

F0371/80494

FROM Sir R. Stevenson
Alexandria
confidential

No. 518

Dated 22nd June

Received in
Registry— 28th June

Egyptian Cotton Crisis

Give details of proposed points to be made
to Egyptians.

Recommends rejection of an offer by Farghaly
of 60,000 bales at 80 Thalasis.

Ref Alexandria tel no 511 (JE 1331/51)

REFERENCES

(MINUTES)

Sir R. Stevenson has since telegraphed
(JE 1331/7) asking for early instructions,
& he has also sent a memorandum
(JE 1331/8) setting out the basis of
the recommendation which he makes in
the 4th para of his telegram within.

It seems to me that this is
primarily a matter for the B.O.T. to
decide. The envelope to the att^d
B.O.T. letter contains the substance
of their ^{proposed} reply, in which the Law
Cotton Commission concurs. It is
hard to believe that an offer to buy
a mere 5,000 Kantars can materially
alter the ~~pre~~ situation into which,
by their own machinations, Yehia
& Farghaly Pashas, have got themselves,

(Print)

(How disposed of)

tel) Alexandria 68 28th June
5) in Council Bot 28/6

(Action completed)

6/55 30

(Index)

25/9/58
JW

37792
see within

A) letter from Board of Trade to Alexandria of 27th June

L0371/80499

but Mr. Am^{or} at Alexandria is clearly
the only judge of the value which such
an offer may have as a gesture.

Yr reply submitted.

IR Dept Hist

R. H. B. S. M. A.
27/vi

Personally I shd. prefer to let
the Am^{or} make his point (f),
but shd. be guided by IR Dept.
Otherwise I see no objection
to the draft. Roger Allen
27/6.

I am not particularly happy about 2(F).

Normal economic theory would consider it
prefer that cotton acreages should increase
when prices are high; increased supply
would then tend to bring prices down again
until a new supply/demand balance is
reached. From the cotton purchasing point
of view such a development would be in
our interest, though it is true that
the corresponding reduction in grain savings
has certain disadvantages for us. Weighing
one thing against the other, I should think
that the balance of advantage to the U.K. is at
least doubtful and should therefore prefer 2(F)
to be omitted.

T. F. Sherrington
28/6

FROM ALEXANDRIA TO FOREIGN OFFICE

Sir R. Stevenson.
No. 518.
22nd June, 1950.

D. 7.35 p.m. 22nd June, 1950.
R. 10.5 p.m. 22nd June, 1950.

CONFIDENTIAL

My telegram No. 511. Cotton.

I have consulted His Majesty's Consul here and representatives of British merchants and gp undec ? investors and British Cotton commission. Full report follows by despatch.

2. My conclusions and recommendations are that I should tell the Egyptians that

- (a) As stated publicly by Sir Ralph Lacey in Manchester on 15th June we bought up all requirements of United Kingdom industry for the whole year long ago and that we are not "holding off" or buying crop elsewhere.
- (b) We are interested but only to a limited extent in buying new crops in "gp undec"s".
- (c) The Cotton Commission some weeks ago in response to approach from the Egyptian side made as a gesture, offer five thousand bales of old crop at 75 ~~thal~~ gp undec's per kantar but that this offer was rejected, 80 thal being demanded.
- (d) To buy more than this would inevitably increase price of United Kingdom cotton piece goods which we are not prepared to consider for obvious reasons.
- (e) Regarding proposed barter deal with Russia His Majesty's Government cannot object if Egyptian Government wish to carry it through.
- (f) Present dilemma is direct result of deliberate policy of planting cotton instead of grain in Egypt.
- (g) We are satisfied that existing situation is not the "national struggle" it is made out to be between Egyptians and foreign (particularly Jewish) brokers and merchants; but result of an unsuccessful attempt by small section to corner the market by buying up contracts at prices, towards the end 2 and 3 times beyond normal.
- (h) Such activity is harmful to the national economy creating uncertainty and instability and maintaining high prices and a high cost of living.
- (i) It seems unwise for the Egyptian Government to have intervened in the market with what amounts to retroactive legislation amending standing rules of exchange which have

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[THALAKIS]

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CONFIDENTIALALEXANDRIA TELEGRAM No. 518 TO FOREIGN OFFICE.

