventurist, Fritz Berg. The ODW was an organisation of German businessmen interested in promoting trade with the East and had formulated the details of the 1937 Chinese-West German trade agreement which specified quotas and trade terms. So that 'Eastern' governments would not assume that ODW had an official governmental status, ODW refrained from making public statements. Though it was reported to have no official government status Bonn constituted the organization before approving any commercial transaction with Eastern countries. ODW representatives were included in West German delegations negotiating with Eastern countries and a governmental official from the Economics Ministry was an 'unofficial' board member.

Otto Wolff was ODW executive chairman while the secretariat of six people was headed by Kirchner of the BDI. ODW Executive members included Heinz Hufhagd, Alfred Schultz (board member and acting head sales representative of the German Machine Builders as well as head of the oil export division of DBMAG and a member of the Board of Directors of the Duisburg firm), and Rolf Auduard (head of the German Machine Manufacturers Association).
Braga, Jose Maria 'Jack' - b. 1897 in Hong Kong. His ancestors, the Rosa Braga family, arrived in Macau from Tancos Portugal in 1708 and soon became very wealthy and influential in the colony. The Braga family had strong business ties with the Kadoorie family who had invested large sums in Shanghai public companies. Jack's Father Jose Pedro Braga was the first representative of the Portuguese community appointed to the Hong Kong Legislative Council. He convinced the Kadoories of investment opportunities in the China Light and Power Company of Hong Kong. J.P. Braga later sat on the board of directors of the firm. The firm held sole rights to supply electricity to the New Territories. During the 1930s Kadoorie financed a large and highly successful Kowloon housing development project proposed by J.P. Braga and his son Hugh after they were asked to manage Sir Robert Ho Tung's struggling Hong Kong Engineering & Construction Co.

Jack Braga was educated at St Joseph's College in Hong Kong. Joined the Hong Kong and Shanghai Bank in 1913. Worked in the family print business between 1916 and 1921. Taught English at St Joseph's College between 1916 and 1921. Executive officer of the Scotiafide de Abastecimentos (Macau Water Company) - a firm which imported water from China to Macau.

During WWII he purchased grain for the KMT Government, was head of the Macau underground serving as liaison officer between secret service officials including those of the Chinese government and the British Army Aid Group (BAAG). In 1946 he resigned from the Macau Water Company and returned to Hong Kong where he started the rice importing firm Braga and Co., the first supplier of rice from China to Hong Kong.

Brunner, Frank

Officially the Chinese insisted that he use the title consular office of the British charge d'affaires in Shanghai. He was in fact the UK consul-general in Shanghai.

Cabot, John Meers - (1901-1981)

Resigned as Assistant Secretary of State for Inter-American Affairs in 1933 after proposing implementation of an 'inter-American' economic programme.

US ambassador to Poland, 1933 to 1937. US ambassador to Poland March 1962 to 1963.

Coombs, H.C.

Received an MA at the University of Western Australian in 1931 (MA Thesis: 'The Development of the Commonwealth Bank as a Central Bank').

Received a PhD from the University of London in 1933 (PhD thesis: 'Dominions Exchanges and Central Bank Problems Affecting Themselves').

During the 1950s and 1960s Coombs was governor of the Reserve Bank of Australia.


Cordt, Fritz

Cordt was manager of a Shanghai firm between 1934 and 1945 that handled Chinese officials such as Lu Xuzhang.

During the 1950s and 1960s Cordt was the West German commercial officer at the West German consulate-general in Hong Kong. His contacts in China allowed him to visit the Guangzhou trade fair on a regular basis. He was the only member of the West German consulate-general in Hong Kong to be invited to the Guangzhou Trade Fair.

He placed great importance on the friendships which he maintained in China.

