Chex
Lawson

PART B

SECRET

(Circulate under cover and notify REGISTRY of movement)

PO —CH /GH/0131

PART B

DD: 25 years
5/9/95

Begins: 22/8/83
Ends: 28/11/83 (CONTINUED)

CHANCELLOR'S PAPERS ON ARGENTINA AND THE FALKLAND ISLANDS

PART B

CONFIDENTIAL

I.17

FROM: ADAM RIDLEY
22 August 1983

CHIEF SECRETARY

cc Miss O'Mara
Mr Hudson
Mr Littler
Mr Monaghan

ARGENTINIAN SANCTIONS

I attach an article from Saturday's Guardian, the second on the subject of Argentinian Sanctions which he has written for it in the last few days. Unless I am much mistaken, this story will quickly get to the ears of a number of those who have already long been critical of our handling of this issue, and stir them up still more. There could even be some adverse publicity at or before the Party Conference. I wonder whether you would therefore feel that we need how to:

(1) make sure of the facts;

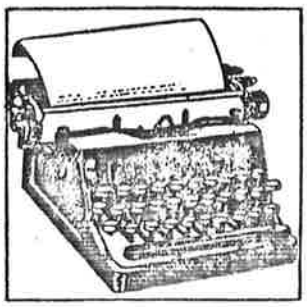
(2) do something to put the record straight if that is possible?

AR

A N RIDLEY

THE GUARDIAN Saturday August 20 1983

Forget the Falklands when it comes to Argentine loans Mrs T is a pragmatist



SATURDAY NOTEBOOK

THE British government, the Argentinian government and the denizens of the International Monetary Fund have indulged in a well-staged political charade over the past 10 days. Olivier would be envious and even Saatchi & Saatchi could not have done much better.

The outcome is that UK public opinion is appeased, Argentinian public opinion is appeased and the international monetary authorities, not to mention the Reagan Administration, can breathe easily again.

Ten days ago, Mrs Thatcher, casting a watchful eye on possible impact on public sentiment, told the UK clearing banks — with, of course, a first considerate word in the ear of the IMF and the US State Department — that she could not allow the UK clearing banks to participate in a new $1.5 billion loan for Argentina.

First, the lady insisted, discriminatory economic sanctions against UK companies must be renounced by the Bignone regime

The Prime Minister is not oblivious to the public outcry which burst at the turn of the year when it was revealed that the UK banks were putting up 10 per cent of an emergency $1.1 billion short-term loan to Argentina, not to mention preparing themselves to participate in the new $1.5 billion five-year loan.

Public opinion, not to mention those areas of the media so strongly supportive of the Conservatives' policies, was quick to question British banks funding a regime which has not abandoned its claims to the Falklands, or indeed, possibly funding Argentinian purchases of Exocet missiles and Super Etendards.

Last December, the clearing banks, faced with this criticism, effectively said "nuts to this," phrased of course in the appropriate City terms.

"We're getting all this public stick for fulfilling our international financial responsibilities," they told the Treasury. "You know damn well that the US would come down on you like a ton of bricks if we pulled out of these loans, so you can jolly well stand up in public and be counted."

With reluctance, the Government took the unique step of giving its formal blessing to the clearers and the $1.1 billion bridging loan went through as the preliminary to the larger $1.5 billion medium-term credit.

Matters rumbled on but the Conservative government's perception of public reaction to further Argentinian loans was noticeably keener. On June 6, three days before the election, the Bignone junta introduced a new decree, 22820.

At the time, this was interpreted as a relaxation of Argentinian economic sanctions against the UK and to some degree, this was true.

The form economic sanctions have taken in a simple freeze on assets held by UK companies, or the Crown, in Argentina. The June 6 decree opened the way for British banks to repatriate Argentinian held assets which they were duly allowed to do, and with this barrier removed, the paper work for the $1.5 billion loan was able to proceed.

But the ban on remitting assets continued. It had little effect. With the banks' moneys cleared, it is estimated that some 80 UK companies have assets worth a fairly meagre $10 million still in Argentina, a drop in the ocean in real terms, even should the companies concerned wish to remit their funds.

As the new Parliament sat and the summer wore on, the question of British financial backing for a country still employing some form of economic sanctions against the UK refused to go away.

Thus, 10 days ago, just 48 hours before the new Argentinian loan was scheduled for signing, Mrs Thatcher dug her heels in. Inevitably, there was panic at the IMF and the US State Department, not to mention in the breast of Argentina's economic minister, Mr Jorge Wehbe.

But politicians are politicians and a solution was quickly found. The IMF, itself lending $1.5 billion to Argentina, was called upon to point out that its code insisted that one member country could not operate discriminatory economic sanctions against another as Argentina was doing.

Late on Thursday August 11, the vice-president of the Argentinian central bank Mr Luis Rey, let it be known with the minimum of fanfare that all sanctions against the UK would be lifted.

Mrs Thatcher, having learned a lesson from the clearing banks, was now quickly able to claim credit for having forced Argentina to rescind sanctions while at the same time passing the buck to the IMF.

A special board meeting of the fund met last Monday with the Argentinian assurances on the table and was able to tell the world that it was satisfied no sanctions were to be deployed against the UK. If new sanctions were ever imposed the IMF added then it would reconsider its ruling.

Armed with the IMF backing, the UK government was able to give the go-ahead to British banks' participation in the five-year loan. Of course, Mrs Thatcher retained the wonderful fallback of having the right to claim, should anything go amiss, that she had accepted the judgment of the IMF. It is difficult to call the most influential monetary authority in the world a liar.

Window-dressing is one of the most skilful art forms of the 20th Century and over the past 10 days, the UK, US and Argentinian governments, not to mention the IMF, have all shown themselves to be dab hands at it.

Once the UK block had been withdrawn, the new $1.5 billion commercial banking loan was quickly signed. Only then did the Argentinian government, conscious of its own domestic needs, gently leak the fact that sanctions against the UK are still firmly in place.

While the June 6 decree has been lifted, a far tougher decree, introduced on May 19, 1982 at the height of the Falklands war, is still very much in existence. This formally bans the transfer of assets owned by the UK Crown, companies or residents although exceptions can be made at the discretion of the Argentinian National Vigilance Committee.

The Bignone regime, after all, is more sensitive to its local equivalent of MORI and Marplan than is even Mrs T. If the UK economy is in a mess, Argentina's is 20 times worse, and one of the few props the junta retains to unite public opinion behind it is its unwavering claim to sovereign rights over the Falklands.

In the same breath, the last thing the US State Department wants is revolution in a stable corner of South America, and there is little reason to think that the UK government differs with this viewpoint.

So sanctions remain, although it is unlikely they will be enforced, and those UK corporations which so desire, will be able to remit Argentina-based assets without problem. But it must be said that our politicians practised a rather unacceptable deception when they claimed that formal sanctions had been scrapped.

And it was most definitely a deception, for both the IMF and the UK government, when they approved the Argentinian loans on Monday, were completely aware of the true state of play. The results may be the same but the facts, as projected to the world, were far wide of the truth.

Why then, should it be so vital for the UK to participate in loans to Argentina? Well, in the first place, if British banks want to be repaid loans already due by Argentina, new loans must be made.

Of the British banks contribution to the $1.5 billion five-year loan, some 65 per cent of the $150 million the clearing banks are putting up will be used to repay their part of the $1.1 billion emergency bridging loan made earlier this year. In other words, the UK banks — or indeed the Americans or Germans — are not so much putting up new cash as restructuring loans which have already been made.

Secondly, on the above basis, it would be too much to expect that had the British banks withdrawn from the loan, American, German or Japanese banks, untroubled by similar political nuances, would have stepped forward to take their place.

Why, after all, should other international banks put up hard cash just to allow outstanding debts to British banks to be paid off?

But if the British banks were not paid, the dreadful spectre of default, the 1982 flavour of hoary chestnut, would loom large. And an awful lot of Western bankers and governments would be rather cross indeed with the UK government.

In the end, the IMF manoeuvrings consisted of a great deal of hot air expelled purely to provide a handy smokescreen for the Conservative Government. There was never any real danger of a British refusal to join the Argentinian loan.

After all, Mrs Thatcher has just as great an interest in preserving the international capitalist structure, not to mention export benefits, as Ronald Reagan or Helmut Kohl, and providing finance or not for Argentinian arms purchases pales into insignificance in comparison. But if you can pick up a few personal political points in the process, so much the better.

David Simpson

9/2

GRS 250

CONFIDENTIAL

CONFIDENTIAL

(FM BERNE 300800ZL)

FM BIS BUENOS AIRES

TO IMMEDIATE FCO
TELNO 725 OF 26 AUGUST
INFO IMMEDIATE UKMIS IMF/IBRD WASHINGTON WASHINGTON UKMIS NEW YORK DOT

ARGENTINA: FINANCIAL RESTRICTIONS

OUR TELNO 703 OF 16 AUGUST AND YOUR TELNO 139 OF 17 AUGUST REFER.

1. DESPITE EARLIER OPTIMISM FROM SOME BRITISH COMPANIES HERE, THEIR GOVERNMENT-APPOINTED TRUSTEES HAVE NOW CONFIRMED THAT THERE HAS BEEN NO (NO) PERMANENT LIFTING OF THE RESTRICTIONS COVERING THE REPATRIATION OF THEIR DIVIDENDS. MOST FIRMS HAVE ALREADY REMITTED THE FUNDS FREED WITH THE PERMISSION OF THE NATIONAL SUPERVISORY COMMISSION ON 10 AND 11 AUGUST, BUT THEY HAVE BEEN TOLD THAT FRESH APPLICATIONS MUST BE MADE FOR FUTURE TRANSFERS. AS BEFORE, THESE WILL BE SUBJECT TO THE DISCRETION OF THE ARGENTINE AUTHORITIES. LAW 22591 AND 22820 REMAIN UNMODIFIED, WHILE THE HARD BARGAINING BY THE UK TO OBTAIN THE RECENT CONCESSION HAS APPARENTLY CAUSED MUCH IRRITATION AND BITTERNESS IN OFFICIAL CIRCLES.

2. ACCESS TO THE FOREIGN EXCHANGE MARKETS FOR THE REPATRIATION OF FUNDS HAS THEORETICALLY BEEN GUARANTEED BY ECONOMY MINISTRY RESOLUTION NO 899 TO ALL NON-ARGENTINE COMPANIES, INCLUDING THOSE BRITISH SUBSIDIARIES WHICH ARE ALLOWED TO MAKE REMITTANCES. IN PRACTICE, ALL FIRMS MAY SIMPLY BE TOLD BY THE CENTRAL BANK THAT THE REQUIRED DOLLARS ARE NOT AVAILABLE, WHICH WILL OBLIGE THEM TO CONTINUE PURCHASING BONEX.

JACKSON-HOULSTON

M
POWELL-JONES

MONETARY
FID
S AM D
ERD
MR GIFFARD
MR URE

COPIES TO:-
DOT
DTI
TREASURY
B/ENGLAND

CONFIDENTIAL

Minister for Housing and Construction

Department of the Environment
2 Marsham Street London SW1P 3EB
Telephone 01-212 7601

EXCHEQUER
1 SEP 1983

MR KITCHIT
CST. FST. EST. MST.
Mr Middleton.
Mr Littler. Mr Carey.
Mr Unwin Mr Ridley.
Mr Anson.

My Ref: J/PSO/14474/83

5 August 1983

My dear John,

Thank you for your letter of 11 August to Patrick Jenkin about transport vehicles for the Falkland Islands Airfield contract.

I fully accept what you say. The contract conditions for the project require the consortium to use British suppliers unless this is impracticable or uneconomic. The purchase of transport vehicles, where negotiations between the consortium and British Leyland, Magirus Deutz and other potential suppliers (which had been going on for the previous three weeks, with British Leyland proving very obstinate) meant that when the matter came to Patrick Jenkin for resolution, he with advice from Cecil Parkinson had to act very quickly to ensure that vehicles, spares and engineers could be mobilised in time to meet the required delivery and shipping date at the end of August.

PSA officials were in touch with officials in other departments - and particularly your own - throughout. When BL gave way on price at the last minute and a deal with them became possible they again consulted all departments concerned but the timing was very constrained. However, I remain convinced that the gap of £180,000 was worth bridging, bearing in mind the need to get the contract off to a timely and auspicious start.

As for the future, most orders for plant and equipment have now been placed or lined up so similar circumstances are unlikely to arise. But of course I give you the undertaking for which you ask.

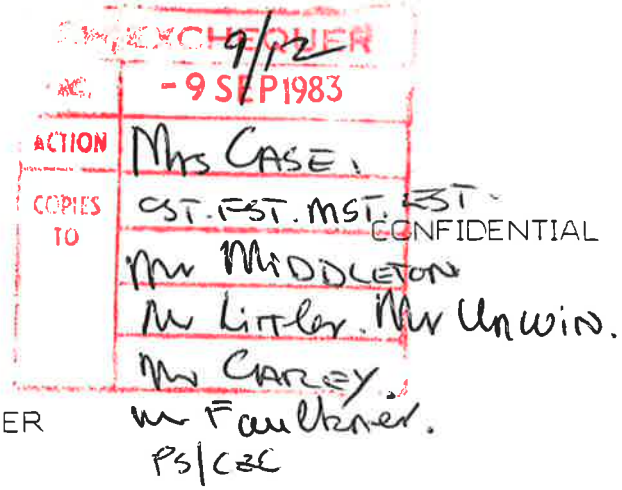
I am copying this letter to the Prime Minister, Geoffrey Howe, Nigel Lawson and Cecil Parkinson.

Yours ever
Ian

IAN GOW

John Stanley Esq MP

V640



CONFIDENTIAL

PRIME MINISTER

EMBARGO ON IMPORTS FROM ARGENTINA: BOOKS

A problem has developed about the administration of our ban on imports from Argentina, concerning books.

2 Since the invasion of the Falklands we have operated a general embargo on imports from Argentina with only trivial exceptions, including a waiver for newspapers and journals - to enable correspondents to send dispatches at the time of the crisis and to enable us to keep in touch with current affairs in Argentina - and to a very limited extent for non-commercial postal packets of small value.

3 Recently more systematic checking by Customs of the parcel post has led to the impounding of quite a lot of books being sent to this country in this way. This has produced a large number of complaints from learned societies, libraries (including the Bodleian and the British Library), academic bodies and others, such as the International Statistical Institute. This body held its annual conference in Buenos Aires in 1981. Copies of the proceedings addressed to British participants and libraries are now being held up.

4 Arthur Cockfield, as Past President of the Royal Statistical Society, has a special interest in the International Statistical Institute case, and has expressed concern over our position. Keith Joseph and Grey Gowrie have also expressed their concern.

5 There has been a certain amount of Press comment, including an article in last Sunday's Observer, (attached) drawing attention to the apparent absurdity of operating an embargo which has adverse effects on the UK. Interference with the free flow of ideas is an emotive subject. Pressure is building up for us to make a special exception for books. The idea has also spread that Customs are burning the seized books, which is untrue but which has caused some worry.

6 It would of course be possible to make a special exception in this case. Technically we could do this quite easily by widening the present waiver for newspapers and magazines to include books, not including trade advertising material or imports for re-sale. This would deal with most (although not all) of the present protests; it would not give any significant benefit to Argentina; and it would remove a legitimate

grievance in this country.

7 But if we were to give way to pressure and make a special exception for books it would be extremely difficult to defend our maintenance of the embargo, in other cases of equal or greater substance. The pressures to extend the waiver to records and video tapes, for example, would be very great and we could expect strong pressures on behalf of laboratories who are precluded from importing samples for analysis (thus providing a valuable export service); from the wool textile industry who cannot import wool tops unavailable elsewhere; and a host of others. There is also the certainty that such a move would be picked up in Argentina. It might be misrepresented as a weakening of our general stance.

