

6. The general purpose of the proposed Venezuelan trade agreement (from the Canadian point of view) is to confirm and expand most-favoured-nation treatment for Canada rather than to obtain a reduction in the protection which Venezuela may give to domestic liquor, cigarettes, or other commodities. Consequently we might omit from our draft agreement any reference to the equalization of excise taxes on imported and domestic products, so long as we retain most-favoured-nation treatment in this respect.

7. The only objection to such action on the part of Canada would appear to be along the following lines. In negotiating GATT, all the countries concerned (including Canada) thought it desirable to demand from the others, and to give in return, national treatment in respect of internal taxation. (Some countries have not yet carried out this obligation because, so long as their adoption of GATT remains merely provisional, they are not obligated to make changes in their existing legislation.) We in Canada have eliminated discriminatory excise taxes and under most-favoured-nation treaties are obligated to extend the benefits of such action to Venezuela. On the other hand, Venezuela is not obligated to extend such benefits to us. Therefore, we are offering to Venezuela a better bargain than the one which we have offered to our fellow-members of GATT.

8. We do not ourselves regard this as a consideration which should necessarily prevent us from meeting the wishes of the Venezuelans on this point, but have told them only that this is a point on which it would be desirable for us to consult with our colleagues in Ottawa.

9. (C) Finally, in reference to article VIII, it was explained to us that Venezuelan practice in the matter of placing a treaty into effect before it is actually ratified, is to sign a *modus vivendi* of exactly the same words which will go into effect at once and will operate until the agreement itself is ratified. This procedure certainly has its attractions from the point of view of simplicity.

10. Discussions having reached this point, we then raised the question as to how they might be continued to conclusion, or to a point where conclusion would be a simple matter of arranging for signature. The leading Venezuelan official explained carefully that, many years ago, when Venezuela first attained independence, there was difficulty in obtaining recognition abroad, and, at that time, a rule was set up that the Venezuelan authorities would not discuss international matters except at diplomatic level. In view of the fact that Canada still has no diplomatic mission in Caracas, it is obviously impossible for the Canadian officials, at present posted here, to discuss a trade agreement. We must therefore use the channel of the British Embassy, send a Canadian Minister of State on a special mission, or wait until we have established our own diplomatic mission in this country. However, there is good reason to anticipate that a treaty along the lines of the draft (copy attached)† would be received very favourably, with the exceptions noted, and that approach on a diplomatic level would be welcomed here.

[H. LESLIE BROWN]