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been in operation for 50 years and on which prosperity of Egyptian cotton industry was largely built up. Such intervention together with operations of speculators in question have resulted in heavy losses to Egyptian merchants all over the country.

3. I would propose making some but not all above points in talks with King Fareuk without of course appearing to lecture him for His Majesty seems to have been given somewhat garbled version of the situation.

4. Farghaly (who is mostly concerned in attempted cornering and who is advised by what Peel, a leading British merchant, calls a "Jewish brains trust") has offered us 60,000 bales at 80. As stated above I am bound to recommend rejection of this offer but would like when speaking to King Fareuk to renew as a political gesture offer in paragraph 2(c) above and should be grateful if Cotton Commission representative here may be authorized to conclude this limited deal if King Fareuk so desires. I would be grateful for your authority to do this at a suitable opportunity.

5. Regarding proposed Russian barter Ministry of Supply here has called for tender by July 8th for supply of 200,000 tons of wheat and it is estimated that unless the Egyptians change immediately their planting policy they will need to import approximately 500,000 tons of wheat each year over the next three years. Contrary to what Farghaly alleges wheat deliveries from Russia under February barter agreement are of exceptionally poor quality. The Russians are quietly buying up comparatively small lots (about 10,000 bales) of karnak but it seems very doubtful whether it is true they are pressing for barter deals as the Egyptians allege, against all existing Egyptian holdings of ashmeuni particularly at level price quoted and considering somewhat doubtful quality most of it being only fairly good but all spinable.

TTTT

D R A F TDOCUMENT 17

1. The Raw Cotton Commission cannot regard the purchase of 5,000 bales Ashmouni at 75 tallaris per Kantar as a good commercial proposition, but if you consider such an offer will be a useful gesture to rebut the accusation of boycotting, they are prepared to buy up to 5,000 bales at a price not exceeding 75 tallaris per Kantar.
2. The Raw Cotton Commission are cabling authority to their representative.
3. Incidentally the Raw Cotton Commission are prepared to buy new repeat new crop from Farghaly which is further answer to the charge of boycotting.
4. In present context point 2 (f) of 518 of 22 June seems better avoided. 7

27th June, 1950.

FO371/80494

J

Cypher/OTF

FOREIGN OFFICE AND WHITEHALL DISTRIBUTION

FROM ALEXANDRIA TO FOREIGN OFFICE

Sir R. Stevenson

No. 522

24th June, 1950

D. 9.32 a.m. 25th June, 1950

R. 12.18 p.m. 25th June, 1950

CONFIDENTIAL

J. 1331/6

J 1331/7

My telegram No. 518. Cotton.

Farghaly is pressing for reply to offer (made through His Majesty's Minister of 19th June in Cairo referred to in paragraph 4 of my telegram under reference). Since several million pounds are involved for him and he will have to dispose of the cotton or face the consequences by (I think) 8th July it is only fair to give him as early reply as possible. I should be grateful therefore for very early instructions.

2. There seems to be some evidence that the realities of the situation, particularly the effect on Egyptian merchants, is slowly dawning upon members of the Egyptian Government who previously allowed themselves to be led up the garden path by Farghaly and his friend Mahmoud Aboul Fath the proprietor of Al Misri newspaper. The appeal by the cotton merchants association against the legality of the recent decree (paragraph 2(1) of my telegram under reference) designed to assist Farghaly and his associates, is being heard as a matter of urgency by the Judicial Committee of the Council of State tomorrow June 25th. Meanwhile the Cabinet have rejected the suggestion from the Group that the ginning of new crop should be forbidden until September or October. I also learn that the Egyptian Government are very unlikely to come to the Group's aid by buying up the old crop themselves. Finally there has been some confirmation of the report in paragraph 5 of my telegram under reference concerning Russian reluctance to barter.