8 On balance Cecil Parkinson and I believe it would be wrong to change this difficult line. Subject to your views and those of other colleagues, I suggest we maintain the existing policy.

9 I am sending copies of this minute to Geoffrey Howe, Nigel Lawson, Arthur Cockfield, Keith Joseph, Grey Gowrie and Sir Robert Armstrong.

PC

PAUL CHANNON
September 1983

THE OBSERVER

MEDIASCAN LTD.
INFORMATION RETRIEVAL SERVICE

DATE - 4 SEP 1983

Why Britain may burn 16 books it has banned

MICHAEL DAVIE

notebook

A VIOLENT storm is about to break over the head of Mr Paul Channon, MP, because he is banning books.

He is the Minister for Trade at the Department of Trade and Industry, under Mr Cecil Parkinson, the Secretary of State, who may also need to field a few thunderbolts.

At Dover, in the customs parcel depot, books sent from Argentina are piling up that the the Department of Trade will not allow into the country, under its 'total embargo' on trade with Argentina.

The British Library has had 60 parcels of books seized. The Scott Polar Research Institute in Cambridge has also had books seized. So have the University of Essex, the University of St Andrews, and the Institute for Latin American Studies at London University, among many others. All these books are liable to be destroyed, the Customs and Excise Department told me last week. They might be burned.

The total ban on all imports from Argentina came into effect on 7 April 1982. It followed a Cabinet decision and was introduced in the form of a statutory instrument signed by the then Minister for Trade, Mr Peter Rees, Mr Channon's predecessor. The key phrase ran: 'Nothing in this licence shall authorise the importation of any goods which have been exported from Argentina.' 'Any goods' included books.

Goods for which the Department of Trade refuses to issue an import licence become, after 28 days, 'forfeiture to the Crown.'

Until recently the ban does not seem to have been very rigorously applied.

Mr Harry Fairhurst, a librarian for 35 years, runs the Standing Conference of National and University Libraries in London, a registered charity, whose purpose is to further the cause of all the university and national libraries who form its members.

The book-banning has come to a head, he says, only in the past three months. The British Library had some problems before that, but it is only since the early summer that the Standing Conference has started getting a flood of protests and complaints from its members.

Dr A. Matheson, the keeper of the printed books in the National Library of Scotland received a consignment of books from Argentina last March, but another package in July was seized.

When the books started piling up, librarians, institutes and scholars made private representations to Ministers and Department of Trade civil servants.

These got nowhere. Here is a typical example of such exchanges.

On 24 June, the acting director of the Scott Polar Research Institute in Cambridge, Dr T. E. Armstrong, wrote to the International Trade Policy Division of the DoT.

He enclosed an invoice for books that had been prevented from reaching the institute. The books, he pointed out, concerned issues of sovereignty in the Falklands and Antarctica.

'As a department of the faculty of geography and geology in the University of Cambridge,' he wrote, 'responsible for teaching and research in the polar regions, it is the duty of the library at the Scott Polar Research Institute to acquire or publish material relevant to the Falkland Islands, their dependencies and the British Antarctic Territory whether published in the UK or elsewhere.

'In addition to our responsibility to this University of Cambridge, there is a responsibility at national level both to the Ministry of Defence, from whom we receive an annual grant-in-aid of £20,000 and to the polar research section of the Foreign and Commonwealth Office, who rely on our library and information services for their own research purposes.'

If the books he listed were lost to the library, the gap would in all probability never be filled. Such books went rapidly out of print.

He 'begged' the International Trade Policy Division to relent.

It did not. The reply, from S. L. Hodge, said it was the Government's aim to maintain a total embargo on all Argentine goods. Argentina was discriminating against British firms, despite undertakings not to do so. 'Any shift in our position would send entirely the wrong signals to the Argentinians' and hinder British efforts to get the reciprocal lifting of all remaining sanctions. The licence was refused.

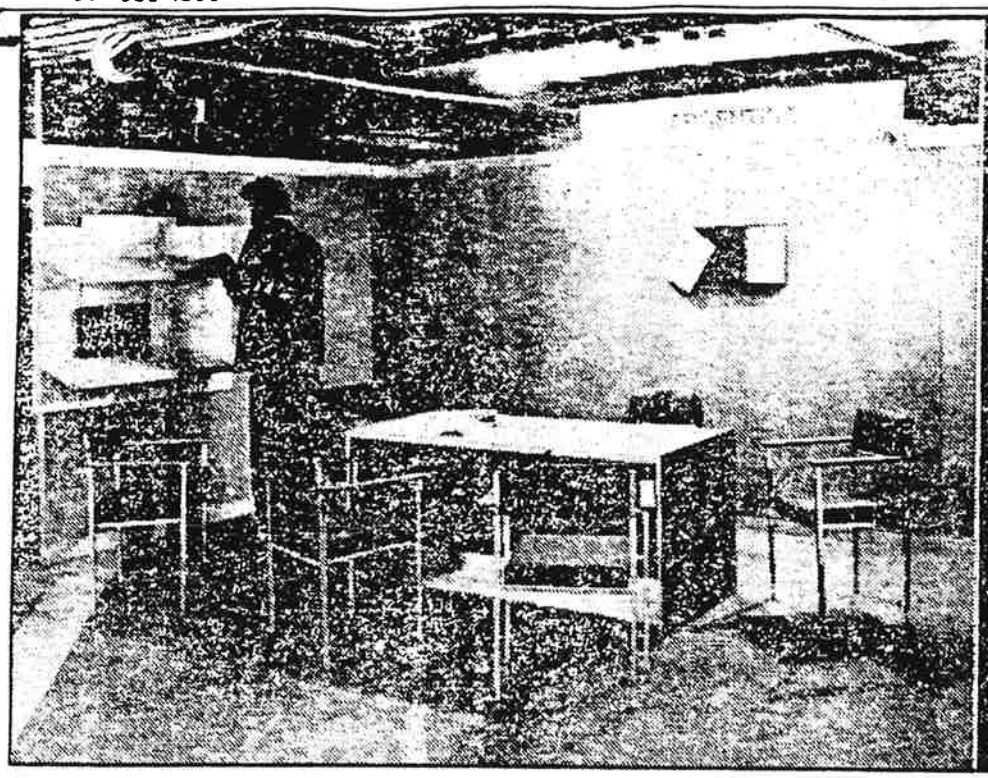
Others tried to get the policy changed, working quietly 'within the system.' Now frustrated, they are ready for a public row.

The Standing Conference of National and University Libraries wrote to three Ministers: Lord Gowrie, in charge of arts and libraries; Sir Keith Joseph, the Minister of Education, and Mr Channon. 'All the replies were in concert:' no dice. 'Censorship' is now the word being used by Mr Fairhurst.

A Treasury Minister, M

CONT'D

MEDIASCAN LTD.
01 - 636 4890
INFORMATION RETRIEVAL SERVICE
DATE - 4 SEP 1983



Trade Minister Paul Channon faces a book-ban storm, and Argentina's oil congress stand is bare.

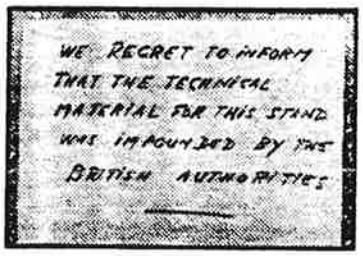
Barney Hayhoe, said in a written answer to a parliamentary question on 29 July that, yes, books sent from Argentina to libraries in the UK, including the Bodleian, were being held up by HM Customs and Excise. The 'importation' of the 'goods concerned' was prohibited.

But the answer was buried and little noticed. Then last month the alert *Times Literary Supplement* printed a sharp comment. Ringing round the great libraries, the institutes of Latin American studies, scholars, professional organisations, and booksellers, I have encountered uniform hostility shading into incredulity about the ban.

To begin with, there is a general sense of shock, even shame, that it should be a British Government not a dictatorship that is applying such a ban. Second, it is everywhere pointed out that there is an absurd anomaly in government policy. Books are banned, but newspapers and periodicals are not. The tortured government explanation is that newspapers and periodicals reflect current Argentine thinking, whereas books do not. Books, you see, are 'commodities.'

'We should not be denied information of any kind,' says one very important person in the library world, who did not wish to be named. 'Even if the Argentines are to remain our enemies for life, the need for knowledge of Argentina is increased rather than diminished.'

Government policy is based on the notion that the more trade pressure is kept on Argentina here, the more likely it is that they will do what we want. Hence the confiscation of the 4,000 Argentine brochures brought in for the World Petroleum Congress at the Barbican in London last week. But no one I spoke to can see why books should be lumped in the same category.


WE REGRET TO INFORM THAT THE TECHNICAL MATERIAL FOR THIS STAND WAS IMPOUNDED BY THE BRITISH AUTHORITIES

4,000 brochures seized.

It is not only current political books that have been seized. The Oxford University Institute of Economics and Statistics has just been informed that five volumes of 'Foreign Trade Statistics of Argentina, 1979' have become forfeitures.

Mr Harold Blakemore, an adviser to Lloyds Bank as well as a London University academic, says the customs have seized a book sent to the journal he co-edits which is a scholarly history of Buenos Aires containing contributions by British scholars. Thus British scholars are prevented from reading the work of other British scholars.

Mr John May, a director of May and May Ltd, a second-hand and antiquarian bookseller in Salisbury says he has had a consignment of 25 books on the history of music seized by the customs at Dover. The books were published in Buenos Aires between 1923 and 1981. Mr May has been in touch with HM Customs. He understands the books are 'likely to be destroyed.'

His bookshop imports and exports scholarly music books all round the world. He wonders what other countries will think when they hear that a British Government is seizing such books and threatening to destroy them. 'There are very, very few parallels in modern times,' he says, for such a policy. This is a total seizure and threat to destroy *any* books from a particular country.

'Suppose a bookseller in Argentina sends me a rare book on music published in England a hundred years ago. That would be seized and threatened with destruction. I fought in the last war against tyranny. I never thought to see anything like this in Britain. Mrs Thatcher has been saying she hopes to be compared to Churchill. I don't think he'd have done this. It's, a wicked business, disturbing and distressing.'

Absurdities abound. The librarian of the Institute of Latin American Studies at London University, Mrs Travis, said: 'At the height of the Falklands crisis the Foreign Office were ringing us for information, hoping we had books that they hadn't. Now they're stopping the same books from coming in.'

At the Dover customs parcel depot, a helpful Mr Darler, who is in charge there, conceded that 'a considerable number' of book parcels had been seized, and were now Crown property. He was awaiting instructions on how to dispose of them.

I asked Mr England at Customs and Excise headquarters what the Commissioners of Customs had in mind. He stressed that the books did not present any special problem. 'We treat them as perfectly ordinary goods, like textiles.' They would be disposed of. They could be pulped. Or burned? Mr England paused, possibly remembering something about book-burning, but he went nobly ahead. 'Could be.'

Mr Paul Channon could not immediately say, when I called him, why newspapers and periodicals were allowed in but not books. He was, he said, 'unbriefed.'

Mr Channon promised me a statement after he was briefed. When it came, it merely repeated the Government's position. Yet only two months ago—as the people I spoke to unfailingly reminded me—Mr Channon was the Minister in charge of libraries.

3579
2.63

CONFIDENTIAL

FROM: MISS J C SIMPSON
DATE: 1 September 1983

Miss Simpson,
cc. as below
plus Mr Carey
Mr Denison

cc PS/Economic Secretary
Mr Littler o.r.
Mr Lavelle
Mr Bottrill
Mrs Diggle

MR UNWIN

ARGENTINA: FINANCIAL RESTRICTIONS

The Chancellor has seen telegram number 75, of 26 August, from Jackson-Houlston in Buenos Aires, about the experience of British companies in repatriating funds from Argentina. He would be grateful for urgent advice on where the facts as reported therein leave the next tranche of IMF money. He has commented that test cases seem urgently needed.

JB.

MISS J C SIMPSON

I have already picked this up & asked for enquiries to be made. The need to make fresh applications could be a new awkward twist, & we will report as soon as we can establish the facts. I will also make enquiries in Washington next week.

2/IX/83

GRS 250

CONFIDENTIAL

CONFIDENTIAL

(FM BERNE 300800ZL)

FM BIS BUENOS AIRES

TO IMMEDIATE FCO
TELNO 725 OF 26 AUGUST
INFO IMMEDIATE UKMIS IMF/IBRD WASHINGTON WASHINGTON UKMIS NEW YORK DOT

ARGENTINA: FINANCIAL RESTRICTIONS

OUR TELNO 703 OF 16 AUGUST AND YOUR TELNO 139 OF 17 AUGUST REFER.

1. DESPITE EARLIER OPTIMISM FROM SOME BRITISH COMPANIES HERE, THEIR GOVERNMENT-APPOINTED TRUSTEES HAVE NOW CONFIRMED THAT THERE HAS BEEN NO (NO) PERMANENT LIFTING OF THE RESTRICTIONS COVERING THE REPATRIATION OF THEIR DIVIDENDS. MOST FIRMS HAVE ALREADY REMITTED THE FUNDS FREED WITH THE PERMISSION OF THE NATIONAL SUPERVISORY COMMISSION ON 10 AND 11 AUGUST, BUT THEY HAVE BEEN TOLD THAT FRESH APPLICATIONS MUST BE MADE FOR FUTURE TRANSFERS. AS BEFORE, THESE WILL BE SUBJECT TO THE DISCRETION OF THE ARGENTINE AUTHORITIES. LAW 22591 AND 22820 REMAIN UNMODIFIED, WHILE THE HARD BARGAINING BY THE UK TO OBTAIN THE RECENT CONCESSION HAS APPARENTLY CAUSED MUCH IRRITATION AND BITTERNESS IN OFFICIAL CIRCLES.

2. ACCESS TO THE FOREIGN EXCHANGE MARKETS FOR THE REPATRIATION OF FUNDS HAS THEORETICALLY BEEN GUARANTEED BY ECONOMY MINISTRY RESOLUTION NO 899 TO ALL NON-ARGENTINE COMPANIES, INCLUDING THOSE BRITISH SUBSIDIARIES WHICH ARE ALLOWED TO MAKE REMITTANCES. IN PRACTICE, ALL FIRMS MAY SIMPLY BE TOLD BY THE CENTRAL BANK THAT THE REQUIRED DOLLARS ARE NOT AVAILABLE, WHICH WILL OBLIGE THEM TO CONTINUE PURCHASING BONEX.

JACKSON-HOULSTON

M
POWELL-JONES

MONETARY
FID
S AM D
ERD
MR GIFFARD
MR URE

COPIES TO:-
DOT
DTI
TREASURY
B/ENGLAND

CONFIDENTIAL

CONFIDENTIAL

FROM: JOHN GIEVE

DATE: 2 SEPTEMBER 1983

cc. Miss O'Mara
Mr Hudson
Mr Littler
Mr Monaghan
Mr Carey
Mr Ridley

MRS DIGGLE

ARGENTINIAN SANCTIONS

You have seen Mr Ridley's minute of 22 August to the Chief Secretary. The Chief Secretary agrees that we should make sure of the facts and has asked:-

1. what is the scope and practical effect of the decree of May 19 1982? and

2. what British Companies are anxious to remit assets from the Argentine and have been prevented from doing so?

2. When the facts have been ascertained, Ministers will wish to consider when and how it would be appropriate to make them public. The Chief Secretary considers that it is possible that it will rumble on until the next oral question time.

