and hoped the realization by the Ecuadoreans that they were in fact benefiting greatly by m.f.n. treatment would lead to a satisfactory solution.

The next day, we received your cable of November 8 with news of the Ecuadorean reaction. We immediately set about studying all possible alternatives and the various consequences that could ensue. This was our reasoning:

Ecuador's insistence on this clause appeared to mean they themselves might expect this modus to be more than a mere exchange of m.f.n. As a matter of principle, the precedent of including a clause of this type was dangerous. The commitment to use "all means" had the implications described above. The relatively small importance of this market argued against creating such a precedent in this particular case. The U.S. Treaty with Ecuador contains no such clause.

We then reviewed the possible consequences of a failure of Ecuador.

For Canada, the 30 percent tariff disadvantage would apply in particular to canned salmon and sardines, sewing machines, tires, radio sets, clocks and wrapping paper. However, the bulk of our exports, especially: wheat flour, newsprint and agricultural machinery, would not suffer from this. The supply position of some of the affected items over the next year was not such as to cause us concern. From this point of view, therefore, we would not have too much to lose.

But, apart from the tariff question, the 50 percent surtax on the statute books of Ecuador had to be considered. The result of a General Tariff on Ecuadorean imports into Canada would be to widen still further Ecuador's trade deficit with us. Thus, the imposition of a 50 percent surtax was a strong probability.

Such a surtax would virtually eliminate Ecuador as a market for Canada. A number of firms, in particular, the flour milling and rubber tire industries, would be affected. We had already heard from some of these firms, expressing great interest in the Ecuador market.

The psychological effect of a 50 percent surtax being the only result of a lengthy visit to Ecuador by the Delegation would also have to be considered.

For Ecuador, the results of a failure appeared to be just as serious. The General Tariff would definitely be imposed and the rates on bananas, coffee, cocoa beans and panama hats would rise to about double, thus affecting approximately 80 percent of Ecuador's exports. The granting of m.f.n. treatment to Honduras would harm still further Ecuador's competitive position in bananas. Ecuador would lose all chances of the GATT reductions being extended to her.

We felt that a few months' experience of the General Tariff would lead to Ecuador realizing their mistake of insisting on a prestige matter to the detriment of concrete advantages.

These various points were discussed fully with the Deputy, with Finance and External.

In view of Ecuador's insistence on conciliating local opinion, and of the possible repercussions of not concluding the agreement, we finally decided reluctantly to accept Article IV, but only on condition that no opening was left for further demands. This could best and most easily be done by inserting the word "appropriate", which would leave entirely up to each party the question of what