He was not allowed to read West German consul-general political or economic reporting because he carried on private correspondence with the West German Social Democrats in Brazil.
<p>| Eveleigh, Arthur b. Britain | Lived in Russia for eight years prior to the 1917 Bolshevik Revolution and was general manager for Louis-Dreyfus in China between 1918 and 1941 and from 1945 to 1948. He imported annually over half of China's wheat and flour requirements and a good portion of this wheat came from Canada. He was appointed 'food controller' for Shanghai during the initial Japanese attack on the city, subsequently heading food rationing. Then in August 1945 after the Japanese surrendered and the US government was shipping 203,209 tonnes of relief supplies to China he was appointed consultant to the US &quot;China-Rief Mission&quot;. He stayed in this position until the post was liquidated, eighteen months later. The KMT Nationalist government appointed him advisor to the Ministry of Food. In October 1947, while in this position, he visited Ottawa and Washington. Eveleigh stayed in this position until the CCP government took over in which time he began working for Northern Sales. Eveleigh continued to maintain contact with his friends and associates in China about grain supplies. | He understood Czech, Polish, and spoke fluent French, Russian, and Chinese in the Mandarin, Shanghai, and Canton dialects. |
| Faibish, Roy | Native of Eastend, Saskatchewan. Graduate of the University of Saskatchewan and Queen's University. Worked with the Departments of Natural and Mineral Resources in Saskatchewan. | Popular Canadian author Peter C. Newman and most Ottawa observers considered Faibish to be brilliant: &quot;...the best mind that the Tories had attracted in a generation...&quot; because of among other things his remarkable acumen in politics, government, history and economics. Faibish, Hamilton's &quot;intensely loyal&quot; special assistant accompanied Hamilton to Hong Kong in 1961 for discussions with CIRECO on matters relating to credit financing of the thirty month Chinese-Canadian grain deal. |
| Forsyth-Smith, C.M. 'Max' - b. 1920 in Liverpool, England. | Born in England when his father, also a Canadian trade commissioner, was posted there. Forsyth-Smith was thirteen when his family returned to Canada to settle in Nova Scotia. He went on to graduate from Acadia University with an economics M.A. Distinguished tour of duty in the Canadian army between 1942 and 1945 - decorated for his service in Italy, France and Germany. At the end of WWII he taught for two years before joining the DTC in 1947 and subsequently served in Wellington, New Zealand and Sydney, Australia before becoming Canadian trade commissioner in Hong Kong in early 1956. | Became Canadian trade commissioner in Hong Kong in early 1956. At this time the responsibility of the Canadian Trade Commission in Hong Kong included China and most of SE Asia - a region which, from the perspective of Canadian trade Commission officials in Hong Kong, became very 'active' during this period. Forsyth-Smith reported directly to DTC in Ottawa and thus the information which he sent back related almost exclusively to trade. Resigned from this position in 1962 and joined the Canadian Imperial Bank of Commerce. In 1964 he returned to the ITFC with a posting in Brazil. Along with Tom M. Pope he visited China between 6 and 23 November 1957 on a trade promotion tour where he was involved in final Chinese-Canadian wheat sale negotiations. Along with John Small, he visited China on a trade promotion tour between 13 May and 30 June 1968. Returned with Small to the autumn Guangzhou Trade Fair between 15 and 18 October 1961. Instrumental in the Chinese-Canadian cash and credit wheat sales in 1961 and 1962. Resigned from the DTC in 1962 because he felt that Ottawa had procrastinated on the issue of textile quotas in developing Chinese-Canadian trade. He was also irritated by some of the Canadian government's decisions which he felt had damaged business relations and friendships between Canadian officials in Hong Kong and Chinese government officials - relations which had taken years to build up and once damaged could never be fully restored. |
| <strong>Hamilton, Francis 'Alvin' George</strong> | After the death of his parents he was raised on his Aunt and Uncle's farm in Tisdale Saskatchewan. School teacher between 1931 and 1934 and attended the R.B. Bennett Conservative government's committee meetings where he learned about agricultural policy. Attended the University of Saskatchewan in the mid-1930s where he studied history and economics. At this time he met John Diefenbaker, Provincial Conservative leader. During WWII he was a RCAF navigator and saw action in Burma in 1944 and 1945. Defeated in the 1945 and 1948 Saskatchewan Provincial elections as a Conservative candidate. Defeated in the 1949 Federal election. Became Saskatchewan Conservative Leader in 1949 - a Party which had no seats in the legislature. Defeated in the 1952 Provincial election. Defeated in the 1953 Federal election. Defeated in the 1956 Provincial election. Elected in the 1957 federal election he became the Canadian Minister of Northern Affairs and Natural Resources between 1957 and 1960. Minister of Agriculture between 1960 and 1963. | One of Prime Minister Diefenbaker's most influential policy advisors. Tended to be suspicious of the civil service and tended to rely on his own advisors. Known as an 'ideas man' the flamboyant and sometimes controversial Hamilton had a firm background in wheat and agricultural policy. | Hamilton died on 31 December 1960. |
| <strong>Hove, Clarence Decatur</strong> | After receiving a degree in engineering from the Massachusetts Institute of Technology he went on to Canada (Halifax, Nova Scotia) where he taught engineering at Dalhousie University in Halifax between 1908 and 1913. In 1913 he began working on the Canadian prairies designing wheat elevators for the Board of Grain Commissioners for Canada. In 1916 he founded his own engineering firm which specialized in building grain elevators. His firm continued to build grain elevators throughout Canada between 1916 and 1935 and became the most important Canadian grain building elevator firm. In 1935 Hove was elected Liberal Member of Parliament for St. Arthur (Thunder Bay). He became Minister of Transport in the Mackenzie King Cabinet. In 1940 he became Minister of Munitions in charge of the Canadian war-production programme. In 1944 he was placed in charge of the Department of Reconstruction which oversaw Canadian post-war economic development with a minimum of government controls. He was Minister of Trade and Commerce between January 1948 and June 1957 when the Liberal government was defeated in the federal election. | He helped set up Trans Canada Airlines, the forerunner of Air Canada. | Heove died on 31 December 1969. |
| <strong>Hitling, Heinz</strong> | Lived in Tokyo, Hong Kong and Shanghai during the 1940s. He had contacts in Beijing, Nanking and Chongqing. An executive member of ODW. | Helped Otto Welf von Arnimnegotiate the lucrative 1957 Chinese-West German trade agreement. | |</p>
<table>
<thead>
<tr>
<th>Name</th>
<th>Position/Role</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Keswick, John</td>
<td>Grandson of William Keswick, the son of William Jardine.</td>
<td>During the 1920s and 1930s he managed Louis Dreyfus Co.'s grain operations.</td>
</tr>
<tr>
<td>Louis-Dreyfus, Francois (family name is hyphenated but the company name is not italicised)</td>
<td>Son of Louis Louis-Dreyfus, brother of Pierre Louis-Dreyfus and grandson of Leopold Louis-Dreyfus (Louis Dreyfus Co. founded).</td>
<td>During the 1970s he managed the banking operations of Louis Dreyfus Co.</td>
</tr>
<tr>
<td>Louis-Dreyfus, Jean</td>
<td>Son of Louis Louis-Dreyfus, brother of Pierre Louis-Dreyfus and grandson of Leopold Louis-Dreyfus.</td>
<td>During the 1950s and 1960s he managed Louis Dreyfus Co.'s grain operations.</td>
</tr>
<tr>
<td>Louis-Dreyfus, Pierre</td>
<td>Nephew of Francois and Jean Louis Dreyfus and grandson of Leopold Louis-Dreyfus.</td>
<td>Pierre Louis-Dreyfus' association with Cemex de Guilla later turned out to be important to Louis Dreyfus Co. operations.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>When de Guilla came to power in 1958 Pierre asked for help with the firm’s shipbuilding operations. De Guilla subsequently provided government subsidies which facilitated the building of the firm’s shipbuilding operations. In 1951 when the Chinese grain market opened up the de Guilla government decreed Louis Dreyfus Co. the sole supplier of French grain to China. The French Cereal cooperative which received government backing and subsidies moved across the street from Louis-Dreyfus’ Paris headquarters and worked with the firm in trading French grain.</td>
</tr>
</tbody>
</table>