JG

JOHN GIEVE
2 SEPTEMBER 1983

CONFIDENTIAL

JS

15/6/4

FROM: P C DIGGLE

DATE: 6 September 1983

1. MR BOTTRILL

2. CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Mr Littler
Mr Unwin
Mr Carey
Mr Lavelle
Mrs Case
Mr Denison

Economic Secretary
Mr Middleton
Mr Ridley
Mr Hall
Miss Diggle

Thanks. I agree with the suggestion in para 20. M

ARGENTINA: FINANCIAL RESTRICTIONS

You asked for clarification of cable 725 from Buenos Aires. The Chief Secretary has also independently asked about developments in Argentina.

2. Broadly, the telegram confirms our suspicions, about which we should have wanted to approach you shortly anyway.

Recent progress

3. In order to check whether Argentina is operating discriminatory financial practices against the UK, we need to check two things;

(a) whether UK companies are in fact allowed to trade their US $ denominated bonds (BONEX) and repatriate the proceeds;

(b) whether the principals are in fact able to use the foreign exchange market in Argentina on the same terms as other foreign nationals.

4. The IMF board accepted on 15 August that neither restriction was operating. Argentina had relaxed (a) for UK banks on 8 August; and widened the concession to embrace all UK firms on 11 August. The facility (b) has been available only from 15 August, the day of the Board meeting.

FROM: D.G. LOCKE

DATE: 4 September 1985

1. RE SUPPLIES

2. PURCHASES OF THE EXPEDITION

on Other Secretary
Mr Lateler
Mr Beale
Mr Carey
Mr Lavelle
Mr Long
Mr Jenkins

MONETARY: FINANCIAL RESTRICTIONS

Yet noted for clarification of cable 725 from Buenos Aires. The Chief Secretary has also informally asked about Equivalents in Argentina.

2. Generally, the telegram contains one complaint, about which we should have wished to approach you shortly anyway.

Legal Problem

3. In order to check whether Argentina is operating discriminatory fiscal practices against the UK, we need to check two things:

(a) whether UK companies are in fact allowed to trade their US $ denominated dividends (MONEX) and repatriate the proceeds;

or

(b) whether the principles are in fact able to use the foreign exchange market in Argentina on the same terms as other foreign nationals.

4. The CDF Board accepted on 15 August that Argentine restrictions were operating. Argentina had relaxed (a) for UK banks on [8] August; and delivered the concession to enterprises all UK firms on [14] August. The facility (b) has been available only from 15 August, the day of the Board meeting.

5. At the time of the IMF Board meeting, we knew that both Lloyds and Barclays had in fact sold and repatriated some of their BONEX. We also knew that RTZ Borax had moved a truck load of bonds across the River Plate. Horizon expected to repatriate the proceeds of selling some of its BONEX a day or two after the Board meeting, and a number of UK companies (including BAT and ICI) had been given permission - indeed encouraged - by the authorities to trade their BONEX.

6. So on 15 August, it looked as though Argentina was in fact ceasing to operate its restrictions on international transfers of funds involving UK principals. That was why we made no difficulty about the proposed IMF sanction of Argentina's programme.

Present position

7. Since then two companies - RTZ and Pilkington's - have sold BONEX outside Argentina, but at a substantial discount. But others, including Horizon, are still awaiting permission to trade their BONEX. Some have no funds to remit out of Argentina. The remaining UK companies in Argentina seem unwilling to even attempt to trade the BONEX. No one has been able to use the foreign exchange market, but that seems to be because of a shortage of foreign exchange. Both Department of Trade reports from UK head offices and those given the Bank of England by Lloyds and Barclays tell the same story. Buenos Aires telegram ~~275~~ 72 confirmed it. UKdel in Washington are checking with the IMF experts, who should be able to contact the team currently in Argentina.

8. The terms of the IMF sanction for the continuation of Argentina's programme were that financial discrimination against UK principals was not to continue or be reimposed in any form in practice. Following precedent, the IMF Board looked through the legislation to the facts on the ground. (This is insurance against liberal laws but discrimination in practice).

9. We believe this means that, so long as applications by UK companies to trade their BONEX succeed, and so long as UK companies are treated the same as other foreign companies in attempts (however unsuccessful) to use the foreign exchange market, there is no scope for complaint to the IMF about continuation of Argentina's programme.

5. At the time of the JDC Board meeting, we knew that both Lloyds and Barclays had in fact sold and repatriated some of their DONEX. We also knew that the FCO Power had moved a large load of bonds between the Rivers Plate. Everyone expected to repatriate the proceeds of selling some of the DONEX a day or two after the Board meeting, and a number of UK companies (including BIC and IDC) had been given permission - indeed encouraged - by the authorities to trade their DONEX.

6. So on 15 August, it looked as though Argentina was in fact obeying to operate its restrictions on international transfers of funds involving UK principals. That was why we made no difficulty about the proposed IDC evolution of Argentina's programme.

Present position

7. Since then two companies - BIC and Schlumberger - have sold DONEX locally Argentina, but to a substantial discount. Just yesterday, including Harrison, are still seeking permission to trade their DONEX. Some have to funds to wind out of Argentina. The remaining UK companies in Argentina seem unwilling to even attempt to trade the DONEX. No one has been able to use the foreign exchange market, but that seems to be because of a shortage of foreign exchange. Both Departments of Trade receive from UK based offices and those given the Bank of England by Lloyds and Barclays tell the same story. Harrison Akers Argentina ATC confirmed it. Other in Schlumberger are obeying with the IDC requests, who should be able to contact the best currently in Argentina.

8. The terms of the IDC resolution for the continuation of Argentina's programme were that financial disconnection against UK nationals was not to continue or be reimposed in any form in practice. Following precedent, the IDC Board looked through the legislation to the facts on the ground. (This is language against literal into our disconnection in practice).

9. We believe this means that, so long as applications by UK companies to trade their DONEX succeed, and so long as UK companies are treated the same as other foreign companies in attempts (however unsuccessful) to use the foreign exchange market, there is no scope for complaint to the IMF about continuation of Argentina's programme.

10. However, it remains unsatisfactory that there are so few test cases. For the first three weeks of August, we believed that most UK companies were anxious to transmit funds to London or at least to prove that access was possible. It only became clear last week that some companies are unwilling to use the newly opened facilities which are now available. Some may claim that this is a commercial judgment: the discount on BONEX is quite high (up to 30% on face value) and has recently risen. Others may be nervous that by trading their BONEX promptly they may single themselves out for unwelcome attentions by the Argentine authorities.

11. However, the faults are not entirely due to dilatoriness on the part of UK companies in Argentina. At least one (Horizon) has been kept waiting for several weeks for permission to trade its BONEX. A particularly worrying feature is that we still have no evidence of any routine transfers of funds between Argentina and London, using either the BONEX or foreign exchange market routes.

The IMF programme

12. Continuation of the IMF programme for Argentina depends on 3 factors:

(1) continuing good behaviour on discriminatory financial practices against the UK;

(2) clearance of arrears;

(3) compliance with the economic performance criteria.

13. In practice, achievement of (2) will depend on successful drawdown of the $1.5 billion syndicated bank loan whose signing prompted acceleration of the IMF board meeting. The Fund team is currently checking on (3) and is expected to raise no problem for the time being - although it could be a different story by the end of the month (the next due date under the performance criteria). Wage policy is losing ground, inflation is accelerating again and the IMF targets for money and credit creation in the latter half of the programme are looking increasingly unrealistic.

10. However, it remains unsatisfactory that there are so few hard cases. For the first three weeks of August, we believed that most IL companies were unable to transmit funds to London or at least to prove that access was possible. It only became clear last week that some companies are auditing to see the newly open & facilities which are now available. Some may claim that this is a commercial judgement: the discount on BONEX is quite high (up to 30% on face value) and has recently risen. Others may be nervous that by transferring BONEX currently they may single themselves out for unwelcome attention by the Argentine authorities.

11. However, the faults are not entirely due to difficulties on the part of UK companies in Argentina. At least one (Vickers) has been kept waiting for several weeks for permission to trade its BONEX. A particularly worrying feature in that we still have no evidence of any routine exchange of funds between Argentina and London, using either the BONEX or foreign exchange market routes.

The IMF programme

12. Continuation of the IMF programme for Argentina depends on 3 factors:

(1) continuing good behaviour on disinflationary financial policies against the IMF

(2) clearance of arrears;

(3) compliance with the economic performance criteria.

13. In practice, achievement of (2) will depend on successful negotiation of the $1.5 billion syndicated bank loan which implies prompt conclusion of the IMF board meeting. The final test is currently officially on (3) and is expected to raise no problem for the time being - although it could be a different story by the end of the month. (the next due date under the performance criteria). Keys policy is London ground, influencing in accordance against and the IMF keeping for money and credit creation in the latter half of the programme are looking increasingly unrealistic.

14. In turn, drawdown of the first tranche of the bank loan, on which (2) depends, is contingent on continuation of the IMF programme. So if (1) or (3) go awry, drawings on the $1.5 billion loan as well as the IMF credit could be frustrated. For that reason we had always intended to ensure that we were content with the position on financial discrimination (1) by the time of the expected drawdown of the bank loan, mid-September.

15. In fact, things are going none too well for the bank loan. There are difficulties about one of the preconditions, the terms of rescheduling the debts of Argentina's nationalised industries: the specimen agreement has not met with universal support from the member banks of the syndication. Moreover, fresh difficulties have been raised by creditor banks involved with the private company Cellulosa Argentina. The Argentine authorities claim that, legally, foreign banks should go to the end of the queue for repayment. Although strictly not connected, this too could hold up drawdown of the bank loan.

16. If, as a result, drawdown of the loan is postponed, Argentina will be unable to meet the arrears criterion (2) and will therefore be unable to draw under the IMF facility.

Next steps

17. The next crucial date for Argentina's loans is likely to be in the second half of September, if the rescheduling and Cellulosa problems can be sorted out in time to permit drawdown of the bank loan. A drawing under the IMF programme is unlikely before end-September, although it is just possible that Argentina may make an almighty effort to engineer a drawing in mid-September (the Fund normally only disburses monies twice a month.) On present form, however, Argentina will be lucky to achieve drawings under either loan this month.

18. If financial discrimination against the UK is to frustrate drawing of either loan, we need evidence before then. At the moment we know of only one company (Horizon) whose transfer of funds out of Argentina is being held up, and in that case there has been no outright refusal. We should need more than that to make a case that discrimination continues to the IMF. Getting more cases would mean leaning on one or more of the companies which have

14. In turn, drawdown of the first tranche of the bank loan, on which (1) depends, is conditional on continuation of the IMF programme. In (2) (2) or (3) go away, the $1.5 billion loan as well as the IMF credit could be frustrated. Just that reason we had always intended to ensure that we were content with the workings on financial disentanglement (4) by the time of the approval dependent of the bank loan, mid-September.

15. In fact, things are going more too well for the bank loan. There are difficulties about one of the preconditions, the issue of remunerating the holders of Argentina's multilateral instruments. The creditors represented has not met with universal support from the member banks of the syndicate. Moreover, fresh difficulties have been raised by creditor banks involved with the private company telefonica Argentina. The aggregate outstanding claim that, legally, foreign banks should go to the end of the queue for repayment. Although strictly not connected, this has could hold up drawdown of the bank loan.

16. The most crucial date vis of the loan is presumably Argentina will be unable to meet the arrears criterion (3) and will therefore be unable to draw under the IMF facility.

Next steps

17. The next crucial date for Argentina's loans is likely to be in the second half of September, if the rescheduling and definition problems are resolved and in time to permit drawdown of the bank loan. A drawing under the IMF programme is unlikely before mid-October, although it is just possible that Argentina may make an eleventh effort to negotiate a drawing in mid-September (the Fund normally only discussed months take a month). On present form, however, Argentina will be lucky to achieve drawings under either loan this year.

18. If financial disentanglement against the UK is to facilitate drawing of either loan, we need evidence before then. At the moment we know of only one company (Rockson) whose transfer of funds out of Argentina is being held up, and in that case there has been no overtyke material. We should need more than that to make a case that disentanglement continued to the UK. Getting more cases would mean lending on one or more of the commodities which have

BONEX and are unwilling to trade them. It is arguable that if they do not want to trade their BONEX, there is no problem. There is also a danger that if the government required such companies to trade their bonds against what they perceive to be their financial interest, they might seek compensation.

19. For the time being it seems premature to complain to the IMF about discrimination. Mr Wicks has already alerted the Fund management that things are not going as smoothly as we had been led to expect.

20. We recommend that Mr Wicks should also mention our unease to other sympathetic members of the Fund Board. He should moreover make it clear to the Managing Director that we shall be keeping this point under careful review and will take it up in the Board at any review of Argentina's economic programme, whose progress we shall of course also be watching carefully.

P C Diggle

P C DIGGLE

[illegible] are unwilling to trade them. It is arguable that if they do not want to trade their rights, there is no problem. There is also a danger that if the government required much compulsion to trade their lands evident that they proceeded to be their financial interest, they might have compensation.

10. For the time being it seems premature to complain to the TDA about disestablishment. Mr Wilson has already alerted the land management that things are not going as smoothly as we had hoped for or expected.

11. We recommend that Mr Wilson should also mention our concerns to other senior Maori members of the Fund Board. He should moreover make it clear to the managing director that we shall be keeping this policy under careful review and will take it up in the Board at any review of Ngapuhi's economic programme. Other personnel we shall of course also be watching carefully.

[illegible]

P G [illegible]

FROM: M E Corcoran
DATE: 8 September 1983

MR GODFREY

cc PS/Chancellor of the Exchequer
PS/Customs & Excise

FINANCIAL TIMES' ARTICLE: IMPORTS FROM THE ARGENTINE

The Minister of State has now returned from holiday and has seen your submission of 16 August. He has also seen last Sunday's article in the Observer about banning the importation from Argentina of books and I minuted John Lestor about this yesterday. The Minister would be grateful for an up-to-date report on the position on imports from the Argentine, particularly following Sunday's press comment. You might like to discuss this with John Lestor: I think one submission would serve.

M E CORCORAN
Private Secretary

RESTRICTED

From: J B UNWIN
9 September 1983

MR KERR

cc Chief Secretary
Economic Secretary
Mr Middleton
Mr Littler
Mr Carey
Mr Lavelle
Mr Bottrill
Mr Ridley
Mr Hall
Mrs Case
Mrs Diggle
Mr Denison

Thank. We must ask BSI to do a round of the companies concerned. JK.

ARGENTINA: FINANCIAL RESTRICTIONS

During my visit to Washington this week I expressed considerable concern to my G5 colleagues and to Fund officials about the recent reports from Argentina. I reminded them of the terms of the 15 August agreement; asked them all to let us know if they had any relevant information; and made it clear that we would watch the situation very closely.

2. Wiesner (Head of the Fund Latin America Division) told me later that he had telephoned the Governor of the Argentine Central Bank who had claimed that there was no change of policy and that any transfer delays were simply the result of red tape. He undertook, however, to investigate further and report back to Wiesner. Wiesner is in touch with Nigel Wicks who will report any further news to us.

J B UNWIN

3.9

RESTRICTED

pwp

FROM: J O KERR

DATE: 8 September 1983

cc Chief Secretary
Economic Secretary
Mr Middleton
Mr Littler
Mr Unwin
Mr Carey
Mr Lavelle
Mr Ridley
Mr Hall
Mrs Case
Mrs Diggle
Mr Denison

MR BOTTRILL

ARGENTINA: FINANCIAL RESTRICTIONS

The Chancellor has read with interest Mrs Diggle's minute of 6 September about possible continuing Argentinian financial discrimination against UK firms. He agrees that Mr Wicks should be asked to mention our unease to sympathetic members of the IMF board, and to make it clear to M. Larosiere that we are keeping a close eye on the matter, and will take it up in the Board at the next review of Argentina's economic programme.

