

2. It is apparent that Uruguay's policy is to allocate foreign currency to importers in proportion to the amount of that currency available from the proceeds of Uruguayan exports to the country concerned. The implication is clearly for bilateral balancing of exchange regardless of whether or not the currency in question is convertible. By following such a policy, Uruguay discriminates against Canada and in favour of the United States in the allocation of dollar exchange. Since Uruguay applies this policy to all countries they argue that it is non-discriminatory and in accordance with the provisions of Article II of our Trade Agreement which states:

"The Contracting Parties will grant each other in all matters pertaining to the allocation of exchange made available for commercial transactions or in the allocation of quotas, either in respect of exchange or in respect of quantitative control of imports, treatment not less favourable than is granted to any other country."

3. We cannot agree with this restrictive interpretation of Article II which would render meaningless the most-favoured-nation provision of that Article and which is contrary to the generally accepted usage and intent of that provision. As a matter of interest, if we did agree with the Uruguayan interpretation of this Article, Canada would have grounds for imposing restrictions on imports from Uruguay now, inasmuch as our trade statistics show that Canadian exports to Uruguay for the first 9 months of 1953 amounted to some \$1.6 million as compared with imports from Uruguay totalling \$2.4 million in the first 8 months of 1953.

4. In the circumstances we feel that it is essential that you should make further representations to the Uruguayan Government, particularly in view of the latest case of discrimination brought to our attention by the Commercial Secretary in his letter of December 1 to the Director of the Trade Commissioner Service describing the allocation by Uruguay of an exchange quota of \$200,000 for imports of pneumatic tires and tubes from the United Kingdom, France and the United States only.† In the enclosure to this letter you will find an outline of the main points which can be used in your note to the Foreign Ministry.† You will observe that we have drawn attention to the implications of Uruguay's accession to the General Agreement on Tariffs and Trade (GATT). As you know, Uruguay has announced its intention to accede to GATT and the attached draft note was prepared on the assumption that Uruguay's final accession would proceed as a matter of course. However, if by the time you make your representations it is clear that Uruguay has decided not to carry out its announced intention of acceding to GATT, there would, of course, be little point including the references to GATT in your note.

5. In addition to the points referred to in the enclosure to this letter, you may wish to mention to the Uruguayan authorities that even in the absence of treaty obligations it is difficult to see the purpose of the procedure adopted by Uruguay. There may be some logic to such procedure when applied to the trade of countries with inconvertible currencies and which then maintain controls on imports from Uruguay. In trade with Canada a country with freely convertible currency and with no controls over trade such segregation of accounts does not appear to us to serve any real purpose either in safeguarding Uruguay's balance of payments or increasing Uruguayan exports. In fact, the only results of such action would be to reduce the opportunities for obtaining competitive goods for the Uruguayan economy, and to