### Keswick, John


- During the 1930s John Keswick was a director of the Hong Kong operations of Jardine Matheson & Co. while his brother Tony ran the Shanghai branch. During WWII John Keswick was also a First Secretary at the British embassy in Chongqing. In his cover role as an intelligence officer with the Calcutta headquartered SOE (Force 136 Special Operations Executive) in South-East Asia during Economic Warfare he was actually working for the British Ministry of Economic Warfare he was actually working for the Calcutta headquartered SOE (Force 136 Special Operations Executive) in South-East Asia during Economic Warfare. He returned to Paris after WWII as a war hero receiving the order of Compagnie de la Liberation bestowed on less than one thousand men who served with de Gaulle.

### Lang, 'Jack' Jacques

Lang, 'Jack' Jacques Prior to WWII Louis-Dreyfus did considerable business in China and Lang lived there for eleven years prior to 1947.

- He was interned at Shanghai by the Japanese during WWII.
- Head of Louis-Dreyfus’ London Office after WWII.

### Louis-Dreyfus, Francois

- Son of Louis Louis-Dreyfus, brother of Jean Louis-Dreyfus and grandson of Leopold Louis-Dreyfus (Louis Dreyfus Co. founded).
- Because of the German occupation of France, he lived in Argentina between 1942 and 1945.

### Louis-Dreyfus, Jean

- Son of Louis Louis-Dreyfus, brother of Pierre Louis-Dreyfus and grandson of Leopold Louis-Dreyfus.
- Because of the German occupation of France he lived in Argentina between 1942 and 1945.

### Louis-Dreyfus, Pierre

- Nephew of Francois and Jean Louis Dreyfus and grandson of Leopold Louis-Dreyfus.
- Took an interest in Louis Dreyfus Co.'s shipping interests as soon as 1930.
- Married to daughter of US industrialist in shipping interests as early as the late 1920s or early 1930s.
- During the 1920s and 1930s he managed Louis Dreyfus Co.’s grain sales to China and the USSR directly to the US government. In October 1941 he met with Averell Harriman about this matter.

### Louis-Dreyfus, Francois

- Head of Louis-Dreyfus' London Office in 1950s and 1960s.
- Described as a gifted linguist, he spoke the Shanghai dialect and while in Shanghai met his Russian wife who also taught him to speak Russian fluently.

### Louis-Dreyfus, Jean

- Son of Louis Louis-Dreyfus, brother of Pierre Louis-Dreyfus and grandson of Leopold Louis-Dreyfus.
- Because of the German occupation of France he lived in Argentina between 1942 and 1945.

### Louis-Dreyfus, Pierre

- Nephew of Francois and Jean Louis Dreyfus and grandson of Leopold Louis-Dreyfus.
- Took an interest in Louis Dreyfus Co.’s shipping interests as soon as 1930.
- Married to daughter of US industrialist in shipping interests as early as the late 1920s or early 1930s.
- During the 1920s and 1930s he managed Louis Dreyfus Co.’s grain sales to China and the USSR directly to the US government. In October 1941 he met with Averell Harriman about this matter.