JOK

J O KERR

GPS 730

CONFIDENTIAL

CONFIDENTIAL
FM UKDEL IMF/IBRD WASHINGTON 082359Z
TO IMMEDIATE F C O
TELNO 312 OF 8 SEPTEMBER 1983.

YOUR TELNO 278 OF SEPTEMBER 1

IMF: ARGENTINA

1. WIESNER AND BRACHET (IMF WESTERN HEMISPHERE) CALLED ON ME TODAY (BEFORE WE RECEIVED YOUR TELNO 292) AT MY REQUEST TO DISCUSS THE TRANSMISSION OF FUNDS BY UK NON-FINANCIAL COMPANIES OUT OF ARGENTINA AND THE STATE OF THE ARGENTINE PROGRAM.

PAYMENTS TRANSMISSION

2. THEY WERE SURPRISED TO HEAR THAT THE UK STILL HAD NO CLEAR EVIDENCE OF TRANSMISSION OF FUNDS BY UK NON-FINANCIAL COMPANIES. BRACHET ACCEPTED THAT BRITISH COMPANIES HAD STILL TO SEEK APPROVAL OF THE OVERSIGHT COMMITTEE. BUT HE UNDERSTOOD THAT SUCH APPROVAL WOULD BE GIVEN AS A MATTER OF COURSE. THE ARGENTINE CENTRAL BANK HAD ASSURED THE FUND STAFF THAT THERE WOULD BE NO PROBLEMS IN PROCESSING APPLICATIONS AND BRACHET HIMSELF HAD BEEN ASSURED BY A ''RELIABLE QUASI-BRITISH SOURCE'' IN ARGENTINA THAT THERE WAS NO PROBLEM ON REQUEST FOR REMITTANCES SUBMITTED UP TO END AUGUST. HIS INFORMATION AS OF SEPTEMBER 6 WAS THAT ONLY ABOUT DOLLARS 30,000 WORTH OF PAYMENT WERE IN THE PROCESS OF BEING DEALT WITH IN THE CENTRAL BANK. HE UNDERSTANDS THAT CENTRAL BANK PROCEDURES TAKE TWO WEEKS. HE ALSO SAID THAT THE OVERSIGHT COMMISSION WAS MEETING TODAY, SEPTEMBER 8, TO LOOK AT APPLICATIONS, INCLUDING ONE LODGED BY BAT ON 24 AUGUST. BAT HAD ASKED TO TRANSFER INTEREST DUE ON THEIR BONEX BUT HAD NOT (RPT NOT) SOUGHT PERMISSION TO REMIT THE PRINCIPAL.

3. I SAID THAT THE APPARENTLY MORE SATISFACTORY POSITION PERCEIVED BY THE FUND STAFF DID NOT RECONCILE WITH OUR LACK OF EVIDENCE FOR THE TRANSMISSION OF FUNDS OUT OF ARGENTINA. WIESNER SAID THAT THE VISIT OF DEL SOLAR (GOVERNOR OF THE CENTRAL BANK) TO WASHINGTON DURING THE NEXT FEW DAYS COULD PROVIDE FUND STAFF WITH A FURTHER OPPORTUNITY TO CHECK THE POSITION. BUT TO DO THAT THE STAFF WOULD NEED DETAILS OF COMPANIES WHICH HAD UNSUCCESSFULLY APPLIED TO REMIT FUNDS.

4. DESPITE THE USUAL PROBLEMS OF COMPANY ANONIMITY, IT SEEMS DESIRABLE TO PROVIDE FUND STAFF WITH INFORMATION TO BACK UP ANY CLAIM THAT THE ARGENTINE AUTHORITIES ARE PREVENTING THE TRANSMISSION OF FUNDS BY UK NON-FINCANCIAL COMPANIES OUT OF ARGENTINA. IT IS NOT SUFFICIENT FOR US TO SAY THAT WE HAVE NO CLEAR EVIDENCE OF TRANSMISSION OF SUCH FUNDS. WE NEED TO DEMONSTRATE THAT THE TRANSMISSION OF FUNDS IS BEING PREVENTED.

/5.

CONFIDENTIAL

5. DESPITE WIESNER'S OFFER TO DISCUSS PROBLEM CASES WITH DEL SOLAR THIS WEEKEND, IT MAY BE BETTER, IN VIEW OF THE GUIDANCE IN TELNO 292, TO THANK HIM FOR HIS OFFER AND TO SAY THAT THOUGH WE ARE CONCERNED, WE ARE READY TO WAIT A LITTLE WHILE TO SEE WHETHER THE POSITION IMPROVES, EG AS A RESULT OF TODAY'S MEETING OF THE OVERSIGHT COMMISSION. IF WE ARE TO TAKE UP HIS OFFER, ANY INFORMATION IMMEDIATELY AVAILABLE ON THE LINES OF PARAGRAPH ABOVE SHOULD BE WITH US BY 1600HRS WASHINGTON TIME OF FRIDAY SEPTEMBER 9 GRATEFUL FOR INSTRUCTIONS.

IMF PROGRAM

6. ON ARREARS, WIESNER SAID THEIR CLEARANCE REMAINED ''IN THE AIR''. THE FUND WOULD TRY TO CLARIFY THE OBSTACLES WITH DEL SOLAR WHEN HE IS IN WASHINGTON THIS WEEKEND. BRACHET SAID IT WAS CLEAR THAT CERTAIN SMALLER BANKS WERE DRAGGING THEIR FEET ON THE DISBURSEMENT OF THE US DOLLARS 1.5 BILLION MEDIUM-TERM LOAN. MOREOVER, IN HIS VIEW SOME BANKS HAD BEEN LESS THAN STRAIGHTFORWARD IN MODIFYING THE SCHEDULE OF LOAN DISBURSEMENTS. ORIGINALLY THE FUND UNDERSTOOD THIS ENVISAGED THE TOTAL BEING DRAWN DOWN IN CALENDAR YEAR 1983. NOW THE BANKS HAD MADE EXPLICIT THEIR INTENTION TO RELEASE THE FIRST DOLLARS 500 MILLION IN SEPTEMBER 1983, THE SECOND IN DECEMBER, SUBJECT TO RELEASE OF THE NOVEMBER IMF DRAWING, AND THE THIRD IN FEBRUARY 1984. BRACHET CONSIDERED THE SLOWER DRAWDOWN TO HAVE SERIOUS IMPLICATIONS FOR ARGENTINAS GROSS CASH POSITION.

7. ON QUANTITATIVE PERFORMANCE CRITERIA, BRACHET SAID THAT NET DOMESTIC ASSESTS HAD BEEN WITHIN THE CEILING IN MID TO LATE AUGUST WHEN THE LAST OBSERVATION HAD BEEN MADE. IN RESPONSE TO MY QUESTION, HE CONFIRMED THAT THERE HAD BEEN SLIPPAGE ON WAGES. HOWEVER, THIS HAD OCCURRED BETWEEN LATE MAY AND EARLY AUGUST. NO FURTHER SIGNIFICANT SLIPPAGES IN WAGES HAD COME TO LIGHT IN THE LAST ROUND OF NEGOTIATIONS.

8. BRACHET SAID THAT THE STAFF AIMED TO CIRCULATE ABOUT SEPTEMBER 22 AN INFORMATION PAPER TO THE BOARD ON PROGRESS OF THE ECONOMY. BUT THIS COULD WELL SLIP.

9. FCO PLEASE ADVANCE TO PS/EST, LITTLER, CAREY (TREASURY), APPLEYARD (ERD), GILCHRIST (BANK OF ENGLAND) AND OWEN (DTI).

WICKS

MONETARY
ERD
FID
NEWS D
MR GIFFARD
MR URE

COPIES TO
MR LAVELLE TREASURY
MR CRAWFORD B/ENGLAND
MR OWEN DTS DTI

CONFIDENTIAL

CONFIDENTIAL

16640 - 1

OO UKDEL IMF/IBRD WASHINGTON
GRS 220
CONFIDENTIAL
FM FCO 081635Z SEP 83
TO IMMEDIATE UKDEL IMF/IBRD WASHINGTON
TELEGRAM NUMBER 292 OF 8 SEPTEMBER
IMF: ARGENTINA
OUR TELNO 278.

1. WE STILL HAVE EVIDENCE OF ONLY ONE SUCCESSFUL TRANSFER OF FUNDS OUT OF ARGENTINA (ICI'S ROYALTIES). MOST OTHER CASES SEEM TO BE HELD UP. IN SOME CASES THIS MAY BE BECAUSE COMPANIES ARE UNWILLING TO APPLY FOR PERMISSION TO TRADE THEIR BONEX. BUT THERE IS AT LEAST ONE CASE (HORIZON) OF AN APPLICATION BEING HELD UP FOR SEVERAL WEEKS. THIS MAY BE BECAUSE IT IS NEITHER ROYALTIES NOR DIVIDENDS BUT PAYMENT FOR GOODS.

2. WHILE THIS IS UNSATISFACTORY, WE DO NOT THINK IT YET AMOUNTS TO EVIDENCE OF DISCRIMINATION AGAINST UK COMPANIES. NOR DO WE THINK THAT THEIR INABILITY TO USE THE FOREIGN EXCHANGE MARKET IS CAUSE FOR COMPLAINT ABOUT FAILURE TO CONFORM TO THE TERMS OF ARGENTINA'S UNDERTAKING TO THE BOARD ON 15 AUGUST, SINCE OTHER FOREIGN COMPANIES ARE UNABLE TO GET FOREIGN EXCHANGE EITHER. BUT WE SHALL BE KEEPING THE SITUATION UNDER REVIEW AND WILL INFORM YOU OF DEVELOPMENTS.

3. PLEASE TAKE AN EARLY OPPORTUNITY, AT YOUR DISCRETION, TO INFORM SYMPATHETIC EDS OF OUR CONCERN. AT THE SAME TIME PLEASE EMPHASISE TO THE MANAGING DIRECTOR THAT THIS IS A POINT WE SHALL WANT TO COVER VERY CAREFULLY WHEN ARGENTINA'S SBA COMES TO THE BOARD FOR ITS MID-TERM REVIEW.

HOWE
NNNN

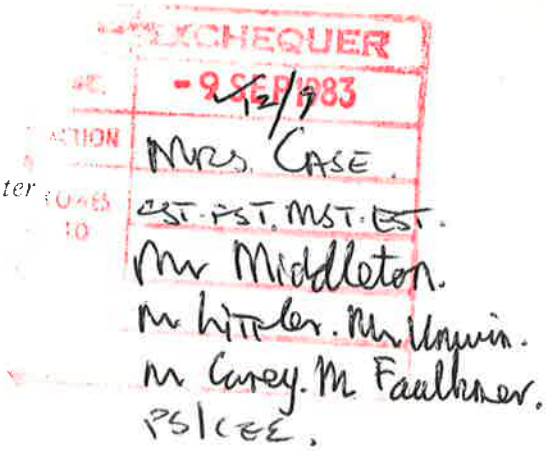
X

DISTRIBUTION:

MONTARY	COPIES TO:
ERD	MRS DIGGLE, HM TREASURY
FID	MR JAGGERS BANK OF ENGLAND
MR GIFFARD	MR OWEN OT5, DTI 1 VICT ST.
MR URE	

CONFIDENTIAL

Chancellor of the Duchy of Lancaster



PRIME MINISTER

EMBARGO ON IMPORTS FROM ARGENTINA: BOOKS

Paul Channon sent me a copy of his minute to you on this point.

So far as the "Proceedings" of the International Statistical Institute are concerned, this is not a commercial transaction, no payment is made to anyone in the Argentine: and even the members' subscriptions are paid to the Netherlands. It seems to me to be extraordinarily difficult to defend a situation where we permit commercial transactions by way of import of newspapers and periodicals and ban scientific journals.

I can well understand the need to maintain the integrity of the ban on trading transaction. But I would not myself take the view that exempting from the ban transactions which were not trading transactions would cause either difficulty or embarrassment.

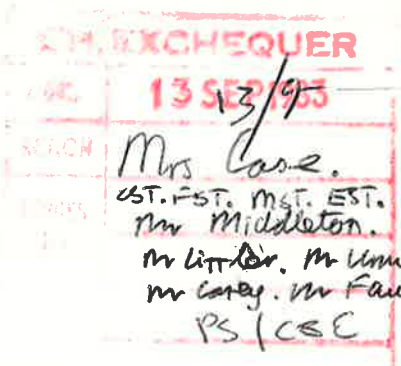
I am copying this to the recipients of Paul Channon's minute.

A.C.

A C

9 September 1983

slp



PRIME MINISTER

I have seen the copy of Paul Channon's minute to you about book imports from Argentina.

Recognising the difficulties summarised in his paragraph 7, on the other hand we shall get quite disproportionate odium from the book element of the embargo.

If the proposal in paragraph 6 of his minute is adopted, we would not be breaching the trade embargo but allowing books for libraries and the like to come in.

I am sending copies of this to Paul Channon and to the other recipients of his minute.

KJ 9/9

3.18

RESTRICTED

FROM: J O KERR

DATE: 12 September 1983

cc Economic Secretary
Mr Middleton
Mr Littler
Mr Carey
Mr Lavelle
Mr Bottrill
Mrs Case
Mr Hall
Mrs Diggle
Mr Denison

MR UNWIN

ARGENTINA: FINANCIAL RESTRICTIONS

The Chancellor was grateful for your minute of 9 September; and has read with interest Mr Wicks' telegram number 312 of 8 September. He very much agrees with Mr Wicks view that we would need to provide the IMF staff with information to backup any claim that the Argentine authorities are still preventing the transmission of funds out of Argentina by UK non-financial companies. Indeed he thinks it important that we ask DTI to conduct a very quick trawl of the companies concerned. He would be grateful if this could be done urgently.

JOK

J O KERR

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

16 September 1983

Dear Jonathan,

EMBARGO ON IMPORTS FROM ARGENTINA: BOOKS

The Prime Minister has seen Mr. Channon's minute on this subject and has also seen the minute of 9 September from the Secretary of State for Education and Science, the minute of the same date by the Chancellor of the Duchy of Lancaster and the Foreign and Commonwealth Secretary's minute of 15 September.

Mrs. Thatcher has noted that the Argentines are operating their ban on our imports selectively, admitting those products and articles which they judge it to be in their national interest to import. She also notes that the present embargo on books causes no difficulty to Argentina but only to British individuals and institutions. She therefore considers that we should follow the course described in paragraph 6 of Mr. Channon's minute, namely widening the present waiver for newspapers and magazines to include books. She hopes that it will be possible to defend effectively the maintenance of the embargo in the cases described in paragraph 7 of his minute.

I am copying this letter to John Holmes (Foreign and Commonwealth Office), John Kerr (HM Treasury), Alex Galloway (Chancellor of the Duchy of Lancaster's Office), Imogen Wilde (Department of Education and Science), Mrs. Mary Brown (Minister for the Arts' Office) and Richard Hatfield (Cabinet Office).

Yours ever

Lee Cole.

