

regulations are not frustrated by exports from Canada. As you know, we are already preventing the evasion of United States export controls on Cuban trade by prohibiting the shipment of United States origin goods through Canada to Cuba. When the possible application of F.A.C. regulations against Cuba was discussed between United States and Canadian ministers at the time of the last meeting of the Canada-United States Joint Economic Committee in Washington, Canadian ministers indicated their willingness to consider what could be done, if the United States put on F.A.C. controls but exempted firms in Canada, to prevent the evasion of these controls with respect to a few sensitive items such as replacement parts for trucks, and oil and sugar refining equipment in which there has been no previous appreciable Canadian trade. However, while we are in a position to cooperate with the United States in the application of their export controls against Cuba without affecting the export of Canadian-made goods, we would now, in order to prevent the frustration of the F.A.C. controls, have to prohibit the export of certain Canadian-made goods of no strategic significance of the types indicated above; this cannot be done within the framework of our existing regulations.

5. Whether the United States enforced the F.A.C. regulations against Cuba without exemption, or provided for an exemption for foreign subsidiaries of United States companies (perhaps at the same time asking for our cooperation in preventing the frustration of their controls), some response would clearly be expected from us.

6. If the United States were to decide in favour of the first course, our reaction should, we think, be guided by the following considerations. (1) Our traditional stand on the extra-territorial application of the F.A.C. regulations has been so firm in other instances that it would no doubt be undermined if we failed to react vigorously. (2) A general exemption for Canadian subsidiaries would seem desirable both as a matter of principle and on practical grounds. (3) Some degree of cooperation with the United States in preventing the frustration of their regulations might be appropriate because:

- (a) we would have a better chance of obtaining an exemption;
- (b) Mr. Fleming and Mr. Hees have already indicated to United States ministers that they would be prepared to examine cooperative measures by Canada;
- (c) it could be argued that failure to cooperate might encourage the United States to use force against Cuba; and
- (d) in view of the United States' increasing concern over Cuba, the refusal to consider means of preventing the frustration of United States controls could be expected to provoke sharp United States reactions.

The basic issue behind possible Canadian cooperation is that, if there is to be any restriction on the export to Cuba of Canadian-made goods of no strategic significance, it is far better to limit this restriction to a few commodities, and to keep control in Canadian hands rather than leave it to the United States Treasury. It must be recognized on the other hand that if we did cooperate by setting up some controls on the export to Cuba of Canadian equipment, we would be involved in the United States economic blockade of Cuba to a degree we have avoided so far. (This might, however, be justified in view of Dr. Castro's latest statement on the socialization of his country.)

7. On balance, we would favour the following response to the imposition by the United States of F.A.C. regulations against Cuba:

- (a) to remind the United States of the definite indication they have given our Embassy that an exemption would be granted;
- (b) to emphasize that we expect Canadian subsidiaries to be exempted; and
- (c) to indicate that if an exemption were granted we should be prepared to examine what could be done to prevent the frustration of United States controls.