### Louis-Dreyfus, Francois

- Head of Louis-Dreyfus’ London Office after WWII.
- Because of the German occupation of France he lived in Argentina between 1942 and 1945.
| **MacMillan, Cargill (1900-1963)** | A member of one of two related families which controlled Cargill, the Minneapolis-based international grain trading firm. Believed in orderly expansion of Cargill after the firm’s problems in 1909. Cargill’s president during the 1930s. Suffering from health problems at the time of his brother’s sudden death in 1960 decided to step down as Cargill president shortly thereafter. In 1938 openly criticised the total US trade embargo against China. |
| **MacMillan, John H. Jr. (1895-1960)** | A member of one of the two related families which controlled the Minneapolis-based international grain trading firm Cargill. He was a brilliant engineer who designed and built integrated barges - tow boat units which locked together and formed one unit to enable maximum tonnages of grain to be shipped at the lowest cost through the Great Lakes’ canals and locks. His favoured orderly expansion after Cargill’s serious problems in 1909. Force behind Cargill’s decision (when the grain trade was suffering because of falling grain prices during the 1930s) to invest money in transport and storage. He took a serious interest in exporting US grain as early as autumn 1957. |
| **Mattié, Enrico - b.1906 or 1909** | Founded ENI in 1933 and was the firm’s president until his death. In the 1930s and early 1960s he developed poor relations with the major international oil companies and the US government mainly by criticising various pricing arrangements of the international oil companies. Also through its ‘private’ subsidiaries ENI began to enter the Egyptian, Iranian, Moroccan, Sudanese, and Libyan oilfield development markets by extending an unprecedented 75% split on profits to host nations (oil companies previously extended a 30-30 split on profits). Mattié and ENI were said to contribute funds to a number of Italian politicians and political parties which in turn provided wide support for ENI in parliament and the public sector. Washington was concerned that Mattié had long advocated recognition of Beijing - once stating that if Rome would not recognize the Chinese government diplomatically ENI would. Died in a plane crash in the fog while returning from negotiations with Standard Oil Company of New Jersey USA on 27 October 1962. |
| **Mclvor, George R. b. 1903** | Assistant chief CWB commissioner March 1926 - July 1927. Chief Commissioner CWB July 1937–30 April 1938. In 1957 McIvor quarrelled with Prime Minister Diefenbaker over wheat pricing policy and as a result he resigned from the Board on 16 November 1957 and immediately became chairman of the board for Robin Hood Flour Mills in Montreal. |
| **McNamara, William C.** | Appointed assistant chief CWB commissioner in February 1947. In 1957 he approached the Chinese in dividends about purchasing Canadian wheat. After the resignation of CWB chief commissioner George McIvor in 1957, after a dispute with Prime Minister Diefenbaker over wheat pricing policy, McNamara was appointed chief commissioner on 1 June 1958. He met the CIRECO delegation which visited Winnipeg in autumn 1957 before the initial Chinese purchase of Canadian grains were made. He oversee CWB negotiations with the Chinese in the 1960 acting as liaison between the Board and the Canadian government. During the Chinese-Canadian negotiations in 1961 McNamara reported to Alvin Hamilton and worked closely with Forsyth-Smith and John Small. He retired from the CWB on 5 October 1970 and was appointed to the Senate. |
| **McNeair, William M.** | From a prairie farming community. He had a degree in agriculture. He specialized in the wheat trade and in 1937-38 and was a great asset to the Canadian trade commission in Hong Kong where he was posted as assistant trade commissioner. Assistant trade commissioner in Hong Kong in 1938. Subsequently returned to Canada where he became a top specialist on grains. |

Miner, William M. | From a prairie farming community. He had a degree in agriculture. He specialized in the wheat trade and in 1937-38 and was a great asset to the Canadian trade commission in Hong Kong where he was posted as assistant trade commissioner.
<table>
<thead>
<tr>
<th>Name</th>
<th>Role/Position</th>
<th>Activities/Events</th>
</tr>
</thead>
<tbody>
<tr>
<td>Muir, James</td>
<td>Chairman and president of the Royal Bank of Canada in the 1950s.</td>
<td>He travelled to China between 12 and 14 June 1958 as part of a fact-finding delegation. He became a firm supporter of increased Canadian trade with China. The Royal Bank was involved in the financing of the Chinese purchases of Canadian wheat. In 1956 it began to support the idea of providing credits to finance trade with China. When in Hong Kong after leaving China in 1958 Muir discussed the idea with Forsyth-Smith of opening a Royal Bank branch in Hong Kong. Forsyth-Smith’s brother later became the first manager of the new Hong Kong branch. Muir’s 1958 visit was the beginning of the Royal Bank’s long involvement with China trade. Muir died in 1961 and when Chen Ming, heading a Chinese trade delegation to Canada in autumn 1961, arrived in Montreal he insisted on visiting Muir’s grave to pay tribute.</td>
</tr>
<tr>
<td>Neve, R.B.</td>
<td>Director of Bank Line in Hong Kong - an affiliate firm of Cargill, the American-based international grain trading firm.</td>
<td>Participated in early negotiations with the Chinese in 1958 for the sale of Canadian grain on behalf of Cargill.</td>
</tr>
<tr>
<td>R.G.I. Oliphant</td>
<td>Manager of the Hong Kong and Shanghai bank’s head office between 1958 and 1964. He was responsible for decision-making at the banking level, and was a member of the Government Advisory Banking Committee and urged government to formulate adequate banking legislation.</td>
<td></td>
</tr>
<tr>
<td>Patterson, George R.B.</td>
<td>Joined the Australian Trade Service in 1946 following wartime service in the AIF and went on to become trade commissioner in South Africa between 1947 and 1953; and in the UK between 1953 and 1954.</td>
<td>After his visit as Australian trade commissioner to the UK between 1953 and 1954 in 1960 he became senior trade commissioner in Hong Kong. He left the service in 1952 and returned to Australia to work for a private firm.</td>
</tr>
<tr>
<td>Perrott, C.J.</td>
<td>Fought in WWII and obtained a BA and R.Curnow at the University of Melbourne before becoming a senior member of the Australian Department of Commerce and Agriculture before 1939.</td>
<td>1950s and 1960 he was the AWB general manager. An enthusiastic supporter and proponent of trade with China. He led the dominant group within the AWB which supported extending credit facilities to Beijing in order to promote exports of Australian wheat to China. Permit led the AWB negotiations with the Chinese between 1960 and 1963 and visited China on several occasions to negotiate and conclude contracts. He spoke only a few words of Chinese.</td>
</tr>
<tr>
<td>Pope, Tom M.</td>
<td>Son of LL-Gen. Manfred Pope, Ottawa. Studied at the University of London before joining the Canadian DFA in Ottawa. In 1956 he was posted to Hong Kong - his first foreign posting. He spent the first year of his posting as a Chinese language student at Hong Kong University. He was to spend half of his time during his second year on honing Chinese and the other half as a 'China watcher'.</td>
<td>In autumn 1957 after having been in Hong Kong for about two years Pope, who had progressed well with learning the Chinese language, was asked by Canadian trade commissioner Forsyth-Smith to accompany him to China as part of a three-week exploratory trade delegation in November 1957. During this mission Pope was an important asset to Forsyth-Smith as the Chinese officials encountered at ports were aware that Pope understood the language and a number of Chinese remarks which were not intended to be understood by the Canadians. After returning to Hong Kong from China in late November 1957 Pope began sending regular economic and political reports to the DFA Ottawa. Pope served as a 'China watcher' contributed to the DFA decision to send a full-time DFA observer to Hong Kong under the title of trade commissioneer. He accompanied Forsyth-Smith to China between 6 and 23 November 1957 on a trade promotional visit. During this visit the Canadians began opened negotiations with CEROILFOOD officials for the initial wheat sales to China in 1958.</td>
</tr>
<tr>
<td>Name</td>
<td>Details</td>
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<td>--------------</td>
<td>---------------------------------------------------------------------------------------------</td>
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<tr>
<td>Riddel, William</td>
<td>Appointed CWB commissioner on 1 August 1950.</td>
<td></td>
</tr>
<tr>
<td>Ritchie, Kenneth G.</td>
<td>Commercial counsellor British embassy, Beijing.</td>
<td></td>
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<tr>
<td>Rodgers, G.F.</td>
<td>Councillor British embassy, Beijing in 1941.</td>
<td></td>
</tr>
<tr>
<td>Ross, L. Stuart</td>
<td>First commercial secretary of the British charge d'affaires, Beijing.</td>
<td></td>
</tr>
<tr>
<td>Schultz, Alfred K.</td>
<td>ODW member.&lt;br&gt;Board member and acting head sales representative of the German Machine Builders.&lt;br&gt;Member of the board of directors of the Duisburg firm D.R.MAG.&lt;br&gt;Head of D.R.MAG export division.</td>
<td></td>
</tr>
<tr>
<td>Schenk, Frederic</td>
<td>Official from the Lausanne headquarters of Andre’ &amp; Cie S.A.&lt;br&gt;Both a grain trader and banker with the Swiss firm.</td>
<td></td>
</tr>
<tr>
<td>Riddel, William</td>
<td>Appointed assistant C.W.B commissioner June 1938 and stayed in that position until September 1965.</td>
<td></td>
</tr>
<tr>
<td>狩猎:要求:</td>
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</tr>
</tbody>
</table>
Sharp, Mitchell W. - b.1911 at Winnipeg. An economist who began his career in the Canadian grain trade.