Jonathan Rees, Esq.,
Department of Trade and Industry

CONFIDENTIAL

ssh

Commercial in confidence

FROM: P C DIGGLE
DATE: 19 September 1983

1. MR BOTTRILL

2. CHANCELLOR

cc Mr Unwin
Mr Carey
Mr Lavelle
Mrs Case

ARGENTINA: FINANCIAL RESTRICTIONS

You may like to have a brief note on the latest state of play on financial restrictions in Argentina before you depart for Trinidad.

2. Reports from DTI contracts are mixed. On the positive side, BAT and ICI have been able to remit interest on their dollar denominated (BONEX) bonds, in the case of BAT in three separate tranches. With the successful Sales of Bonex outside Argentina by RTZ and Pickingtons last month, this means that four non-financial companies have been able to remit royalty or dividend payments. In addition, the Wellcome Foundation has been given permission to repatriate dividends through the BONEX route.

3. On the other hand, however, Horizon has still been unable to get payment from their subsidiary for supplies of various goods and services. The difficulty seems to be that the transfer involves payment for goods and services rather than royalties. The Argentines regard the legal obligations associated with royalties and dividends as overriding the claims of commercial debts, and are anyway continuing to hold up current payments because of the trade ban.

4. We may not be able to take these tests much further. At least two other companies - Lucas and Unilever - have chosen not to attempt to remit money out of Argentina. Their reasons are expressed in commercial terms but it may be that they view the BONEX procedures as too difficult and conspicuous an exercise for the return involved.

FROM: P C HUGHES

DATE: 19 September 1985

1. MR POTTERTON

2. CHIRPDELLON

cc Mr Unwin
Mr Cleave
Mr Lavelle
File Case

SUBJECT: FINANCIAL REPATRIATIONS

You may like to have a brief note on the latest state of play on financial repatriations in Argentina before you departmbr Trinidad.

2. Reports from DTI contacts are mixed. On the positive side, BP and ICI have been able to remit interest on Bonex Dollar denominated (BONEX) bonds; in the case of BAT in three separate tranches. With the successful sales of Bonex outside Argentina by NTZ and Flokingtons last month, this means that some non-financial companies have been able to remit royalty or dividend payments. In addition, the Wellcome Foundation has been given permission to remit/retire dividends through the BONEX route.

3. On the other hand, however, Unilever has still been unable to get payment from their subsidiary for supplies of various goods and services. The difficulty seems to be that the transfer involves payment for goods and services rather than royalties. The Argentines regard the legal obligations associated with royalties and dividends as overriding the claims of commercial debts, and are unwary continuing the build up current payments because of the trade ban.

4. We may not be able to take those cases much further. At least two other companies - Tuborg and Unilever - have chosen not to attempt to remit money out of Argentina. Their reasons are summarised in commercial terms but it may be that they view the BONEX procedures as too difficult and complicated an exercise for the return involved.

Commercial in confidence

5. This seems to confirm our earlier impression that the Argentine authorities are doing as they undertook, but without enthusiasm and at a fairly leisurely pace. It certainly does not seem to add up to out and out discrimination about which we could complain in the IMF Board.

6. We shall of course keep an eye on the situation. The next scheduled IMF Board meeting is not until 3 October (because of the Annual Meetings) so it is unlikely that we will need to report back to the Board before then.

PCDiggle

P C DIGGLE

COMMERCIAL IN CONFIDENCE

FROM: MISS M O'MARA
DATE: 20 September 1983

MRS DIGGLE

ARGENTINA: FINANCIAL RESTRICTIONS

The Chancellor was grateful for your minute of 19 September on the latest state of play on financial restrictions in Argentina.

MISS M O'MARA

S83/9
404

Mr Kerr (pwt)
I'm sure you're right; but my purpose was to warn, simply, that the issue may remain a live one, & hence worth considering for Tuesday Questions!
M 21/10

FROM : P C DIGGLE

DATE : 30 September 1983

MR RIDLEY

cc Mr Littler (o/r)
Mr Unwin
Mr Carey
Mr Lavelle
Mr Bottrill
Mrs Case
Mr Denison
Mr Sheridan (o/r)

IMF LOAN TO ARGENTINA

You suggested that it might be helpful to have a background note on Argentina for use if necessary over the next few weeks.

2. I hope the attached will fill the bill. It attempts to make the best of what is not entirely a comfortable story. It follows that its contents would be best not volunteered but drawn on if the matter is raised.

3. Since you asked for this note, it has emerged that the IMF loan to Argentina may need to return to the IMF Board again over the next fortnight. There is a danger that we could be isolated there. If that happened this would become very sensitive indeed.

Mr Ridley
This note is badly out of date.
20/X.
P Diggle

Mr Smith E&B cc Mr Kerr

P C DIGGLE

(w/o attachments).

ENCS In briefing for Tues. it may be wise to update the Govt's defensive position on loans to Argentina, & the accusation that the Argentines have not fully liberalised conditions for UK firms there despite the fact we are now prepared to a Govt. to support them financially. This last came up in 2 articles by D Simpson in the Guardian during the recess, & could well have been spotted by MPs of any party. MR Ridley 20/10

IMF PROGRAMME FOR ARGENTINA

Line to Take

(i) The Government has played the IMF programme for Argentina strictly by the book. We did not dissent in the IMF Board's agreement to the programme in January, subject to stiff economic performance criteria. Nor did we prevent UK commercial banks joining a syndicated loan. This was consistent with their usual practice of sharing the burden of loans to debtor countries.

(ii) Argentina broke her undertaking to lift, by the end of July, the discriminatory restrictions on payments out of Argentina by UK companies. (We kept our side of the bargain by unfreezing Argentine nationals' bank accounts in the UK.) As lifting the Argentine restrictions was a performance criterion, the IMF programme was interrupted. Signature of a $1.5bn international bank loan was also suspended.

(iii) Under pressure from a deteriorating external payments position and at the insistence of the IMF, Argentina lifted discriminatory restrictions against UK companies on 8 August. Such checks as could be made at the time confirmed that UK firms were no longer prevented from making transfers. The IMF Board reconsidered the programme and accepted that it should continue provided that Argentina continued not to prevent transfers by UK companies, eliminated payments arrears and continued to keep to the economic performance criteria agreed in January. On this basis signature of the bank loan went ahead.

(iv) It is important to note that any resumption of discriminatory practices against UK companies in Argentina will lead to another suspension of the IMF programme, preventing further drawings. In turn that will stop disbursement of the new bank loan.

(v) So far as we are aware, Argentina has continued in practice to treat transfers by UK companies on the same basis as those by other foreign firms. Although access to the foreign exchange market was formally allowed on 15 August, a shortage of foreign exchange has meant that no practical use of these markets has been possible.

Defensive Points

(vi) The Government did not encourage participation by UK banks in international syndicated loans. It was left to their commercial judgment. The banks were wise to insist on continuation of the IMF programme before agreeing to the latest syndication.

(vii) It is true that Argentine legislation permitting reimposition of discriminatory arrangements against UK companies persists. The liberalisation which permitted resumption of the IMF Programme (iii) was achieved by an administrative waiver. We accepted this because it is the IMF's practice to judge performance on the basis of what is actually happening, not legislation - which can sometimes be misleading. We saw no reason to challenge the IMF's practice in that regard. Other Fund Members agreed.

(viii) It is also true that other discriminatory laws against UK nationals in Argentina continue. (These are principally the presence of overseers in UK companies and a prohibition on disposals of assets.) It would not be appropriate for the IMF to seek to influence such aspects of domestic policy.

(ix) The Government's role in dealing with the IMF programme for Argentina - or the bank loans - was not politically motivated. We played the issue strictly by the book. It is a regular and entirely normal feature of Fund Programmes that discriminatory payment restrictions should be eliminated.

(x) We believe it unlikely that IMF credit could be used to buy arms. The disincentives are strong. The economic performance criteria - for example, in relation to money supply and public expenditure - are drawn so tightly that Argentina will have a difficult time to meet them. This should prevent irresponsible economic decisions by the Argentine authorities. In particular, it should restrict the scope for spending on rearmament. It is also worth remembering that breakdown of the IMF programme would cut Argentina off from further drawings under the syndicated bank loan.

Background

1. On 24 January IMF Executive Board approved a 15 month standby programme for Argentina worth SDR 1.5bn. Drawings were to be subject to compliance with normal economic performance criteria, together with lifting of the existing discriminatory restrictions against transfer out of Argentina by UK companies. This would involve modifying Law 22591 of May 1982, which prevented British companies from remitting profits or dividends via dollar denominated BONEX Bonds.

2. On 6 June Argentina introduced a new Law 22820 giving the National Vigilance Committee power to lift the discriminatory effects of Law 22591. Initially the authorities were only prepared to make Law 22820 effective for British banks in the hope of influencing them toward agreement on the $1.5bn commercial loan. The IMF Board insisted that Law 22820 should extend to all UK companies. Argentina informed the Fund on 8 August that Law 22591 was no longer being enforced in practice. On 15 August all foreign nationals, including British ones, were also permitted to use the foreign exchange market although a shortage of foreign exchange has not so far permitted actual transfers to be made via this route.

CONFIDENTIAL

I suspect that we should be getting the PM a new note on Argentina soon.

We shall need to monitor both these situations closely but the Argentine situation is the more serious.

AJC 4/10

FROM : P E DENISON
DATE : 4 OCTOBER 1983

1. MRS CASE
2. CHANCELLOR

cc Mr Littler
Mr Unwin
Mr Lavelle
Miss Cund
Mrs Diggle
Mr Monck

INTERNATIONAL FINANCIAL SCENE - PHILIPPINES AND ARGENTINA

In the light of recent press reports on the financial position of the Philippines and Argentina, this note summarises recent developments since the latest report of Mr Unwin's debt monitoring group which was submitted on 16 September.

The Philippines

2. The September assessment reported that the debt service position was finely balanced at that time, but with the prospect of a decline in international banking confidence and the risk of debt service difficulties.

3. The problems of the authorities on the domestic front are indicated by press reports today that the Government has had to delay debt repayments on two internal loans. There are also reports of a rapid sustained outflow of funds. Existing credit lines appear to be drying up and the Government is responding by attempting to raise bridging finance from the commercial banks, seeking in particular a $250million facility from Japanese banks. They are also continuing to sell gold.

4. This indicates a serious worsening of the position and increases the likelihood of rescheduling in due course. We can expect to have an IMF assessment shortly when they circulate their already delayed standby review.

5. Total external debt is about $25billion. The principal creditors are probably the far east and the United States but UK-registered banks have a significant exposure of some $1.8billion.

Argentina

6. The prospect of a complete Argentine default is closer now that the authorities have suspended foreign currency payments to protect dwindling reserves. The suspension has been announced as a temporary one, pending the establishment of a

system of foreign currency priorities.

7. A key factor is the **breakdown in the commercial banks' refinancing of public sector debt.** Progress has been halted by an Argentine judicial ruling against the Aerolineas Argentinas rescheduling agreement which had been intended to serve as a model across the board.

8. This rescheduling is one of the conditions of the commercial banks $15billion loan, agreed in August, so the ruling has stopped Argentina making any drawings. **The first drawing of $500million has been postponed currently until 17 October.** This links it with a $300million repayment Argentina are due to make under their $1.1billion bridging loan from the banks and which has, itself, already been postponed once. **Argentina will not be able to make the repayment unless the drawing on the bank loan goes ahead, or unless IMF drawings are resumed.**

9. **The third drawing under the IMF standby is, however,** also **postponed.** Although the Argentines were able to meet the performance criteria earlier this year there are signs that the programme is going increasingly adrift. The longer the delay, the less likely it seems that drawings will be able to be resumed.

10. The Argentine authorities may be taking the matter of the Aerolineas agreement to a higher court but it is clearly possible that this will not be resolved before the 17 October deadline. **The position will then be further complicated by the election on 30 October.** In addition, the arrest of del Solar, the President of the Central Bank, presumably removes from the scene one of the more reasonable Argentine negotiators. **The position is serious and developments over the next couple of weeks could be critical.**

P E DENISON

External recipients

Mr Jaggers -) Bank of England
Mr Hignett)

FROM: J O KERR
DATE: 5 October 1983

PWP

MRS CASE

cc Mr Littler
Mr Unwin
Mr Monck
Mr Lavelle
Mr Denison

INTERNATIONAL FINANCIAL SCENE: PHILIPPINES AND ARGENTINA

The Chancellor has read with interest Mr Denison's report of 4 October on developments in the Philippines and in Argentina.

2. The changing situation on Argentina will be a matter of considerable interest in No 10, and in the House; and the Chancellor would be grateful if you could, preferably this week, submit a draft letter for me to send to Mr Turnbull. It should be self-contained, and designed for the Prime Minister's eyes.

J O KERR

CONFIDENTIAL

Mr Kerr
Mrs Case

FROM: MRS A F CASE
DATE: 7 October 1983

MR KERR

C
OIC ?

cc Mr Littler
Mr Unwin
Mr Lavelle
Mr Bottrill
Mr Denison

ARGENTINA'S DEBT PROBLEMS

I attach a revised version of the draft letter we submitted yesterday.

2. As you suggested I have included a reference to the position on discrimination against UK concerns but there is nothing new to add to the report which you sent to No 10 last month. I have also tried to make the letter clearer on the obstacles which still remain to a further drawing by Argentina on the IMF.

MRS A F CASE

CONFIDENTIAL

PM type

DRAFT LETTER FROM MR KERR TO MR Andrew TURNBULL Esq., No 10.

ARGENTINA'S DEBT PROBLEMS

The Chancellor has suggested that the Prime Minister might like to have a brief report on the latest developments in Argentina.

2. Generally, the prospect of a complete Argentine default is closer now that the authorities have had to suspend foreign currency payments to protect dwindling reserves. The suspension has been announced as a temporary one, pending the establishment of a system of foreign currency priorities. So far as we are aware these new restrictions have been imposed on a non-discriminatory basis. Our limited experience before the latest clamp down suggested that Argentina was honouring the assurances given in August to the IMF to lift discriminatory restrictions against UK companies. The DTI are continuing to monitor the position. Any resumption of discriminatory practices will of course lead to suspension of the IMF programme, preventing further drawings and in turn disbursement of the new commercial bank loan.

3. A key factor in the current situation is the breakdown in the commercial banks' refinancing of Argentine public sector debts. It hinges on a rescheduling agreement, negotiated with the state airline Aerolineas Argentinas which is intended to serve as a model

agreement across the board. Progress has been halted by an Argentine judicial ruling that the agreement infringes the constitution because it would be subject to US, rather than Argentine, law. The ruling also led to the arrest of del Solar, the Governor of the Central Bank because of his part in negotiating the agreement. His subsequent release and an appeal court ruling in favour of the Government on the rescheduling agreement suggests that the immediate crisis may have passed. But the events have caused self-inflicted damage to any confidence that the rescheduling negotiations will be concluded before the elections on 30 October, as was originally intended.

4. The rescheduling is one of the conditions of the commercial banks' $1.5 billion loan agreed in August. The first drawing of $500 million has thus been postponed until 17 October. Without the drawing, or resumption of IMF drawings, the Argentines will be unable to make a $350 million repayment under the $1.1 billion bridging loan from the banks which has already been postponed once.

5. The third drawing under the IMF standby is also postponed pending the elimination of payments arrears. Continued delay in gaining access to commercial bank loans could lead to pressure on the IMF to waive the arrears condition for disbursement of the next tranche. So far the IMF management has shown no disposition to alter the terms of the loan. This is clearly right.

Disbursement also depends on Argentina continuing to meet the IMF performance criteria. Although the programme was on course in the middle of this year there are signs that it may be under strain because of increasing pressure on the Government to ease wage restraint, accelerating inflation and an increase in the public sector deficit. The longer the delay, the less likely it seems that drawings will be resumed.

