

sugar production in relatively inefficient places, including the British West Indies, and this in competition with the relatively efficient Cuban operations.

6. Accordingly the Cubans have now warned that if we continue to refuse to negotiate on sugar they will consider withdrawing tariff concessions that they made in Canada's favour at Geneva four years ago. Unfortunately they made concessions to us on at least two items which are politically vulnerable in this country: codfish and seed potatoes.

7. Of course we might hit back. Their exports of products such as pineapple to us are politically sensitive in Cuba. On the other hand it would be a most unhappy situation if, when the general results of the Torquay negotiations were brought into Parliament later this session, the most spectacular result was active trade warfare between Cuba and ourselves at the particular expense of exporters in our Maritime Provinces.

8. At the Interdepartmental Committee it was generally agreed:

(a) We should not simply stand pat on our refusal to negotiate the sugar preference.

(b) The matter should be explored further both with the Cubans and also with the United Kingdom. At some stage a three-cornered discussion might prove necessary.

(c) Possible Canadian concessions might be:

(i) A moderate reduction of the Empire preference, i.e. a reduction in the M.F.N. rate while the Empire rate remained the same. The chief effect of this would be that the United Kingdom and/or the West Indies would get a slightly lower price for sugar sold to Canada; at present they sell at the Cuban price plus almost the whole of the one-cent preference. Thus the long term subsidy to high cost sugar areas would be reduced. On the other hand the Cubans would not sell any sugar to Canada in the immediate future so it is doubtful whether they would accept this offer.

(ii) A bulk purchase of non-Empire sugar (from Cuba and other sources). The purchase would cover a certain quantity of Canadian imports — say 100,000 tons out of our current imports of 600,000 tons. Surprisingly enough this would not damage the United Kingdom or the West Indies to the extent that would appear at first sight. The Commonwealth and Empire are not self-sufficient in sugar. The United Kingdom is already buying several hundred thousand tons of Cuban sugar (and is negotiating a long term contract with Cuba at present). If Canada buys less sugar from the West Indies and more from Cuba the United Kingdom will presumably buy more from the former and less from the latter. Hence the need for three-cornered discussions mentioned above.

(iii) A variant of (ii) would be to allow a certain quota of non-Empire sugars — say 100,000 tons — to come into Canada at Empire preference rates. It was the opinion of the Interdepartmental Committee that this device was rather less clean-cut and less certain in its effects than the bulk purchase.

(d) If any of the three concessions mentioned above were offered to the Cubans it would be in return for substantial new tariff concessions by Cuba in favour of