Joined the Canadian Department of Finance in 1942.

Sharp was transferred to the Department of Trade and Commerce in 1951 at the request of Minister of Trade and Commerce C.D. Howe.

Howe went on to become Associate Deputy Minister and Deputy Minister in the Department of Trade and Commerce. In this role Sharp was one of Howe's key economic advisors and speech writers.

Sharp was Deputy Minister of Trade and Commerce (Deputy to Gordon Churchill, the Progressive Conservative government's Minister of Trade and Commerce) between June 1957 and April 1958.

Sharp resigned as Deputy Minister in April 1958 owing to a growing dispute between the Diefenbaker government and the civil service. Sharp had sided with CWB chief commissioner Molvor in Molvor's dispute with Diefenbaker over wheat pricing. Molvor had resigned from the CWB in November 1957. Then prior to resigning in April 1958 the Diefenbaker government accused him of leaking a government idea to establish free trade between Canada and Britain.


In 1963 Sharp was elected to the Canadian Parliament in the Etobicoke (Ontario) riding.

On 22 April 1963, following the Liberal federal election victory, Sharp was appointed Minister of Trade and Commerce. The CWB was immediately moved back from under the jurisdiction of the Department of Agriculture to its traditional position under the Department of Trade and Commerce. Between 22 April and 3 November as Minister of Trade and Commerce Sharp was Minister responsible for the CWB and Chinese-Canadian grain sales.

Small, Charles 'John' Grew up and went to school in Chengdu, Sichuan where his parents were missionaries. He learned to speak Chinese fluently.

An officer in the Canadian Navy, he went on to receive a degree in agriculture.

He began his career in the Canadian Foreign Service in the Trade Commissioner Service. After a couple of postings he was transferred to the Canadian DFA.

Small’s background combined with his Chinese expertise, made him invaluable to the Canadian government as a ‘China watcher’ in Hong Kong in the late 1950s. In 1958 the DFA posted him to Hong Kong under the title of trade commissioner although he reported directly to the DEA. His reports on political and economic information pertaining to China. Small worked very well with Canadian Trade Commissioner Forsyth-Smith.

Small’s knowledge of the Chinese language was a great asset to the Canadian government as he was able to keep the Chinese team informed of what the Chinese were saying to each other. Small along with other members of the Canadian Trade Commission in Hong Kong formed a formidable information gathering team. Officials of the Canadian Trade Commission led by Forsyth-Smith and Small provided both Ottawa and US officials in Hong Kong with exceptionally accurate information about the politics, economy and trade of China during the 1957 to 1962 period.

In 1961 Small returned to Ottawa where he was placed in charge of the DEA’s China desk. In autumn 1972 Small became the second Canadian ambassador to the People’s Republic of China.

Stem, Leopold - b. Vienna Appointed to a triumvirate directorship of Louis Dreyfus Co’s New York operations shortly after this subsidiary was established in 1907.

Stem and his co-directors, by then US citizens, handled Louis Dreyfus holdings for several years to prevent the Nazis from taking company assets.

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Stem and his co-directors, by then US citizens, handled Louis Dreyfus holdings for several years to prevent the Nazis from taking company assets.

Listed China on several occasions between 1958 and 1961 as a point of sale in the Grain Trade Mission from Canada.