3. Grounds on which was based my recommendation not to buy old crop (except possibly 5,000 bales at previously rejected price of 75 as gesture to King Farouk) are therefore strengthened.

88888



STRICTLY CONFIDENTIAL.

COTTON.

1. Consultations.

I consulted Mr. Kemp, the Consul, last night and this morning and he in the meanwhile has consulted Mr. Johnston, who is now the "selector" for Russian deals, Mr. Ian Smith of the National Bank and Mr. Bellamy, a young cotton merchant. He brought along with him for me to consult, Mr. Hartley, Mr. Robert Peel and Mr. MacEwan. All the above are British subjects and all have been asked to regard our consultations as strictly personal and confidential which they have undertaken to do. I think we now know as much about the cotton situation in Egypt to-day as can be known.

2. The Cotton itself.

The Amount of Ashmouni actually held in Egypt to-day has been variously estimated as between 70 and 120 thousand bales. The best opinions agree around the higher figure. I was offered 60 thousand by Farghaly but 30 thousand was the figure mentioned recently by Farghaly to Mr. Hartley of the Cotton Commission.

The quality of this cotton is, according to Farghaly whom I specifically asked, good; but according to everybody else some of it is barely fair-to-good and the rest a little better. There is therefore some doubt about the exact quality but all are agreed that it is all spinnable though some of it not up to the standard usually demanded for Lancashire.

The price Farghaly is asking is 80 thalaris per kantar. He refused some weeks ago an offer from our Cotton Commission for 5 thousand bales at 75. It is estimated that however much of this cotton he may possess (and he possesses very nearly all there is in Egypt) he obtained it by buying in contracts at ever-increasing rates, some at 100, some at 120 and towards the end, at 150. These figures are astronomical. Peel and the others think that but for Farghaly's operations the price would have been about 60 to-day, i.e. about 10% above the new crop for October-November delivery, which would have been about 54. It is reckoned that for the cotton now in his hands Farghaly paid an average of 90. Assuming that he has only the 60 thousand bales he offers us and that he paid an average of 90 it will have cost him a total of about 10 million pounds. Assuming that he has to sell this at the present new crop rate, therefore, he stands to lose one third of it, namely between 3 and 4 million pounds. If he has twice the amount of cotton (as may be possible) he will stand to lose between 6 and 8 million pounds. He would now seem to appreciate the fact that he cannot make the profit he expected because people are refusing to buy at monopolist prices. He is therefore trying to limit his losses. By selling 60 thousand bales to us at 90 thalaris he would limit his losses on

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that quantity to just over a million pounds.

3. How and why he got into this position.

The reason is, without any doubt, the most determined attempt ever made in the Egyptian cotton market to corner the market starting from the fact that for various reasons last year's crop was known to be below average and that cotton would be in short supply and therefore dearer. Farghaly and Yehia (more correctly, the Farghaly Cotton and Investment Company and the Egyptian Cotton Trading Company) therefore set out to buy in all contracts up and down the country. If they had succeeded it would have meant that when the day came for delivery of a given contract the merchant concerned would not have been able to deliver at the contracted price with the result that he would have had to cast round for where he could buy and he would have found that he would have to go to Farghaly who would have made him pay through the nose for it. This has in fact happened in a large number of cases with the result that merchants in the interior of the country have suffered heavy losses. Most British merchants, however, saw what was coming and took steps accordingly by quietly buying up quantities themselves and keeping the contracts. This in fact seems to be mainly responsible for breaking the racket. When Farghaly saw this he was horrified and at once took steps through influential friends in the Government and elsewhere to prevent merchants from delivering the cotton in their hands. In particular by issuing writs against the Minister of Finance and others he succeeded in having the whole position discussed in the Egyptian Cabinet for four hours as a result of which two new Regulations were made. The first of these made it illegal for repressed cotton to be offered. This meant that where small quantities of cotton had been in the market and not found a buyer (strangely enough this has frequently happened, for the racket has been concerned with large quantities so that although the June market price for Ashmouni might be 120 thalaris, a small lot of, say, 10 bales has been unable to find a buyer even at 80 thalaris. Normally these small lots would have been sold for 'spot' cash by auction but owing to the tremendous bulkages of recent deals merchants have been compelled to send unsold small lots back to the country to be unpacked and repressed with other small lots to make up the docketts, as they are called, of 250 kantars each. This has been quite legal in the past but is now illegal with effect from the publication of the new regulations in the Journal Officiel. This had the effect of retrospective legislation because it meant that docketts already in the market made up of repressed cotton suddenly became by law untenderable. Thus the merchants possessing them had to default or buy other cotton from the monopolists at ruinous prices. Rather than default and go out of business many merchants have paid these prices and nearly ruined themselves. Peels have lost several thousands as a result of this. The second new regulation had to do with the composition of the Appeal Committee. ~~Hitherto~~ hitherto this was composed of three government officials and two commercial representatives.