6. Although the situation seems to have been held for the present, further deterioration in Argentina's financial position cannot be ruled out in the period before the election and there can be no certainty about developments thereafter. The present exposure of British banks in Argentina is $2.3 billion.

7. ~~There may be some interest in Argentina at the Conference next week.~~ The Chancellor feels that the right public line to take on Argentina's debt problems is that her recent difficulties are entirely of her own making. It is therefore for her, as for other debtor countries, to put her own house in order by making the necessary adjustments in line with the IMF programme, and ~~to~~ removing obstacles to agreement with the commercial banks.

8. Copies of this letter go to Brian Fall (FCO) and John Bartlett (Bank of England).

John

V744

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215
SWITCHBOARD 01-215 7877

5144

A/S 10 OCT 1983 -6

From the Minister for Trade

(pwp)

Lord Gowrie
Minister for the Arts
Office of Arts and Libraries
Old Admiralty Buildings
Whitehall
London SW1A 2AZ

7 October 1983

Dear Greg,

Thank you for your letter of 9 August about the approaches you received from the British Library and from the Standing Conference of National and University Libraries over imports of books from Argentina.

As you know, the Prime Minister decided that the present import licence waiver operated by Customs and Excise in respect of newspapers and periodicals should be widened to cover books other than those imported for resale or trade advertising material. The implementation of this exemption was announced in a Press Notice last week and I enclose a copy with this letter. I am sure this should end the problems which these organisations have been experiencing over importing information from Argentina without the need to allow trade in books, which I believe would leave us wide open to the numerous claims for special consideration which I mentioned in my minute to the Prime Minister.

We remain firmly committed to seeking a fully reciprocal lifting of all remaining trade sanctions. But while the Argentines continue their policy of non-co-operation the general import ban must stay in place.

I am copying this to Geoffrey Howe, Keith Joseph, Arthur Cockfield, Barney Hayhoe, Robert Armstrong and No. 10.

Yours ever,

Paul

PAUL CHANNON

MINISTER OF STATE	
REC.	10 OCT 1983
ACTION	PS | C+E
	PS | Chancellor
	PS | CST, PS | FST, PS | EST,
	Mr Middleton,
	Mr Littler, Mr Unwin,
	Mr Cassell, Mr Monger,
	Mr Carey, Mrs Case,
	Mr Griffiths, Mr Faulkner,
	MST.

Press Notice

Department of Trade and Industry

1 Victoria Street, SW1H 0ET Press Office: 01-215 5995/3788 Ref: 363
Out of hours: 01-215 7877

September 27 1983

IMPORT OF BOOKS FROM ARGENTINA

In the absence of action by Argentina to end trade sanctions against Britain and to lift commercial and economic restrictions against British interests there, the general ban on imports into the UK of goods exported from Argentina must be maintained. However, the Government has decided that the exemption which already allows import of newspapers and periodicals will now also cover books other than trade advertising material or imports for resale.

This applies equally to such books currently held by Customs and Excise and arrangements are being made for their release. An individual import licence is not required for the books covered by the exemption.

Announcing this exemption, Mr Cecil Parkinson, Secretary of State for Trade and Industry, said today:

"The Government has repeatedly made clear that it favours the reciprocal lifting of all remaining trade sanctions. The Presidency of the European Community and the Commission have on several occasions proposed to the Argentine authorities discussion on the normalisation of economic and commercial relations. Regrettably the Argentines have not so far indicated any willingness to co-operate in removing their restrictions. In these circumstances it is the Government's policy to maintain the ban imposed on April 7 1982 on the importation of Argentine goods.

"However, in view of the unique considerations which apply to books, the Government has decided to extend the exemption to books provided they are neither imported for resale nor are trade advertising material."

Mrs Cole.
CST, EST
Mr Littler
Mr Kitcatt
Mr Mountfield.

PM/83/86

PRIME MINISTER

Falkland Islands: Territorial Limits

1. A paper was prepared by officials in April at your request on the 'Extension of the Falkland Islands Territorial Sea'. The paper concluded that:

> 'An extension of the territorial sea around the Falkland Islands would confer no particular defence advantages, and any economic advantages could be obtained by other means (eg declaring fishing limits). Moreover, any such extension would be likely to affect our interests in other parts of the world and should be considered in the context of United Kingdom policy on the law of the sea as a whole. Although it would be legally possible to extend the territorial sea around the Falklands without extending it around the United Kingdom or any other dependent territory, politically this would be difficult to justify, especially as the advantages to be gained from an extension around the Falklands are so limited. There is, in any event, a political need not to be seen to be giving the Falkland Islands any different status from other British territories.'

> 'However none of these difficulties would arise if it were decided to establish a system of straight base-lines and bay closing lines as illustrated in the attached chart. This would be permitted by Articles 4 and 7 of the 1958 Territorial Sea Convention and

/would

would reflect the practice of many countries, including the United Kingdom around West Scotland. Under the 1958 Convention it would be necessary to publish the system of straight baselines, and make legislative provision either through Order in Council or by an Instrument of the Falkland Islands Government. This would be advantageous from the defence point of view. It would not have the difficult repercussions of extending the breadth of the Territorial Sea itself; but would have a similar effect of pushing seaward the outer limit of the Territorial Sea. In addition it would give greater possibilities of control over some sensitive stretches of sea close to land than would be achieved by a simple extension of the Territorial Sea.'

'It would be preferable not to extend the territorial sea around the Falklands until the question of extending the United Kingdom territorial sea has been settled. But if the United Kingdom territorial sea were extended, the objections to extending around the Falkland Islands would largely disappear.'

2. The paper reflected the views of all the Departments concerned, at official level, that there were significant difficulties in the proposal to extend the territorial sea to 12 miles. There was inter-departmental agreement that establishing a system of straight baselines and bay closing lines would be preferable to extending the territorial sea to 12 miles. Your attention was drawn to this by the Secretary to the Cabinet in April and, at your request, the FCO considered the possibility of constructing such a system in consultation with the Civil Commissioner.

/3.

3. The new straight baselines would run from one outlying island or headland to another in the manner shown in the attached map. This would take in behind the baselines large areas of sea especially on the western side of the Islands; the territorial sea would extend for three miles starting from these baselines and would thus lie considerably further out than at present. The system would also improve the possibility of control of certain areas of sea close to the land. For example, though we would not want to have to argue exactly what we can do in public, even when the present threat of hostilities ends it would enable us temporarily to suspend innocent passage through the extended area when essential for the protection of security as well as to control anchoring, transshipment, loitering, and any activities other than passage in the extended area. The distances involved in the extension seawards are not so great as to be likely to attract adverse international attention. In effect, the system does no more than reflect the practice of many countries as it has developed on the basis of the provisions of the 1958 Territorial Sea Convention. But the Argentines may nonetheless make what they can of it.

4. The Falkland Islands Government have now indicated their support. Draft letters Patent under the Great Seal have been prepared, which would give effect to the proposal.

5. The Letters Patent give effect in highly technical language to the new baselines illustrated in the map. Copies of the draft have been sent separately to the officials who were involved in the drafting of the paper quoted above.

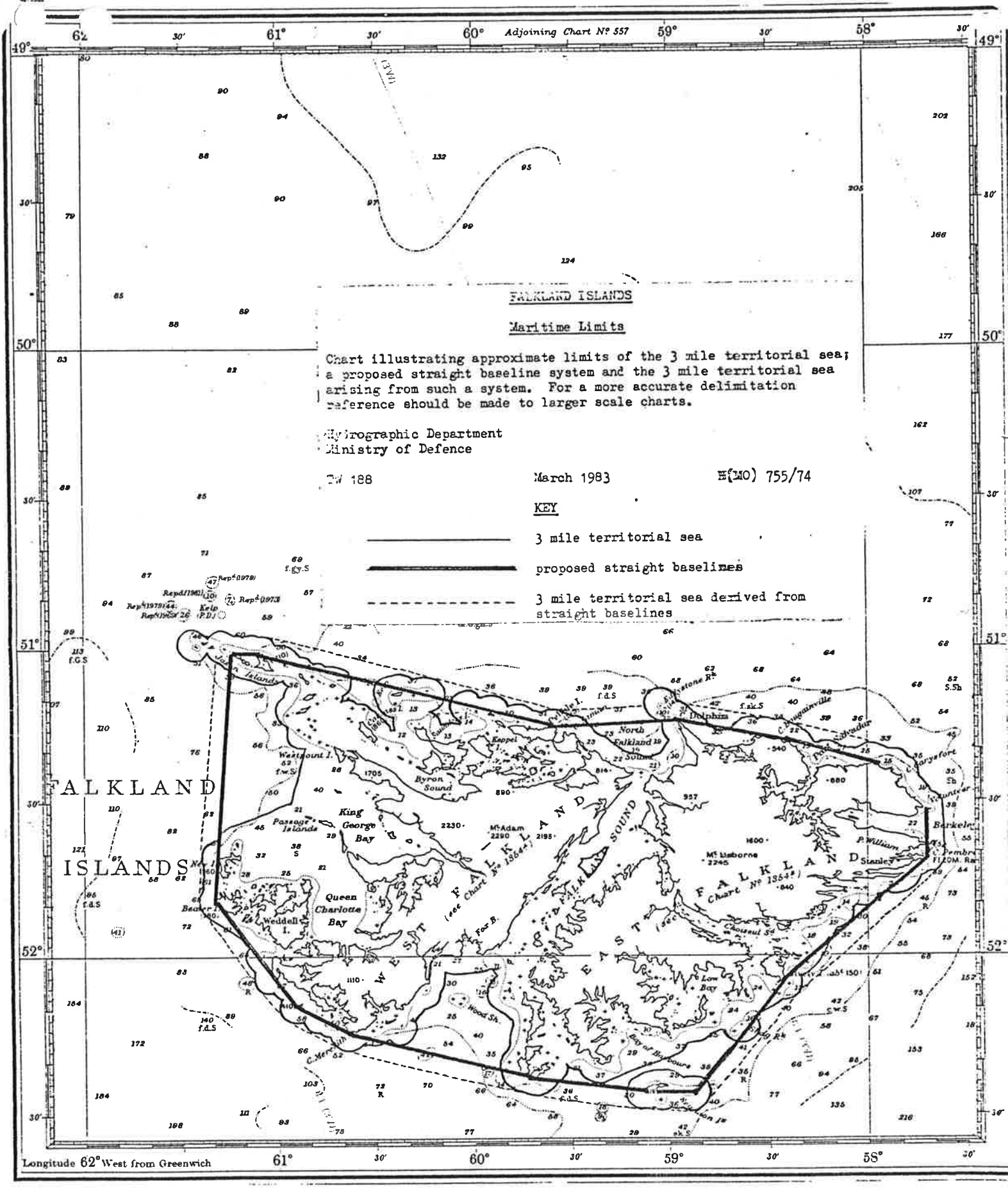
/6.

6. I should welcome the agreement of my colleagues by 7 November that draft Letters Patent should be submitted for the next Privy Council meeting. If approved by the Privy Council, they would then be sent to the Lord Chancellor for passing under the Great Seal.

7. I am sending copies of this minute to colleagues on OD and, for his information, to Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
31 October 1983


Adjoining Chart Nº 557
FALKLAND ISLANDS
Maritime Limits
Chart illustrating approximate limits of the 3 mile territorial sea; a proposed straight baseline system and the 3 mile territorial sea arising from such a system. For a more accurate delimitation reference should be made to larger scale charts.
Hydrographic Department
Ministry of Defence
TW 188
March 1983
H(MO) 755/74
KEY
3 mile territorial sea
proposed straight baselines
3 mile territorial sea derived from straight baselines
FALKLAND ISLANDS
WEST FALKLAND
EAST FALKLAND
Queen Charlotte Bay
King George Bay
Byron Sound
North Falkland Sound
Dolphin
Stanley
Longitude 62° West from Greenwich

CONFIDENTIAL

(PWP)

cc Mr Littler
Mr Unwin
Mr Lavelle
Mr Bottrill
Mr Denison
Mrs Case

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

10 October 1983

Andrew Turnbull Esq
10 Downing Street
LONDON SW1

Dear Andrew,

ARGENTINA'S DEBT PROBLEMS

The Chancellor has suggested that the Prime Minister might like to have a brief report on the latest developments in Argentina.

Generally, the prospect of a complete Argentine default is closer now that the authorities have had to suspend foreign currency payments to protect dwindling reserves. The suspension has been announced as a temporary one, pending the establishment of a system of foreign currency priorities. So far as we are aware these new restrictions have been imposed on a non-discriminatory basis. Our limited experience before the latest clamp down suggested that Argentina was honouring the assurances given in August to the IMF to lift discriminatory restrictions against UK companies. The DTI are continuing to monitor the position. Any resumption of discriminatory practices will of course lead to suspension of the IMF programme, preventing further drawings and in turn disbursement of the new commercial bank loan.

A key factor in the current situation is the breakdown in the commercial banks' refinancing of Argentine public sector debts. It hinges on a rescheduling agreement, negotiated with the state airline Aerolineas Argentinas, which is intended to serve as a model agreement across the board. Progress has been halted by an Argentine judicial ruling that the agreement infringes the constitution because it would be subject to US, rather than Argentine, law. The ruling also led to the arrest of del Solar, the Governor of the Central Bank, because of his part in negotiating the agreement. His subsequent release and an appeal court ruling in favour of the Government on the rescheduling agreement suggests that the immediate crisis may have passed.

/But the

But the events have caused self-inflicted damage to any confidence that the rescheduling negotiations will be concluded before the elections on 30 October, as was originally intended.

The rescheduling is one of the conditions of the commercial banks' $1.5 billion loan agreed in August. The first drawing of $500 million has thus been postponed until 17 October. Without the drawing, or resumption of IMF drawings, the Argentines will be unable to make a $350 million repayment under the $1.1 billion bridging loan from the banks which has already been postponed once.

The third drawing under the IMF standby is also postponed pending the elimination of payments arrears. Continued delay in gaining access to commercial bank loans could lead to pressure on the IMF to waive the arrears condition for disbursement of the next tranche. So far the IMF management has shown no disposition to alter the terms of the loan. This is clearly right. Disbursement also depends on Argentina continuing to meet the IMF performance criteria. Although the programme was on course in the middle of this year there are signs tht it may be under strain because of increasing pressure on the Government to ease wage restraint, accelerating inflation and an increase in the public sector deficit. The longer the delay, the less likely it seems that drawings will be resumed.

Although the situation seems to have been held for the present, further deterioration in Argentina's financial position cannot be ruled out in the period before the election and there can be no certainty about developments thereafter. The present exposure of British banks in Argentina is $2.3 billion.

The Chancellor feels that the right public line to take on Argentina's debt problems is that her recent difficulties are entirely of her own making. It is therefore for her, as for other debtor countries, to put her own house in order by making the necessary adjustments in line with the IMF programme, and removing obstacles to agreement with the commercial banks.

Copies of this letter go to Brian Fall (FCO) and John Bartlett (Bank of England).

Yours ever.

John Kerr.

J O KERR
Principal Private Secretary

CONFIDENTIAL

CHEQUER
17 OCT 1983

Mrs Case.
Mr Littler.
Mr Unwin.
Mr Lavelle.
Mr Bottrill.
Mr Davison.

10 DOWNING STREET

From the Private Secretary

17 October, 1983

(pwp)

Dear John

Argentina's Debt Problems

The Prime Minister was grateful for the report on current developments on Argentina's debt problems. She agreed with the line which the Chancellor is proposing to take.