Small visited China on several occasions between 1958 and 1962 on trade promotion delegations from the Canadian Grain Trade Mission in Hong Kong.

Small was involved in Chinese-Canadian trade negotiations in 1958 and in 1961. He participated in the negotiations with Forsyth-Smith and CWB officials. Small’s background combined with his Chinese expertise were especially useful because his Chinese fluency was a great asset to the Canadian government as a ‘China watcher’ in Hong Kong in the late 1950s.

Small along with other members of the Canadian Trade Commission in Hong Kong formed a formidable information gathering team. Officials of the Canadian Trade Commission led by Forsyth-Smith and Small provided both Ottawa and US officials in Hong Kong with exceptionally accurate information about the politics, economy and trade of China during the 1957 to 1962 period.

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Stewart, Michael British charge d'affaires, Beijing in May 1961. Took over this position from Wilson.

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British charge d'affaires, Beijing in May 1961. Took over this position from Wilson.
<table>
<thead>
<tr>
<th>Name</th>
<th>Details</th>
</tr>
</thead>
</table>
Became a member of the Farmers and Settlers Association; the Farmers Union; the Western Australian Farmers Cooperative Company; and the Cooperative Wheat Pool of Western Australia (of which he also became manager)  
Appointed to the AWB in 1939.  
Chairman of the AWB beginning in 1947  
When Teasdale died on 2 July 1962, at age 79, he was still chairman of the AWB.  
He strongly opposed extending credits to the Chinese and argued with AWB general manager over this issue in 1961 and 1962. |
| Takasaki, Tatsunosuke     | Up to the end of WWII he managed a factory in Manchuria.  
After WWII he became Japanese Trade Minister in the LDP government.  
In 1943 he continued to be one of the most influential economic specialists within the LDP government.  
He became chairman of Toyo Solkan Kabusa Limited and negotiated the Line-Takasaki Trade Agreement.  
His experiences in Manchuria convinced him that Japan must develop good relations with China and the USSR. |
| Thomson, James C. - b. in USA 1931 | Son of missionary parents.  
Studied at the University of Nanyang in 1948-49 and later distinguished himself at Yale, Cambridge and Harvard - where he obtained a PhD in 1961.  
Assistant to Chester Bowles beginning in 1956.  
In 1961 at 30 years old he became special assistant to Under-Secretary of State Bowles.  
Between November 1961 and 1963 he was special assistant to Bowles who had become President Kennedy's Special Representative for Africa, Asia, and Latin America.  
1963-64 special assistant for the Secretary of State for Far Eastern Affairs. |
U Nu (b. 1907, Weliama, Burma) Received a BA from the University of Rangoon in 1929. Taught school between 1930 and 1934. Returned to University of Rangoon to study law 1934. Became involved with the Burmese nationalist movement (also flirted briefly with Communism). Jailed between 1940 and 1942 for his nationalist activity. Became Burmese Premier in 1947. Before 1954 Burmese China policy was neither friendly nor hostile. In June 1954, after the Geneva conference on Indo-China Zhou Enlai travelled to Rangoon where he and U Nu signed five principles of coexistence.

On 30 November 1954 U Nu began a two week stay in China where he met Mao Zedong and Zhou Enlai. At his farewell banquet before returning home he declared himself a friend of both the Chinese and Americans.

In December 1954 U Nu stated publicly that he had a plan to achieve Chinese-American rapprochement and that he would lead a peacemaking delegation to the US if he was invited. He also stated that Zhou Enlai had assured him that if the US sent a goodwill delegation to Beijing it would be received.

In October 1956 U Nu met with Zhou Enlai to discuss Chinese troop incursions into Burmese territory.

On 1 March 1957 U Nu and Zhou Enlai signed the protocol to the Chinese-Burmese border agreement and finalized details relating to the Chinese loans to Burma extended in January 1961. Also during 1961 the Chinese agreed to purchase 350,000 tonnes of Burmese rice at well above market prices.

He was a devout Buddhist.
**APPENDIXES**

**APPENDIX 3 TABLE A.3**
Initial Chinese Long-Term Credit Purchase: Contract to Purchase British Aircraft, Related Spares and Technical Services