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In future it is to consist only of government officials. This is a blow, and intended to be a blow, at Farghaly's competitors who naturally are the best people to ensure that he keeps to the rules of the game.

These two new regulations, arbitrary and retroactive without prior notice, are condemned by the entire commercial community cosmopolitan as it is. It means in effect that the Standing Rules in the cotton exchange here that have stood for 50 years have been changed overnight to save Farghaly and Yehia from bankruptcy. The result has been (a) to ruin hundreds of Egyptian merchants up and down the country and (b) the retention of cotton prices at a phenomenally high level.

4. Is this a 'national' issue?

It has been described by the King to the Minister of Finance as a fight between Egyptians and Jews and it has been embraced apparently by the Government as a national struggle with the object of running foreign merchants out of business and leaving everything in the hands of Egyptians. In fact, however, Farghaly and Yehia have gone in for these operations on the advice of a brilliant Jew employed by them, called David Mehrez, who has been described as their "brains trust". Moreover the merchants who petitioned the Egyptian Government on the 10th June to rescind the new regulations were all Egyptians. Then again Egyptian merchants and bankers are unanimous in instituting commercial action against the monopolists and some of them are issuing writs on one pretext or another. Finally the losses sustained as a result of these operations have been felt most keenly by Egyptian merchants, especially the smaller ones. On balance, therefore, it can without any doubt be asserted that the operations of Messrs. Farghaly and Yehia are anti-national and harmful to the state by ruining local merchants and keeping up the cost of living. Indeed it can be argued that only by their going bankrupt and the cotton being sold at its proper level of price could the best interests of the country be served; for even if this did not start a general recession of prices it would in itself advantageously affect the cost of living.

5. What is the Russian Angle?

Contrary to what Farghaly says and what His Majesty has been led to believe, the probability is that the Russians are not prepared to take over this cotton at this price. It seems generally agreed here that if Farghaly is prepared to let us have 60 thousand bales at 80 it means that he cannot get 80 from the Russians. The margin of potential loss for him is too wide and the sum involved too great for him to be able to afford to take any other line. The Russian reluctance may also be due to the poor quality of at least some of this cotton but this is less certain. Some who think that Farghaly has about 120 thousand bales suspect him of planning to sell us 60 thousand of the poorer quality and bartering the remainder with the Russians against grain.

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6. The British Angle.

The danger that even if we take these 60 thousand bales at 80, for the reason given by the Egyptians viz. to help in the fight against the spread of Communism in Egypt, we shall very likely, having done that, be immediately asked to furnish wheat. I hear that the Egyptians will be short of grain, chiefly wheat, quite soon and it has been rumoured that the deal Farghaly was planning with the Russians involved 400 thousand tons of grain, mostly wheat. I understand it would be impossible for us to find anything like that quantity from the sterling area but it would be difficult to resist the Egyptian argument that having 'prevented' them from bartering their cotton against Russian wheat we must naturally fill the wheat gap ourselves otherwise they would be obliged after all to turn to Russia for the bread they need, with disastrous effect in the "fight against Communism".