I am copying this letter to Brian Fall (Foreign and Commonwealth Office) and John Bartlett (Bank of England).

Yours sincerely
Andrew

ANDREW TURNBULL

John Kerr, Esq.,
H.M. Treasury

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

1 November 1983

Dear Peter,

FALKLAND ISLANDS:
TERRITORIAL LIMITS

The Prime Minister has seen the Foreign and Commonwealth Secretary's minute of 31 October and, subject to the views of OD colleagues, agrees that draft Letters Patent to give effect to the proposal for a system of straight base lines and bay closing lines be submitted for the next Privy Council meeting.

I am copying this letter to the Private Secretaries to the other Members of OD and to Sir Robert Armstrong.

Yours ever

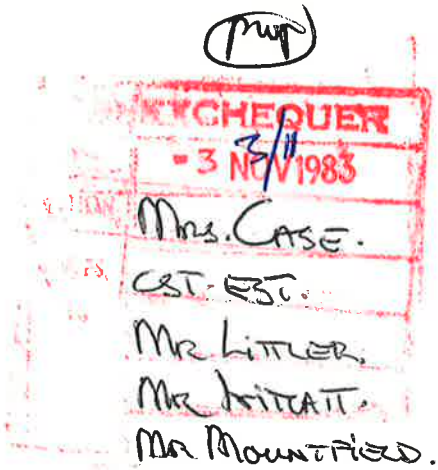
John Coles

Peter Ricketts, Esq.,
Foreign and Commonwealth Office.

QUE
1 NOV 1983
Mrs Case
CST-EST
Mr Littler
Mr Kitcatt
Mr Mountfield

CONFIDENTIAL

Chancellor of the Duchy of Lancaster



FOREIGN AND COMMONWEALTH SECRETARY

FALKLAND ISLANDS: TERRITORIAL LIMITS

1. I have seen a copy of your minute of 31 October to the Prime Minister.

2. I agree with the principle. The only question is one of timing. Presumably nothing would be done or published until after the Falklands Debate at the United Nations General Assembly?

3. I am sending copies of this minute to OD colleagues and Sir Robert Armstrong.

A.C.

A C

2 November 1983

V985 MS - 3 NOV 1983 28

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5144
SWITCHBOARD 01-215 7877

From the Minister for Trade

MINISTER OF STATE	
REC.	- 4 NOV 1983
ACTION	PS/CYE
	PS/Chancellor
	PS/CST, PS/FST
	PS/EST
	Mr Middleton

Mr Littler
Mr Unwin

R F Cutler Esq
Grant & Cutler Ltd
11 Buckingham Street
Strand
London WC2N 6DQ

2 November 1983

Mr Cassell
Mr Monger
Mr Covey
Mrs Case
Mr Griffiths
Mr Faulkner
MST

BOOKS FROM ARGENTINA

Thank you for your further letter of 25 October. Let me assure you that I appreciate its courteous frankness, particularly as I recognise what this problem means to you in terms of lost business both now and, potentially, in the future. But I regret that I cannot add further to my earlier letter other than to emphasize my view that there is a difference between books for resale, which must, as yet another "good", remain subject to our embargo on imports from Argentina, and books which are not for resale and thus directly form part of the communication chain.

I am sending a copy of your letter to my colleague at the Treasury, Mr Barney Hayhoe in case he wishes to comment on your reference to the correspondence you have received from HM Customs.

PAUL CHANNON

GRANT & CUTLER LTD

Publishers and Foreign Booksellers

R F. CUTLER
R D CUTLER
P W J. LUDDINGTON

Close by the  *Watergate*

M. A. MARTIN
S. R. COOPER
R. C. O. HOWARD

11 BUCKINGHAM STREET, STRAND, LONDON, WC2N 6DQ.

01-839 3136

25 October 1983

The Right Honourable Paul Channon MP
Minister for Trade
Department of Trade and Industry
1-19 Victoria Street
London SW1H 0ET

Dear Mr Channon,

Books from Argentina

Thank you for your letter of 19 October, not received here until 22 October. It was kind of you to write, and so fully, and I am appreciative.

I agree with a good deal of what you say. Speaking as an individual, I am in favour of the ban on imports, but I cannot agree that books should not be an exception. Like newspapers and periodicals they are information, often important, as well as learning, and culture. It is unusual for a non-totalitarian government to impede their free passage, and I am sorry that mine should be doing just that. Nevertheless, my firm did not consider it appropriate to join in the public protests which preceded the partial lifting of the ban. We were reconciled, if necessary and if in the public interest, however much we disagreed, to losing a useful slice of our trade. What impelled me into print was your handing over that slice to our Argentinian and other foreign competitors, and also the apparent disregard by the Department of my letters.

I quite see your point about the danger of making exceptions, and the precedents they set, but there is not a great deal of difference between completely lifting and partially lifting. In fact, of the national dailies which reported the lifting, all but one reported it as if it were complete. The partial lifting was an admission that the ban on books was a mistake. You should have gone the whole way.

Your letter does not reply to the two points I made again in my letter to the Times. The giving to Argentinian and other booksellers the trade you are taking away from booksellers in the U.K., and the fact that the books consigned to us are the same kind as those you have now released to libraries and other non-trade importers; identical books almost certainly in a few cases. The first point is the more worrying to us because of its long term effects. An importing bookseller's most serious competitors are the exporting booksellers in the other country. Once your customers have turned to them they may never come back.

I can best illustrate this by the predicament we are now in. I referred in my letter of 14 October addressed to the Secretary of State to the ever mounting pile of library orders for Argentine books which has been building up here since July. Not only British libraries, but similar customers in Holland and

other Western European countries and all the English-speaking countries (yes, the USA included). We must play fair with them, our goodwill is involved. Do we tell them we cannot supply? Give them the name of a good Buenos Aires bookseller who will be only too pleased? Or tell them to do what we don't, but others do, namely order them from Spain, and risk their transferring their Spanish orders to the same supplier? Or close with the spontaneous offer recently received from Madrid to accept all our Argentinian orders, to supply from stock where possible, and to get the rest for us?

The fact, not realised in your Department, is that banning books is not a simple matter. There have been four mistakes already. The first to ban them, then not to enforce the ban, then after sixteen months to enforce it, and finally partially to lift it. The last the worst, because it is British traders you are damaging, while the Argentinians if anything will benefit. In short, a muddle, and I cannot see that you and Mr Tebbit have any option but to end it by lifting the ban completely. As for the notice just received from HM Customs that, on payment of a "fee" of £150 and a promise to re-export the books immediately, those books now held will be released to us, that will get no reply. Not a penny!

Thank you again for your considerate reply to me. I must apologise for the length of this one. Its frankness I am sure you will not mind.

Yours sincerely

R F Cutler

TIMES 27 OCTOBER 1981

ents

ying for arrange-
on, there lack of
at a final
insurance
meet its
by the
cannot
loyer, or
ustees, to
al salary
ne divide
he assets

between
nd, if the
loyees, it
cised, in
try to the

e to have
nds they
risks to
elation to
which the
them. To
look not
etirement

the plight
a time of
rest rates.
hen pur-
pension.
n, he has
al salary
and well
e help to
licament,
pensioner

ly forgot-
e the self-
ly choose
e and are
erable to
inflation
the years
after their

hairman,
Limited,
t.

D. Merrin,

r 12) Mr
e closure
schools
CHEs –
ducation –
increasing
s to penal
be related
gland and
not the case

troduction
system in
der the age

today is that "the preponderance of British forces permanently maintained on the European continent should be lightened, with Britain's Rhine Army reduced and the Air Force redeployed."

Mr Heseltine, however, faces yet another challenge, which is how best to deal with a specific insidious and much less publicised Soviet threat to all the Nato allies and especially to Britain – namely, that of the Soviet diversionary brigades which are specifically trained for exactly the kind of devastating sabotage which Argentina endeavoured to put into effect against Gibraltar at the time of the Falklands war.

Fortunately this is a challenge which is far more easily (and cheaply) met than the challenge to which you refer in your leading article and which has to be dealt with in the context of our relationships with our Nato allies. For a total capital allocation of only £150m spread over some years (provided separately from the Defence Vote) there could be created more powerful deterrent to war if it were in place – and known to be in place – to prevent this from happening before hostilities broke out.

We all hope that this will never happen, but as the Prime Minister said when speaking in Ottawa last month, "the Russians must never be tempted to believe they could win a war against the West".

Britain therefore should at least be prepared for the worst and can be prepared for the worst at a trivial cost (in the context of a Defence Budget of £16bn or more) added to a firm determination fostered by the Government. It is high time that the Government gave a lead in the creation of such a Home Defence Force, which would be part of the Forces of the Crown under the control of Parliament in the same way as the regular Forces.

Yours faithfully,
DAVID WILLS,
Sandford Park,
Sandford St Martin, Oxford.
October 15.

God's person

From the Reverend Robert Llewelyn

Sir, Lest it be thought that the urge to recognise the motherhood of God is peculiarly modern, will you allow the words of Julian of Norwich (though she was not first): "As truly as God is our father so just as truly is he our mother". There is much more to the same effect in her Revelations of Divine Love, completed in about 1393.

To call God he *or* she affirms that personality in the Godhead is not less than that which we experience in ourselves, even though we know it to be vastly beyond anything our human minds can comprehend. It is the only protection language offers against "it", which would make God less than personal.

To call God he *and* she additionally affirms that we humans (made in God's image) are to learn to integrate within ourselves the masculine and feminine elements (the animus and anima) which belong to us all.

Yours faithfully,
ROBERT LLEWELYN,
(Chaplain at the Julian Shrine),
c/o All Hallows,
Rouen Road,
Norwich.
October 20.

Valid marriages

From Mrs J. E. B. Marsh

Sir, The General Synod of the Church of England might ponder Professor F. M. Stinton's statement that "at the middle of the twelfth century, when the marriage law of England at last became clear, English churchmen were plainly committed to the canonical doctrine that a valid marriage is contracted by the mere declaration of a man and a woman that they take each other as man and wife" (*Anglo-Saxon England*, page 662). In the matter of remarriage in the lifetime of a spouse this had been allowed on compassionate grounds by a seventh-century Archbishop of Canterbury, Theodore of Tarsus.

Today couples are being misled into thinking that the sacrament of marriage is administered by the clergy rather than by the couple to each other and that consequently a wedding in church is a different proposition from the blessing of a marriage. Yet in the former case the Anglican priest acts as surrogate to the registrar, ie, as legal witness, and in both cases he bestows a blessing in the name of God.

Yours faithfully,
RUTH ST BARBE MARSH,
Chaise House, Yatton Keynell,
Chippenham, Wiltshire.

All other children who offend are reported to a reporter, who may, after investigating and considering the whole circumstances of the child, refer the child to a children's hearing for consideration of "compulsory measures of care". One such measure can be placement in a List D school. Under no circumstances can a children's hearing place a child in any penal establishment.

Unlike the apparent experience in England and Wales over the past decade of a continuing flood tide of juvenile offending, in Scotland the tide ebbed significantly from 1974 to 1979. Regrettably it has turned again in the past three years.

The demand for List D places been expected that the demand would rise again with the increase in such offending.

This has not been the case and in fact from 1977-78 to 1982-83 the demand for List D places fell by a further one-third, with the consequence that earlier this year the Secretary of State for Scotland withdrew his certification from four List D schools. In addition a consultative document has recently been circulated to all interested parties by the Scottish Office inviting views on the anticipated further decline in the demand for such places.

I am, Sir, your obedient servant,
DOUGLAS MERRIN,

draw up guidelines on standards of accommodation and management.

Yours faithfully,
RHODES BOYSON,
Department of Health and Social Security,
Alexander Fleming House,
Elephant & Castle, SE1.
October 25.

Argentine books

From Lord Kilmarnock

Sir, As a very modest customer of Mr Cutler's I would like to support his letter, under the heading "Argentine books anomaly", in your issue of October 22.

Argentine publishers had a long and honourable tradition of publishing the complete works of major Spanish poets, such as Antonio Machado and Miguel Hernandez, when these works were either banned or issued in emasculated editions in Spain. It seems absurd to penalise both the publishers and their main British customers at a time when we should surely be encouraging Argentina to resume her proper rôle in the mainstream of hispanic culture.

Yours faithfully,
KILMARNOCK,
House of Lords.
October 24.

Miskitos' rights

From Mr Russell E. Chambers

Sir, I disagree most strongly with Jeane Kirkpatrick on many issues, but the treatment of Miskito Indians by the Sandinista regime is not amongst them (Graham Greene's letter, October 15).

In August of 1982 I was present at a meeting in New York between a delegation of Miskito Indians and representatives both from the International League for Human Rights and the United Nations. The accounts they gave, the photographs of brutally maimed children and adults, the documented reports on the treatment of themselves, their families and their villages gave all too clear a picture.

To be rehoused in what are prisoner of war camps and to be subjected to the most horrific form of persuasion to do so, amounts to a terrible and fundamental violation of the Miskito Indians' human rights.

I would ask Graham Greene not to rely only on the words of somebody working in one of these camps, but to speak to an Indian who has been on the receiving end of the whims of the Sandinista regime in getting there at all.

Yours faithfully,
RUSSELL E. CHAMBERS,
16 Alexander Square, SW3.
October 17.

The young idea

From Dr A. C. Scott

Sir, A door in this hospital bears the legend, "Neonatal secretary".

Yours truly,
A. C. SCOTT.

Pwt

C

Total size of the commercial loan is $1.5 billion.

10% of this is down to UK banks. List below:
(Lloyds is the biggest individual participant).

The first tranche is $500 million, so approx. 10% of that is immediately at issue, as far as the UK is concerned.

Lloyds Bank International
Barclays Int
Midland
NatWest

} 66% of UK participation

Grindlays
Standard & Chartered
Clydesdale
S Leveders
Kleinworts
TSB
County Bank

Bank of Scotland
Bank of Ireland.

CONFIDENTIAL

FROM: P E DENISON
DATE: 3 November 1983

CHANCELLOR

ARGENTINA

I have asked the Bank of England for their assessment of the attitude of British banks to the new Radical government in Argentina. They believe that the banks see a good chance of moderate, responsible attitudes to debt management but that it is too early to make any judgements on particular policies. This appears to be a widespread view among outside observers.

It is, of course, impossible to say whether this will influence the attitude of other governments to the resumption of arms sales. However it seems clear that the priorities of the new Administration will be elsewhere. We would expect them to cut drastically the existing levels of military expenditure, both to accommodate their other policies and to sever their inheritance from the military regime.

There is no obvious way for HMG to influence the course of the commercial bank loan, without an unprecedented degree of intervention in the affairs of the banks. The banks, including British banks, signed the documentation in August. Disbursement of the first tranche is currently held up by the Argentine failure to meet certain conditions, but if these conditions are met the loan will go ahead.

The drawing is conditional on progress in the rescheduling agreements (which are to be completed by 15 December) and on the elimination of arrears up to the end of September. If the first tranche is advanced (it is currently scheduled for 30 November) it must be used first to make a repayment of bridging finance due to the banks and secondly to eliminate arrears and current payments due with effect from the start of October.

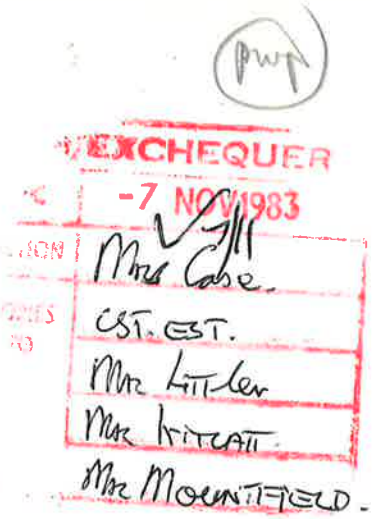
CONFIDENTIAL

There are reports on the tapes today that the Vice-President of the Radical Party has said that they might seek a moratorium to give themselves a breathing space. It is not clear how serious a proposition this is. If pursued it would presumably prevent the disbursement of the commercial bank loan on 30 November.