<table>
<thead>
<tr>
<th>Date of Contract</th>
<th>Background and Details of Negotiations</th>
<th>Tmdo Representative and Firms Involved</th>
<th>Technology and Services Provided</th>
<th>Cost</th>
<th>Payment Terms</th>
<th>Delivery</th>
</tr>
</thead>
</table>
| 1 December 1961  | 1960 the Chinese became dissatisfied with their Soviet-made \( \text{Mid- \& End 50s} \) civil aircraft. Chinese described Soviet equipment as heavy, old, expensive and complicated. After the visit of a Soviet delegation to China in 1959 the Chinese faced shortages of spare parts, fuel, specialized POL products for aircraft maintenance - items which they previously imported from the USSR. The Chinese opened discussions with the British firm Vickers for aircraft in autumn 1959. The British government viewed a sale of Vickers turboprop Viscount aircraft to China as an important step in a potentially lucrative new market. With the jet age under way, sales of propeller aircraft were decreasing, and the British aircraft industry faced intense competition from the US. In 1959 British aircraft firms joined one of two aircraft combines, 1) Hawker Siddeley and 2) the British Aircraft Corporation (composed of English Electric) | Chinese: Chen Bing, representative of MACHINEREX, Civil Air Administration of China (CAAC) and the 'Chinese Payments Corporation'  
British: J. S. Kevorkian, president of Jactelis International (London), head of the Vickers team. Jactelis International had represented Vickers in Asia for many years. Rolls-Royce representatives were also negotiating a contract with the Chinese for spare engines and parts to maintain the Viscount aircraft. | Six Viscount 810 series short and medium range turboprop transport aircraft.  
Between 1959 and 1963 a total of 352 of the 700 and 800 series Viscount aircraft were sold throughout the world. The Viscount 810 series was produced between 1959 and 1963. The Viscount 810 series was produced at Vickers (Hants) and its specifications included:  
- takeoff weight: 45,000 lbs,  
- maximum speed: 500 mph,  
- range: 1,750 miles,  
- fuel capacity: 7,900 lbs. | £4 million covering the purchase of six Viscount 810 series aircraft. | A British government export licence covering the Vickers-licensed Viscount aircraft contract was issued on 1 December 1961. The contract was facilitated by a five year credit guarantee provided by the British government's Export Credit Guarantee Department (ECGD). This was the first Chinese purchase of equipment from a non-Communist country facilitated by long-term credits (up to this point only medium-term credits of between nine and eighteen months in duration had been extended) covering Chinese purchases of grain from non-Communist suppliers. The British initiative encouraged a further credit race among non-Communist traders in the Chinese market. The extension of long-term credits to China by the British went the US government which hoped to hinder Chinese attempts to rebuild their economy after the failure of the Great Leap Forward. Britain rejected US efforts to enforce economic controls on its exports. | The British government decided to let the Chinese-Vickers deal proceed despite the fact that it had not received unanimous approval at COCOM. This was because embargoed radar equipment incorporated in the aircraft had already been exported to Czechoslovakia, Poland and the USSR under COCOM exceptions procedure. However, some of the equipment in the aircraft was of US origin and throughout 1962 and 1963 Washington pressured Whitehall to ensure the sale by threatening to enforcing American FAC legislation. The US government maintained that the negotiable equipment installed in the Viscount out of US design and produced by Standard Telecommunications and Cable Ltd. (STC) the British subsidiary of the US giant International Telephone and Telegraph Corporation (ITT). Although STC was a British firm it was the subsidiary of a US company, and the US Treasury Department insisted on enforcing FAC legislation. |
<table>
<thead>
<tr>
<th>Date of Contract</th>
<th>Background and Details of Negotiations</th>
<th>Trade Representatives and Firms Involved</th>
<th>Technology and Services Provided</th>
<th>Cost</th>
<th>Payment Terms</th>
<th>Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>and Vickers-Armstrongs, Rolls-Royce was the main producer of engines for the combines. When Chinese-Vickers aircraft negotiations opened on 4 August 1961 Chen Ming told the British that the CAAC had been instructed by the ‘Chinese payments corporation’ to purchase aircraft from non-Communist countries for external routes because Soviet aircraft were difficult and expensive to repair outside China. Negotiations reached a deadlock on 28 August when the Chinese refused to state exactly how many aircraft they wanted to purchase and the British refused to discuss prices and credit financing until the Chinese said how many Viscounts they wanted to purchase. September or October 1961 the Chinese toured the Rolls-Royce plant in RBecles. 13 October 1961 the British government asked the US government for its position on a possible sale of Vickers Viscount aircraft to China. Washington’s response was that it objected only to the inclusion of US origin navigational and communication equipment in Viscount aircraft sold to China. Nevertheless the British did not obtain approval from the US or COMCOM before they approved the Chinese-Vickers contract of 1 December 1961.</td>
<td>China trades and would agree only to enforce controls which sought to prevent the development of the Chinese military.</td>
<td>Doubly high level US government representations to Whitehall in 1961 and 1963, regarding the equipment incorporated in the Vickers aircraft being sold to China, the British government refused to reverse its decision to approve the sale. On 27 June 1963 the British Cabinet met for a final discussion on US objections to the sale. After hearing that the equipment was standard throughout the world and could easily be obtained from stocks held by airline companies rather than exclusively from the manufacturer the British Cabinet agreed that the sale should proceed. Under the terms of the contract Vickers was to deliver one Viscount aircraft to China each month between July and December 1963. The planes were flown by Vickers from RBecles via Karachi, Delhi and Rangoon. In late August 1962 the Chinese-Vickers and Rolls-Royce representatives negotiated a contract under which the Chinese would purchase (over a five year period) £10 million worth of spare engines and equipment which was required to maintain the Viscount aircraft.</td>
<td></td>
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</table>

## APPENDIX 4 TABLE A.4
Initial Chinese Industrial Plant Purchase - a Vinylon Plant From Kurashiki Rayon Co. (and associated contracts)

