

that you would have no objection if the Wheat Board could make a normal non-concessional sale of wheat to China.

2. Our understanding of Mr. Hamilton's intentions is that he will argue his case along these lines:

(a) A substantial sale of wheat could only be made if we lower our price appreciably to a level competitive with Australia.

(b) To do this openly would merely drive down further the Australian price and would involve us in a profitless price competition in which Australia has the advantage and China would be the winner.

(c) A gift of wheat is the only device by which this could be accomplished.

(d) The benefits to be gained from this possible transaction so far outweigh the disadvantages that the Government would be amply justified in reversing its past policy of lending no aid and comfort to the Communist countries.

3. We think that the following arguments against the proposal could be used in Cabinet:

(i) This device would almost certainly be misunderstood and create widespread confusion in the public mind both within Canada and abroad, particularly in the United States at a moment when a new Administration is about to take over. Confusion comparable to and perhaps greater than that which arose over our trade policy on Cuba could arise from a substantial and unsolicited gift of up to \$6.7 million worth of wheat to China, which of all Communist countries has consistently been the most hostile to the West since the onset of the 'cold war.' Moreover it is the only country with whose forces Canadians have been engaged in active hostilities within the past decade. Mr. Hamilton may argue that there is a ground-swell of public opinion in Canada, the United States and Europe moving in the direction of recognizing Communist China. To this it might be answered that the situation in Laos is so unclear that there could be an overnight revulsion of public opinion about China if that country were to become involved in Laos in the near future, and it would seem risky to take a chance based on a present assessment of public opinion as being favourable to China.

(ii) In the face of this, a gift of wheat would surely be interpreted throughout the world as a pronounced and sudden softening of the Canadian Government's attitude on the question of friendly relations with China presaging a recognition of that country, when in fact no policy decision to this effect has been taken.

(iii) As explained in paragraph 10(d) of the Memorandum for Cabinet, it would be inconsistent with China's propaganda policy to admit that they should ever stand in need of charity from outside, least of all from a capitalistic Western country. We would doubt very much that they would accept from us a gift of wheat as such, unless perhaps they were to see in doing so an overwhelming political advantage in terms of making mischief by generating friction in our relations with the United States and Australia, e.g. by representing this as part of a wider understanding between our two countries involving Canadian support for their admission to the United Nations, etc. Any attempts to deny such a line of propaganda attack would add to the confusion and would risk destroying whatever goodwill (if any) the Government might expect to gain incidentally from giving wheat to China.

(iv) On this same point about mischief-making, the Australians would undoubtedly regard the gift as nothing less than a hidden rebate to China and they would surely understand that we had in fact cut our prices by this means simply in order to capture from them the Chinese market. This would impose some strain on our relations on the eve of the Commonwealth Prime Ministers' Conference.

(v) A gift of \$6.7 million worth of wheat would make China the third largest recipient of Canadian gift wheat and could only be justified on humanitarian grounds if it were to be