Thus it would seem that if we do as bidden and buy 60 thousand bales at 80 we shall

- (a) be buying cotton we do not need, at a price far above its real worth,
- (b) be landing the British taxpayer with the immediate cost and the hardpressed British consumer with the ultimate cost, keeping up, if not increasing, the price of English piece goods,
- (c) very likely have to furnish Egypt with grain, mostly wheat, apart from her normal allocation and this, if it were to come from the sterling area, would mean less bread and possibly dearer bread for ourselves,
- (d) finally if we were in this way to rescue the monopolists from the worst consequences of their nefarious activities we should call down on our heads recriminations from the entire merchant community including the British sections of it.

7. Action proposed.

I think in the circumstances the only possible recommendation for us to make to the Foreign Office is that we should reply to the representations made to us to the effect that, as stated by Sir Ralph Lacey of the United Kingdom Raw Cotton Commission in Manchester on the 15th June, the Cotton Commission bought up all the requirements of the industry for the whole year a long time ago. We are not "holding off" or buying elsewhere. The British cotton industry is therefore interested and that only to a certain extent, in buying next year's supplies which they can do at prices well below those asked for the old crop to-day. We have, however, as

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a gesture made an offer for a comparatively small quantity (5 thousand bales) of the old crop - which, as stated above, we do not really require - at 75 thalaris per kantar which is considerably more than we paid ourselves for our present holdings or than the price would have been but for the recent operations on the Alexandria exchange; but this offer was rejected, a higher price being demanded. Regarding the proposed deal with Russia, His Majesty's Government would and could have no objection to it for they themselves from time to time conclude barter deals with Russia and the satellite countries; but it should be pointed out in the present instance that any ill effects in the country that this deal might have will be the direct result of the deliberate policy of planting cotton instead of grain in Egypt; that such a policy may seem attractive to the speculator but is fraught with dangers such as those which have now overtaken the Egyptian market where conditions, His Majesty's Government are satisfied, are not those of struggle between Egypt and foreign brokers and merchants but rather of an attempt on the part of a small section to corner the market by buying it up at prices in some instances two or three times beyond what would be normal. Such unbridled activity must react harmfully upon the economy of any state. It creates conditions of uncertainty and therefore instability and insofar as it succeeds, it inevitably means high prices and a high cost of living for the people at large in return for high profits to the speculator if his operations are successful. Allusion could also be made to our doubts about the wisdom of the recent steps taken by the Egyptian Government affecting the marketing of Egyptian cotton in Alexandria and our fears of their harmfulness in the long run from an economic, general and social point of view.

BRITISH EMBASSY

ALEXANDRIA

21st June, 1950.

OUTFILE

Cypher/OTF
ConfidentialFOREIGN OFFICE AND WHITEHALL DISTRIBUTIONFROM FOREIGN OFFICE TO ALEXANDRIANo. 868

28th June, 1950.

D. 9.30 p.m. 28th June, 1950.

PRIORITYCONFIDENTIAL

Your telegram No. 52. [of 27th June; Cotton crisis].

The Raw Cotton Commission cannot regard the purchase of five thousand bales of Ashmouni at 75 Thalaris per Kantar as a good commercial proposition. If, however, you consider that such an offer would serve as a useful gesture to rebut the accusation that we are boycotting, the Raw Cotton Commission are prepared to buy up to five thousand bales at a price not exceeding 75 Thalaris per Kantar.

2. The Raw Cotton Commission are telegraphing to their representative authority to make this offer.

3. You will doubtless wish to speak to King Farouk on this subject, on the lines indicated in the second paragraph of your telegram No. 518. We should prefer you not to make point (f) in that paragraph. As further evidence that we are not boycotting, you may wish to add that the Raw Cotton Commission are in fact prepared to buy new, repeat new, crop from Farghaly Pasha.

