

the other hand, its expiration would be more consequential and might well be interpreted as a deterioration in our political relations with the Soviet Union.

Preliminary indications are that the USSR would be interested in renewing the Agreement as such, but would be reluctant to accept a continuation unchanged of the obligation to purchase Canadian wheat. It is reported that the Soviet wheat crop this year is exceptionally large, including the harvest in the far eastern areas of the USSR where there is usually a deficiency. Normally, it is economic for the USSR to import wheat into the far eastern deficiency area from Canada through their Pacific ports. The marginal production areas being developed in the northern USSR result in even greater uncertainties from year to year regarding wheat crops than are experienced in Canada. The Soviet authorities are reported to be concerned that Soviet exports to Canada have not developed and that the trade balance has continued substantially in Canada's favour. In a renewal negotiation they may try to obtain what they would consider to be a more balanced agreement from their point of view by endeavouring to secure an obligation on the Canadian side to purchase specific quantities of certain Soviet goods. In 1957 Canadian exports to the USSR amounted to \$10.7 million (mostly wheat), while Soviet shipments to Canada amounted to \$2.8 million (fur skins and chrome ore). A table listing the main items in Canada's trade with the USSR is attached.† In endeavouring to obtain a further undertaking by the USSR to purchase similar quantities of Canadian wheat and perhaps to buy other Canadian products, it may be necessary to find benefits to offer the Soviets over and above the continuation of most-favoured-nation treatment. Because of the nature of our economy, because we are not a State trading country and because, as a matter of policy Canada, with only one exception in the post-war period, has refused to enter into formal arrangements involving undertakings to import specified quantities of particular products, it would appear that such additional benefits might have to be found in other fields such as relaxation of travelling restrictions on Soviet traders and commercial representatives.

There are, in addition, a number of changes which could improve the Agreement from the Canadian point of view. For instance, we might again endeavour to set down in the Agreement obligations for Soviet State trading corporations to make their purchases and sales solely in accordance with commercial considerations, and an attempt might be made to obtain some understanding concerning disruptive Soviet sales of aluminum and other products of interest to Canada in world markets. As a minimum, our concern about sales of this kind could be registered with the Soviet authorities during the negotiations.

In any renegotiation the question of Soviet use of the St. Lawrence Seaway might well arise and the Soviet authorities may press for guarantees of access for their vessels. The terms of the present Agreement would permit Canada, under the general security provisions, to deny the Seaway to Soviet ships, although there would be an obligation to continue most-favoured-nation treatment for Soviet vessels in Canadian ports of permitted entry.

It is recommended that:

1. At this stage officials be authorised to open exploratory discussions with the Soviet authorities through the Embassy of the USSR in Ottawa, and, if necessary, through the Canadian Embassy in Moscow, in order to examine the possibility of extending the Agreement or renewing it on substantially the same lines as at present, and, in either case, with an undertaking by the USSR to purchase annually substantially the same quantities of Canadian wheat as under the previous Agreement.

2. A report be made to Cabinet on the results of these preliminary discussions.