

104. The first round of official talks, at which Mr. Mackenzie and Mr. Deutsch represented Canada, were held between September 27-29. They were followed by Mr. Abbott's discussions with Mr. Hoffman and others on the 30th. These talks, described in a memorandum as "the most important which have been held to date" on Canada's role in ERP, were characterized by a striking degree of agreement in the statistical estimates of such problems as the Canadian balance of payments and the future of Canadian trade with ERP countries. The officials stuck firmly to their brief and subsequently reported that "All the main United States arguments which were advanced on why we should extend more assistance were fully countered on our side." Even the projected \$60 million advance to the United Kingdom was made dependent upon there being no drastic changes in the basic assumptions underlying the forecasts for the fiscal year, 1949. The U.S. officials first reported the suggested U.K. advance as inadequate, but later modified this description by pointing out that it presented "great difficulties to the United States" in the light of the volume of off-shore purchases in Canada. At one time they proposed adoption of an export policy in which a "palatable bundle", composed of "hard" Canadian exports such as base metals and forest products would be financed by ECA funds while "soft" items such as eggs, coarse grains, cheese, and dairy products, would be covered by Canadian financial assistance. Although there was no suggestion that U.S. approval of off-shore purchases in Canada would be reduced because of disappointment with the Canadian position, there was also no guarantee that the present level, or any other one, of such purchases would be maintained. Mr. Abbott explained to Mr. Hoffman the domestic political difficulties in Canada in continuing extension of financial aid on the level of previous years and emphasized the desire to avoid any more crises such as had occurred in 1947. He described the improvement that had taken place in Canadian reserves but said it would be used to raise their level, to permit some unfreezing of the United Kingdom loan, and to relax a few restrictions on United States products, especially fresh fruit and vegetables. Mr. Hoffman, who remarked several times that the special regard for Canada in the United States gave political importance to the Canadian contribution, said that the Canadian record for 1948 would help him in representing to Congress that Canada had been acting in concert with the United States on a comparable scale. He added that he was concerned with what Canada would do in the first six months of 1949. In that period he would be approaching Congress for funds to cover the second period of ERP, in which "lay the hope for the survival of the free nations on the both sides of the Atlantic". He did not suggest new authority from Parliament for fresh credits, but hoped "that the rate of permitted drawings on the United Kingdom loan would be such as to provide a fair comparison". What he appeared to have had in mind was a figure in the neighbourhood of \$125 to \$150 million. Mr. Hoffman also said he would have difficulty in satisfying Congress if a very substantial proportion of the improvement in the Canadian dollar position was added to the reserves. Mr. Abbott promised to consult his colleagues, and said he would be glad to keep in touch with the Administrator about the timing and character of any announcement he would make about the release of credits to the United Kingdom.

105. Before Mr. Abbott left Washington he told Sir Stafford Cripps who was there for Bank and Fund meetings what had taken place. The United Kingdom Chancellor and his officials were reported to be quite satisfied with \$60 million offer for the first half of 1949, since they would prefer to hold back in reserve any greater borrowing power they might have in Canada for use after the ECA appropriation for 1949-50 had been voted.