F0371/80494

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Cypher/OTP

DEPARTMENTAL DISTRIBUTION

FROM ALEXANDRIA TO FOREIGN OFFICE

Sir R. Stevenson D. 9.38 a.m. 13th July, 1950.
No: 563 R. 11.20 a.m. 13th July, 1950.
13th July, 1950.

PRIORITY
CONFIDENTIAL

Handwritten marks: a large 'J' and 'E' with '173' written next to it.

My telegram No. 561.

I saw the Minister of the Interior last evening and informed him frankly and as forcibly as I could of the facts.

2. I pointed out that at the request of His Majesty King Farouk I had recommended to His Majesty's Government that the Raw Cotton Commission should purchase 5,000 bales of cotton (which we did not need) from Farghaly Pasha at the price of 75 thalaris a kantar. The Raw Cotton Commission had promised Farghaly Pasha not to reveal the price at which this deal was made. But this friendly gesture on our part had been followed by the fixing of price of Ashmoumi by the Egyptian Comite de Coton at 154.5 thalaris a kantar, which together with the unjustifiable rejection of repressed cotton by the Arbitration Committee (of which I also complained) would result in enormous losses by British firms to say nothing of other foreign and many Egyptian concerns.

3. I was thus placed in an impossible position, and unless something could be done to remedy matters I would have to recommend to His Majesty's Government that the price at which our Cotton Commission had purchased from Farghaly Pasha only a few days ago should be published. This would make the price 154.5 thalaris a kantar fixed by the Comite de Coton look ridiculous. I appealed to Serag el Din Pasha to do what he could in the matter and let me know the result as soon as possible. I undertook in the meantime to refrain from making any recommendations to His Majesty's Government. He took written note of what I said and promised to do what he could.

4. I will telegraph any further developments. I have the impression that he will in fact do something about it.

DISTRIBUTED TO:-

11111 African Department
Economic Relations Department

[This telegram is of particular secrecy and should be retained by the authorised recipient and not passed on]

Cypher/OTP R371/80 494

DEPARTMENTAL DISTRIBUTION

FROM ALEXANDRIA TO FOREIGN OFFICE

JE 1331/19

Sir R. Stevenson

No. 567

13th July, 1950

D. 5.30 p.m. 14th July, 1950

R. 6.51 p.m. 14th July, 1950

SECRET

My telegram No. 562.

JE 1331/17

Farghaly informed Chevalier of the Cotton Purchasing Committee last evening that his group had concluded a deal for 36,000 bales with Yugoslavia. This must be a barter deal. He also informed Chevalier that he was negotiating a deal of 30,000 bales against grain with Russia and a possible further 30,000 against tobacco.

2. If these three deals go through cornering groups will get out. It will also relieve pressure on all local cotton deal firms.

3. I suspect that my démarche to the Ministry of the Interior may have forced cornering groups and the Government to connive in these barter deals, which will have to be subsidised by the Government, as the only way of getting out of their difficulties without creating an immediate public scandal which would involve several Wafdist Ministers and their families. It is clear that the Government are risking an outcry against further Russian deals

(a) because it is well known that the last Russian consignment of grain was of very poor quality and

(b) because there is not sufficient Egyptian storage for the quantities of grain these deals will produce.

Nevertheless they seem prepared to accept what seems to them to be the lesser of the two evils.

4. You should know also that the Acting Prime Minister has asked to see one of Bellamy's partners immediately after Bairam.

5. In all these circumstances I think we should take no further action for the moment and see what the position is about the middle of next week.

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African Department; Middle East Secretariat
Economic Relations Department; Economic Intelligence
88888 Department

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Cypher/OTP
Confidential

DEPARTMENTAL DISTRIBUTION

FROM FOREIGN OFFICE TO ALEXANDRIA

No. 935

17th July, 1950

D. 12.20 p.m. 18th July, 1950

CONFIDENTIAL

Your telegram No. 567 [of 14th July: cotton crisis].

We agree that no further action should be taken in this matter for the moment.