<table>
<thead>
<tr>
<th>Contract#</th>
<th>Date Signed (S) or Ratified by Government (RG) and Key Dates in Negotiations</th>
<th>Firm(s)</th>
<th>Technology and Services Provided</th>
<th>Cost</th>
<th>Payment Terms</th>
<th>Delivery and Construction</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>23 August 1963 (RG). This decision was officially made on the grounds that it would help the Chinese people, rather than simply the Chinese government, by providing more clothing. Negotiations for this contract may have begun in early 1958. After the Chinese cut off trade with China in May 1958 negotiations for this contract did not resume until around March 1963. On 29 April 1963 the Japanese government began deliberations on whether or not to bow to pressure to provide Ex-Im Bank financing to facilitate the contract. On 20 August 1963 the Japanese government requested information relating to the execution of the contract. Chinese engineers were scheduled to travel to Okayama for training but Ohara was concerned about possible defections. On 29 October 1963 the Chinese Minister of Chemical Industry agreed that the plant should proceed subject to ratification by Cabinet.</td>
<td>Kurashiki Rayon Co. (Osaka).*</td>
<td>11,176 ton per annum capacity (later upgraded - see below) complete vinylon plant, related technology and training for Chinese engineers. Sub-contractors: Mitsubishi Heavy Industries, Hitachi Shipbuilding,** and Yogogawa Electric Works.***</td>
<td>$21 million - of which 10% was a fee for design and 23% for 'know-how'.</td>
<td>10% down payment, 15% due on final shipment of goods from Kobe, balance payable at 6% interest, five year guarantee under Ex-Im Bank, payable in five annual installments.</td>
<td>Plant to be built at Beijing, delivery to begin in 1964, trial production to begin in October 1965, completion in 1966. In September 1963 the Japanese government postwar reparations to China. He stated: &quot;I hope that... the plant will ease the daily life of the Chinese masses now suffering from the clothing shortage and that it will make amends, even if slightly, for our conduct in the past which caused material and spiritual devastation and misery to the Chinese.&quot; Ohara was also providing the US government with information relating to the execution of the contract. Chinese engineers were especially concerned when they learned that the vinylon plant was not being built near an alcohol production plant - a necessary input for the production of vinylon.</td>
</tr>
</tbody>
</table>
**APPENDIX 4 TABLE A.4 CONTINUED**

<table>
<thead>
<tr>
<th>Contract#</th>
<th>Date Signed (S) or Ratified by Government (RG) and Key Dates in Negotiations</th>
<th>Firm(s)</th>
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<th>Cost</th>
<th>Payment Terms</th>
<th>Delivery and Construction</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 (associated with contract 1 and 3)</td>
<td>May 1964 (S)</td>
<td>?</td>
<td>1000 cubic metres per hour dry process acetylene generating plant which produced acrylonitrile needed to help upgrade the Kurashiki plant capacity from 30 to 46 tonnes per day.</td>
<td>$300,000 (US)</td>
<td>10% down payment, 15% due on final shipment of goods from Kobe, balance payable at 5% interest, 5 year guarantee under Ex-Im Bank, payable in five annual installments.</td>
<td>Delivery by February 1965 presumably for Beijing area.</td>
</tr>
<tr>
<td>3 (associated with contract 1 and 2)</td>
<td>early 1965 (S)</td>
<td>?</td>
<td>? capacity polyvinyl alcohol plant to help raise the Kurashiki plant capacity from 30 to 46 tonnes per day.</td>
<td>$860,000 (US)</td>
<td>presumably for Beijing area.</td>
<td></td>
</tr>
</tbody>
</table>

* US company patents obtained by Gosei San'ei Deshigoshi and Company, Nagoya in about 1940 had subsequently been licensed to Kurashiki Rayon Co., Toyo Spinning and Dai Nippon. The basic patent had expired about 1955 and derivative methods were subsequently developed by Kurashiki and Dai Nippon.

** Mitsubishi and Hitachi had both already entered into, and continued to negotiate, licensing agreements with US firms.

*** In mid-May 1964 the Tokyo representative of the Minneapolis based firm Honeywell told US embassy officials in Tokyo that the Chinese had contacted Yamatake-Honeywell, a firm 50% owned by Honeywell, to ask if the company was interested in supplying Beijing with several thousand dollars worth of control device technology which would probably be included in the Kurashiki plant. (Honeywell absorbed Brown instruments in 1934 and in 1942 Brown instrument Co. was divided into two firms - one of which became Yamatake-Honeywell. Established in 1906 Yamatake & Co. pioneered Japanese imports of American precision machinery and tools from firms like Brown instruments of the USA. In 1963 Yamatake Keizo Co. Ltd. was established to support engineering and installation activities in commercial building markets. In 1963 Yamatake Engineering Co. Ltd. was established to support Yamatake Industrial Systems Division.) Honeywell's Tokyo representative also told US Embassy officials that Yogogawa Electric Works, which was supplying control devices and technical training related to the Kurashiki plant construction in China, had previously entered into licensing agreements with Foxboro Co. of Foxboro, Massachusetts. He then said that the Japanese firm Yogogawa Electric Co., which had agreed to supply technical training and control devices for the Kurashiki rayon plant contract, had a licensing agreement with the American firm Foxboro Co and Honeywell wished "...to adhere strictly to US regulations, but think it is unfair if Minneapolis-Honeywell's policy of strict adherence is not matched by competitors and licensees..." It appears that until this point either the US government was unaware of this fact or chose to remain silent about it. Around this time Schwarzler of Foxboro Co. had told US Chamber of Commerce officials in Tokyo that he felt that it was "...virtually impossible to prevent Japanese licensees from exporting products of licensed technology to (China)..." Under subsequent questioning by US Treasury Department officials, Foxboro representatives insisted that technology supplied by Yogogawa Electric Co. for the Kurashiki contract was not made under US technology and therefore approved by the US government. Treasury Department officials then advised "...Minneapolis-Honeywell that on the basis of our investigation Yogogawa was not supplying devices made with US technology..." Treasury then advised Honeywell officials that, because Yamatake-Honeywell was 50% owned by Minneapolis-Honeywell, it was regarded by the US Treasury as being controlled by a US firm and could not supply the Chinese control devices without a Treasury license - and it was against US policy to issue such a license.


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A463, A1209, A8648 - Department of Prime Minister and Cabinet files

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C.J.Perrett (NLA)

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Yang Xiongnian: In 1997 he was Deputy Director, Scientific Research Planning, Chinese Ministry of Agriculture, Beijing. Telephone interview in Beijing in May, 1997 through Mr. Zhang Lu (interpreter and postgraduate student Beijing Materials Institute).

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