

understood to form part of a new and larger pattern of Canadian external aid, perhaps in the context of the Prime Minister's Food Bank, and if it were rapidly followed up by substantial and generous similar gifts of wheat to the Congo and other countries more friendly to us than China whose needs are also great. The Memorandum for Cabinet is misleading when it represents this transaction as something that would cost the Government nothing in the long run; our chickens would surely be coming home to roost for years afterwards, with demands for similar aid pouring in from friendly countries on all sides in those areas in which the Government has been careful to avoid being involved with aid programmes in the past. As you know, apart from limited emergency relief operations (e.g. Morocco, Chilean earthquake) Canadian aid programme have been restricted to the Colombo Plan countries, the West Indies and more recently the Commonwealth countries of Africa where we have an obvious political interest. We could not reasonably continue to neglect Latin America and the rest of Africa and Asia once we have broken all precedent by giving China so much gift wheat, and the financial implications are nowhere brought out in the Memorandum to Cabinet.

(vi) The Memorandum is also misleading in paragraph 10(c) where it implies that our longer term market in China would be developed by this transaction. China has no interest in Canada's high quality wheat at higher prices than the Australian wheat and it would be foolish to regard it seriously as a potential and large market for Canada; they have turned to us now only because of an unprecedentedly bad food situation.

(vii) There are serious commercial policy dangers in Mr. Hamilton's proposal. It seems to us inconceivable that the transparent fiction of maintaining our price while making such an unnatural and precedent-making gift to China would not be seen through at once not only by farmers everywhere but by all sections of the Canadian population as well as our competitors abroad (as suggested above). The first danger is therefore that we should unintentionally touch off a price war with Australia and the United States.

Now it happens that China is the last remaining country in the world where the United States cannot compete with us because of their trade embargo policy (and how much longer this situation will last will depend on President Kennedy's Administration). Therefore the American farming interests, (as distinct from the Congressional and other supporters of Chiang Kai-Shek) who would have nothing to lose and everything to gain would doubtless see in a rigged and concealed discount Canadian sale of wheat to China the golden opportunity they have been waiting for to break down the understandings that have so painstakingly been built up over recent years between the Canadian and United States Governments, amounting to a code of good behaviour on surplus disposal, whereby both countries have refrained from making such concessional sales at clandestine below-prevailing-market prices. There will be great pressure on the new Kennedy Administration to pursue more aggressive wheat disposal policies than did their predecessors and we should do nothing to encourage such policies. We would of course also forfeit the use of the strongest weapon in our arsenal against the Americans in making them hold the line on surplus disposal operations since it would be very difficult in future to criticize them if they made deals (similar to ours with China) with other countries; their capacity to reduce prices by giving away tied-in quantities of wheat is obviously far greater than Canada's not only quantitatively but because they can much better afford to do this. We might also alienate Australia who has been our faithful ally in the past in keeping up the pressure on the United States to avoid unduly injuring our markets and we might be accused of touching off a downward price spiral which could undermine the International Wheat Agreement.

(viii) Finally on the domestic front it might be very hard for the Government to justify an outlay of \$6.7 million which would benefit only the minority farming population of Canada at a time of such high levels of urban and industrial unemployment elsewhere. The only effective