2. You should, however, know that the Raw Cotton Mission are most unwilling to disclose details of their commercial transactions either in the London Press or elsewhere. They feel it would not only be improper in principle but also unwise in this case, as purchase was made as a gesture at what they considered an uneconomic rate. Disclosure of the price paid might lead to public criticism here, and might also lay the Commission open to further political pressure in Egypt. Chevalier has therefore been instructed not, to depart from previous instructions, but to keep in touch with you.

3. The Board of Trade are reluctant, in view of probable consequences, to put further pressure on the Raw Cotton Commission. The utmost they could do would be to press them to let it be known that prices paid for their recent purchase were substantially lower than those quoted. Unless, however, you are convinced that such a statement is essential and, once made, would be effective, they do not feel it could be justified.

4. If, despite the developments reported in your telegram under reference, the cotton situation remains unaltered, and if you then still favour the publication of some kind of statement about the Raw Cotton Commission's recent purchase, it would greatly assist both ourselves and the Board of Trade if when making your final recommendation, you could let us have a detailed appreciation, first, of the effect which publication would have on the present situation and, secondly, the extent of British firms' risk, assuming that no statement is issued.

DISTRIBUTED TO:-

African Department
Middle East Secretariat
Economic Relations Department

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AFRICAN DEPARTMENT

JE 1331/5'

P0371/80694

REPORT

FROM Sir R. Stevenson

Sir R. Stevenson's audience with King Farouk. The King stated, with reference to the crisis of two Egyptian cotton firms, that an offer had been received from the Soviet Union to buy cotton in exchange for grain and sugar and expressed the opinion that British buyers were deliberately holding off.

Confidential

511

used 20 June

received in gistry 22 June

REFERENCES

(MINUTES)

Compare 2nd paragraph of Cairo fortnightly summary attached. I have heard that sums amounting to millions are at stake.

(Print)

R. H. Edmonds

22/6

(How disposed of)

S. R. Dept
TFB 23/6

Now see JE 1331/6..

R. H. 29/6

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(Index)

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12/8/50
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1037/80494
FROM ALEXANDRIA TO FOREIGN OFFICE

Sir R. Stevenson

No. 511

20th June, 1950.

D. 7.10 p.m. 20th June, 1950.

R. 8.20 p.m. 20th June, 1950.

CONFIDENTIAL

Cotton.

J 1331/S -

In the course of private audience today the King of Egypt referred to the crisis through which 2 Egyptian cotton breking firms were now passing. He explained that he had advised his Government to help these [grp. undec.? firms] because they were Egyptian.. He then alluded to what he called boycotting by British cotton buyers and went on to say that the Egyptian firms in question had very interesting offer from the Soviet Union to purchase cotton in exchange for cearse grain and sugar.

2. From a political point of view the King did not want to see Egyptian firms dealing with the Soviet Union who were merely acting from political motives and to whom in consequence the prices paid meant nothing. He could not however, step such a deal if the only alternative for the Egyptian firms in question was complete ruin. The matter was one of urgency.

3. He admitted that the Egyptian firms had got into trouble because they had tried to corner the market and repeated that he held absolutely no brief for them personally. It was merely the political angle which interested him.

4. I said I knew very little about the matter but I had been informed that there was enough cotton in England for our present needs and that British dealers had no intention of buying any more at the moment. His Majesty then said that he knew no more about it than I did but his impression was that in ordinary circumstances the British market would now be open to purchases of Egyptian cotton and dealers were deliberately holding off. He hoped they would change their attitude. He repeated again that he was not interested in the Egyptian firms involved making any profit whatever and they would sell at the ordinary market price.

He merely wanted to

CONFIDENTIALAlexandria telegram No. 511 to Foreign Office

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He merely wanted to "keep them off the streets".

5. I promised I would report to you what His Majesty had said.

6. Approaches have already been made to His Majesty's Embassy on the subject from different sources and I am consulting the Cotton Commission and others interested. I will try to make recommendations as soon as I can.