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By MMK NLDDE Date 7/12/10

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Discussion with John Stephens - Bank of England

I had dinner and a long talk in Basle with John Stephens, an old friend, one of the top assistants in the Bank of England charged with regional responsibilities for Latin America and for Russia. Among the comments he made were the following:

Cuba. The Cubans had transferred from Canada to the U. K. several months ago about \$60 mm, which he ~~indicated~~ understood were about half their dollar assets. This was still maintained in Sterling, and although he did not say which bank held it, the implication was that it was the Moscow Narodny Bank. John said they had extremely accurate information available about the daily disposition and receipts in the account, and indicated that if this were not currently being made available to the U. S. he would be very happy to do so. I told him I did not know whether we were getting such information or not, but that it could be helpful to us. (Note: If this is not being received, I believe Stephens would be amenable to a request to pass it on to the U.S.) We discussed the U.K. - Canadian - U.S. position on Cuba and he pointed out that although we had different ideas on how best to handle the Cuban situation, we should know that the U.K. was very much alert to the extreme danger in Latin America, and the threat to their own substantial interests in Venezuela. He suggested that in this respect it might be helpful if there could be a joint discussion between Canada, the U.K. and the U.S. about both the political economic and financial aspects of the Cuban situation, and that we might find that the U.K. was more realistic than Canada, and could be helpful in the matter with Canada. I told him I did not know to what extent the Cuban problem had been discussed with Canada, but that I would guess it had been given a very delicate handling, in view of the known sensitivity of Canada to being "included in" U. S. foreign policy matters, and the several

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speeches made by Canadian officials at the time of our economic action indicated this. Stephens said that perhaps one could draw a lesson from Iraq, where after a Russian takeover had appeared almost complete, the serious Russian errors made in the way they handled both supplies, technical information and people had antagonized the Iraqians, and the West (and the U. K.) were able to move back in. He suggested that the maintenance of some normal relationships politically and in trade might be the way for the West (and the U. S.) to get back into Cuba when the Russians made their inevitable mistakes. I said I hoped this correctness would not go to the point of extending credits - as we felt the economic weapon was vital and this would be seriously impaired by credits. I received the impression that ~~no~~ no credits were being given by the U.K. - but he did not know about Canada.

Stephens said he would discuss the whole matter with his associates - and that if we felt it appropriate, there might well be an opportunity for 3-way constructive talks looking towards closer cooperation on the Cuban matter between the U. K., Canada, and the U. S.

Sixes and Sevens. John Stephens queried me on the new administration's position on this - (which I could not answer) and he said he wondered whether we ever had really put down the pros and cons of the whole matter on paper. Basically, he said, it would be extremely helpful if the U. K. could really know what we were thinking. The opportunity would arise quite soon for the basic tariff talks with the French on this subject. ~~He~~ In effect he said we should either make up our minds whether we wanted the merger of the U.K. with Europe (which would mean a real breaking of Commonwealth ties) and would very probably mean a less favorable tariff structure towards the U. S. - unless we were in a position to bargain with the Common Market and the U. K. for reciprocal tariff lowering - which he doubted.

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On the other hand, if the U. S. did not want this, then it should give more positive support for the Seven. I said my guess was that we were in the difficult ambivalent position of wanting two irreconcilable things - <sup>one,</sup> ~~our~~ greater political unity of the U. K. and the Six, but without suffering any adverse tariff reaction, which under present circumstances would be hard to take.

(On the same subject I attended a dinner in London where the subject was actively discussed, and the point was made that while the opportunity for further negotiations were apparently presenting themselves, the U. K. simply could not afford another breakdown in the talks. I gathered therefore that rather than risk a negative outcome - no action was being taken at this time.)

Dollar Problem - Bonn Mission and U. S. Public Reaction. I told Stephens that I feared that the U. S. was now, as a public reaction, in the process of adding to a slow protectionist "burn" on several counts, ( <sup>Japanese</sup> goods, unemployment, <sup>growing</sup> ~~growing~~ Southern protectionism, etc.) <sup>emotion</sup> ~~a psychosis~~ about defending the dollar, and a European brush-off on the Anderson-Dillon mission, which when all joined together could lead to a very difficult public and Congressional reaction, with respect to continuation of our liberal trade and aid policies. He said he felt this might well be true and that he hoped some European gesture could be made which would counteract this. He spoke of the possibility of lowering tariffs further, such as on U. S. autos, and also of a possible NATO approach whereby each country could pay for the upkeep of <sup>foreign</sup> ~~troops~~ <sup>left</sup> on its own soil. This would, he said, help the U. K. in Germany, but hurt them at home. I said I would not try and describe the gesture, but that Europe should realize that U. S. public opinion on these matters was being put to a severe strain and that some gesture (which would have to be both fact and <sup>drama</sup> ) which would go in the direction of reversing the present U. S. psychological drift would be helpful.

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He discussed the possibility of a U. S. drawing on the IMF - in effect a borrowing from the pertinent creditor countries. I said that although this was a remote possibility in connection with additional constructive steps on Bal/Payment - I did not think it would in any way be interpreted by the U. S. people as a "Beau Geste" - it was far too complicated. I also pointed out this might create very difficult problems for the countries on the lending side in raising the cash for such a Fund borrowing. He suggested the favorable impact on the U. S. public might arise if we borrowed foreign currencies from the Fund and then bought gold with it - thus adding to our gold reserves.

Incidental Intelligence. Re Latin America, Stephens said that two incidents he ran across illustrated different aspects of the Latin problem. In Brazil, you can ride 42 miles on the community railway for the equivalent of 1 cent. In Peru the sugar workers on certain plantations get 5 cents a day and no fringe benefits!

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