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CONFIDENTIAL

April 27, 2010

For: Hillary  
From: Sid  
Re: Greek economic crisis; transatlantic consequences  
CC: Cheryl

A potential second major phase of the economic crisis, at least in Europe, likely with repercussions in the US, is being triggered with the designation of Greece to junk band status, on the edge of default, with Portugal, Spain, and perhaps even Ireland at tipping points. This is more than a further unfolding of the economic crisis, threatening recovery; fissures within the transatlantic relationship will now be under intensifying strain. More than statements from Treasury should be forthcoming in the days ahead. This is about the future of the transatlantic relationship. Reassuring words about our enduring commitment will matter.

I've been having conversations with John Kornblum and those discussions prompted this email from him a couple of days ago, before the latest Greek event:

-- the economic crisis is starting to have a negative effect on dynamics among EU members. Tensions over deficits, Greece etc are uncovering major gaps among the major players.

-- Germany has emerged stronger than others. German voters believe (correctly) that they have sacrificed to maintain stability and are increasingly angry over signs of obvious mismanagement by Greece and others. *The strains of Afghanistan are being felt by everyone and while the President is very popular in Europe, EU leaders miss the regular stroking by the US which for decades has been an essential aspect of their self-confidence.*

- Germany's harsh reaction to Greece has shaken everyone, perhaps the French most of all. They now see that Germany has been remaking the EU behind the scenes without their noticing it. *Commonality on major issues is declining.*

-- Continuation of this trend would be very damaging to US interests. Global markets could be weakened significantly if the budgetary crises continue. Cooperation on issues

such as Afghanistan and Iran could be undermined. In the worst case, the President could be confronted with a major crisis of confidence among members of the EU. He would be blamed for inattention to the negative trends.

-- Things are not in crisis, but the trends are worrying enough to warrant a senior effort to focus the dialogue, especially with the Germans and the French. Assuming the Conservatives win in the UK, there will be a need to guide them successfully into office. Others such as the Poles and the Turks cannot be ignored.

-- *In other words, we cannot treat our partnership with Europe as just another point on a multipolar map. Maintaining consensus within Europe and between the US and Europe is essential to maintaining a foundation for our global efforts.*