B.

P E DENISON

MO 5/21



PRIME MINISTER

FALKLAND ISLANDS: TERRITORIAL LIMITS

The Foreign and Commonwealth Secretary copied to me his minute to you of 31st October, about the territorial limits around the Falkland Islands.

2. My officials have been closely involved in the work on this subject, and I fully endorse what is proposed. I am therefore content for the draft Letters Patent to be submitted to the Privy Council.

3. Copies of this minute go to OD colleagues and to Sir Robert Armstrong.

Ministry of Defence
4th November 1983

JF4747

CONFIDENTIAL

PRIME MINISTER

FALKLAND ISLANDS : TERRITORIAL LIMITS

I have seen the Foreign and Commonwealth Secretary's minute to you on 31 October proposing that action be taken straight away to alter the limits to the territorial sea around the Falkland Islands.

2 I support the move which appears to be a sensible one administratively. I note the advantage that it would facilitate control over certain in-shore areas of sea, but I assume that this is a factor which would only have practical effect after we had discontinued the 150-mile Protection Zone following a formal cessation of hostilities.

3 My main concern is timing: a concern which I see that Arthur Cockfield shares. The Argentines are certain to regard the move as provocative, and to allege that we had deliberately timed it to coincide with the period of interregnum between the military and civilian governments. It might be seen by others more favourably disposed towards us in the same light. Action now on territorial seas might discourage those in Buenos Aires inclined to take a more flexible line on normalizing trade relations. Should we

not postpone action until we have had a chance to assess the new Argentine Government and the prospects for resuming trade and ending hostilities?

4 I am copying this to the Foreign and Commonwealth Secretary and other OD colleagues.

NT

N T

8 November 1983

Department of Trade & Industry

CONFIDENTIAL

1. MR MIDDLETON
2. CHANCELLOR OF THE EXCHEQUER

copies attached for

Chief Secretary

cc -

Mr Littler
Mr Unwin or
Mr Lavelle
Mrs Case
Mrs Diggle
Mr Perfect
Mr Denison

ARGENTINA: ARMS SALES AND BANK LOANS

At Cabinet last week, the Foreign Secretary was asked, in consultation with you, to see what could be done to stop British banks lending money to Argentina which could be used to buy US arms.

2. This was mainly a Treasury problem, and so by agreement with the FCO, I held a couple of meetings with them and the Bank. The results are included in the attached official note. The FCO are putting this up in parallel to Mr Rifkind, who will represent the Foreign Secretary at Cabinet tomorrow.

3. The subject is not on the agenda tomorrow, and there is no reason why you or Mr Rifkind should take the initiative in raising it. But you will want a copy of this note by you; and you may wish to send one to the Prime Minister in advance. You need only read the conclusions in the last two pages.

4. The paper is strictly neutral, and ends by listing the possible courses open. But at official level, there was a strong feeling that it would be very unwise to take any action to frustrate lending under the existing bank agreements. Action to block future loans is less objectionable, but again, left to our own devices, we would advise you against it.

5. But the politics of this are very difficult, and the Prime Minister is clearly very concerned, both about the resumption of arms sales and about the political backlash in this country if it happened and British money were thought to be involved.

13-9-11

6. The paper has been put together in great haste, without (so far) legal advice. I hope to have this by the end of the week. I do not think it will make any difference to the conclusions which are based on legal advice we have had in the past; but I want to be sure.

to whom the Cabinet minutes were

7. I suggest that if you send this paper to No 10 today, you do so saying that it is provisional, and that you and the Foreign Secretary will agree on a definitive version on his return. No immediate decisions are called for.

8. I am routing this through Mr Middleton, because I know that the subject came up at his last meeting with the Deputy Governor on Monday. He may wish to add something about the Bank of England's strong views.

PM

P Mountfield

CONFIDENTIAL

ARGENTINA: ARMS SALES AND BANK LENDING

Note by Officials

Cabinet on 3 November invited the Foreign Secretary, in consultation with the Chancellor of the Exchequer to "review the Government's policy towards debt relief for Argentina in the light of the considerations mentioned by the Prime Minister in her summing up". In the earlier discussion the Prime Ministe said that "there could be no question of entering into negotiations with Argentina on the question of sovereignty over the Falkland Islands. Although there was no evidence that the new Argentine Government was contemplating a debt repudiation, a decision by the United States Government to resume arms sales to Argentina would make it necessary for the Government to reconsider British participation in the arrangements for an international commercial loan to Argentina which was being negotiated in conjunction with the aid to be made available by the International Monetary Fund".

2. This paper reviews the Government's policy towards debt relief for Argentina. It assesses the position on the possible restoration of arms sales by the Us and discusses the options for action in relation to British banks' participation in lending to Argentina.

3. Until 1978 the US was the main traditional supplier of arms to Argentina. Under a 1978 amendment to the Foreign Assistance Act, prompted by Senators Humphrey and Kennedy, the supply of much military equipment was prohibited on human rights grounds. The restrictions can only be raised if the President certifies that the human rights situation in Argentina has improved sufficiently to warrant a resumption of sales. In Congressional Committee hearings in mid-October State Department representatives reported a 'dramatic improvement' in Argentina's human rights record. Congressional opinion as a whole, including the human rights lobby, has in any case been moving towards the view that there is no further basis for withholding certification.

4. For some time, the US Administration have seen the transition in Argentina to democratic government as an exceptional opportunity to re-build relations. President-elect Alfonsin's resounding victory will have reinforced this tendency. The Administration will now find it hard to deny the new Argentine Government (which will assume office on 10 December) the concrete sign of US approval which certification represents.

5. The scene is thus set for certification, with UK concern the only major obstacle. This concern has been made plain to the Americans on numerous occasions. It has been met with an assurance that we shall be consulted in advance of any announcement to certify and, most recently on 4 November, with an indication that the US Administration have not yet decided whether certification should take place before the new government assumes power or at the time of its inauguration (10 December). When the US Deputy Secretary of State saw the Prime Minister and the Foreign and Commonwealth Secretary

on 7 November, he said it was a 'foregone conclusion 'that the Americans would certify. Mr Dam gave no precise timing. Mrs Thatcher and Sir Geoffrey Howe re-stated all our objections. Mr Dam said he would report these to President Reagan and Mr Shultz.

6. We have made it clear that any announcement in the next few weeks would create difficulties in our relations which would be especially serious so soon after our difference over Grenada. We have also said that, should certification eventually take place, we would expect to be consulted over the supply of individual items.

7. We do not know in detail what arms Argentina would want to buy from American sources, nor what credit (if any) would be available from official or private sources. The availability of credit would reduce any financial leverage which the UK derives from the participation of British banks in the proposed new loan to Argentina.

BANK LENDING

8. In August, international commercial banks, including British banks, signed an agreement for a loan of $1.5 billion to Argentina. Nothing has yet been disbursed and the date of the first tranche has been repeatedly postponed, most recently from 28 October to 30 November. It has been held up by the Argentine failure to meet certain criteria relating to arrears, and rescheduling of public sector debt. The agreement also requires Argentina to meet the performance criteria in the IMF programmes, and so far this condition has been met (but see para 13 below). It is likely that the conditions will be met by the end of November, in which case the disbursement of the first $ 500 million would go ahead. The UK share is just over 10%.

9. The banks are willing to advance the first tranche because, in practice, most of it would come straight back, without giving Argentina the benefit of any new money. The first $350 million would repay the instalment due on an earlier bridging loan and the bulk of the remainder would be used to settle arrears outstanding to the banks. It would not directly provide new funds for arms purchases, but by taking some of the pressure off the Argentine balance of payments, would make it slightly easier to buy arms.

THE IMF PROGRAMME

10. The bank loan is closely related to the IMF support operation for Argentina. This is relevant in two ways. Without it, the Argentine balance of payments, and the whole economic recovery programme, would be at risk of failure. And the bank loan is directly contingent on parts of the IMF programme being observed. The SDR 1.5 billion IMF programme for Argentina was agreed in January 1983, to last for 15 months. Drawings are conditional on economic performance criteria in the usual way. So far only two drawings, of SDR 600 million in total, have been made. After May further drawings were suspended because Argentina has not removed a law providing for discriminatory payments restrictions against UK companies in Argentina.

11. In August (following UK pressure) Argentina agreed to withdraw the discriminatory restrictions and the IMF Board agreed that drawings of the remaining SDR 900 million could be resumed provided that economic performance against the established criteria was satisfactory.

12. Since then no further drawings have in fact been made since the backlog of payments arrears has not been cleared. Moreover, further (non-discriminatory) payments restrictions were introduced in September because of a foreign exchange shortage. Since the measures included a

new multiple currency practice contravening the IMF's Articles, it would be normal to seek the approval of the IMF Board before drawings under the programme could resume. There is also uncertainty about whether Argentina has met the other economic performance criteria at the end of September.

13. Nevertheless, the IMF Management was prepared on 28 October to reconfirm to the commerical banks involved in the loan to Argentina that the programme for Argentina was continuing, apart from clearance of the payments arrears. This seems to indicate willingness to give the programme a fair wind, despite the remaining doubts about economic performance.

POSSIBLE UK ACTION ON IMF PROGRAMME

14. If the UK wanted to influence dealings with Argentina there are two broad options open:

a. approaching the IMF Management to frustrate further drawings under the programme for Argentina; or

b. stimulate UK banks to ask the IMF leading questions designed to reveal that the programme irretrievably had broken down.

15. In practice scope for action is heavily constrained. Tempting though (a) may seem, it would be seen as naked political lobbying. Even if it were attempted by approaching other IMF Executive Directors, its success would be doubtful. We have probably done as much as possible by this route in getting discriminatory payments restrictions removed (para 13). Moreover, introducing political consideration into our dealings with the IMF would create difficult precedents for us in other cases.

16. Approaching the banks - option (b) - might not have much practical effect. The IMF Management seem determined to keep the programme hanging on

by the skin of its teeth unless and until breakdown is seen to be inevitable - perhaps only if the economic performance criteria are irretrievably breached (those for end-December if the ones for end-September proved to be just about acceptable: clarification of this point is not expected until the middle of November). The banks may by then feel that these are technical delaying tactics, and decide to proceed without IMF support.

17. Even if course (a) is ruled out, option (b) could only be a delaying tactic. As soon as the programme for Argentina is renegotiated or replaced, UK banks would again come under pressure to participate in the syndicated loan.

SCOPE FOR GOVERNMENT ACTION IN THE UK

18. If the IMF programme goes ahead without further delay, action to prevent British banks participating in the flow of finance to Argentina might take the following forms.

a. Guidance or instructions to the banks themselves.

b. Subordinate legislation reintroducing financial sanctions, or the exercise of powers under exchange control legislation

c. Primary legislation

d. Other pressures.

These are discussed below. In each case it is necessary to distinguish between bank participation in the August agreement(which is probably legally enforcible once the conditions have been met) and participation in any future agreement.

(a) Instructions to the banks

19. A direction by the Bank of England under the Bank of England Act might be sufficient to prevent British banks signing a new loan agreement. However, now that the August loan documentation has been signed, a direction under this Act to desist from actual disbursement would almost certainly be ultra vires. (We are seeking legal confirmation of this view, which is based on legal advice given earlier in a slightly different context). If the effect of such a direction was to deprive the banks of profitable business, they might well seek compensation from the Bank of England, which could in turn seek an indemnity from the Treasury.

(b) Sanctions and Exchange Control

20. The sanctions, originally imposed at the start of the Falklands conflict, could be reintroduced by Statutory Instrument under the Emergency Laws (Re-enactments and Repeals Act) 1964. As before, they would apply across the board preventing UK residents carrying out certain financial transactions in response to order from Argentine residents or the Argentine Government. This would only prevent British banks participating in any disbursements of the international commercial bank loan, if the disbursements were not regarded as contractual payments. Existing contractual payments are excluded from the scope of sanctions, though in principle they could be applied to new agreements.

21. For the Orders to be made under the 1964 Act, the legislation requires the Treasury to be satisfied that Argentina is taking, or is likely to take action to the detriment of the economic position of the UK. It would be hard to establish that potential sales of US arms to Argentina had this effect, at a time when there is no active conflict.

22. Other powers available to the Treasury under the Exchange Control Act 1947 are similarly constrained. At the time of the Iranian hostages in 1979, when the US had asked us to freeze Iranian assets in London, the Attorney General ruled that such action would be ultra vires unless the motivation was economic.

(c.) Primary legislation

23. Fresh primary legislation would, of course, remain a possible option if other fail. It could in principle be made retrospective, so as to forbid disbursement under the August agreement. But, as with any action of this kind, it could well lead to action being taken against the banks for breaking their contract and to demands for compensation from HMG.

(d) Other pressures

24. Finally, it might be possible to persuade UK banks not to participate by a mixture of persuasion and the threat of public opinion. The clearers might be susceptible to such pressure if they felt they were likely to lose deposits from the public as a result of being pilloried. They might however choose to resist such pressure and would be in a strong legal position to do so. Pressure tactics are unlikely to be so effective with the non-clearers.

OFFICIAL RESCHEDULING

25. One further possible instrument, mentioned in the Cabinet discussion, is to withold UK participation in rescheduling of official debt. The banking agreement will provide a measure of new finance, and also funds with which Argentina can m aintain payments on non-guaranteed debt. (We have no direct government-to-government loans to Argentina.) Payments on government guaranteed debt has been in arrears for some time. Once relations are normalised, there will be a general desire among creditors to proceed to an orderly rescheduling of official debt. The UK will be

expected to play its part. It could not veto a Paris Club rescheduling. It could refuse to join in; but the effect would be that other creditors would take precedence over the UK in obtaining a share of any money available for debt service. Argentina would still secure the benefits of debt relief to its balance of payments.

IMPLICATIONS OF FINANCIAL MEASURES

26. On the international level, we have welcomed the restoration of the democratic process to Argentina and have reaffirmed our wish to develop a more normal relationship, especially in the economic and commercial fields. We have referred to our positive attitude towards the IMF programme for Argentina as an example of our constructive approach. Indications that we were seeking to obstruct or frustrate measures to promote the economic recovery of Argentina under a civilian government, when we had not done so with the post-war military government, would be very hard to explain. Our Allies and partners would see them as incompatible with the line we have taken in public about the need, for wider international purposes, to help in rescue measures. It would also be impossible to reconcile with the emphasis that has been placed (most recently by the Prime Minister in the Daily Mail of 7 November) on our willingness to re-establish normal commercial financial relations with Argentina.

27. For the banks, the implications depend on whether the loan goes ahead without British participation, or whether the whole loan collapses.

28. It is possible that the package could go ahead without the support of British owned banks. They have contributed $106mn to the package, only about 7% of the total (for UK based banks, corresponding figures are $166 mn and 11%), which could either be made up by extra contributions from other banks or left unreplaced and drawn down later, once restrictions on British banks were lifted. Argentina would not be put under any severe financial pressure

by the absence of the British banks' contribution.

29. If the financing package goes ahead, because the "new money" loan for Argentina is already signed, failure of British banks to participate as agreed could give grounds for other banks to withdraw, without causing the whole package to collapse . British banks' reputation might suffer, affecting their position in other debt negotiations. Argentina could well be entitled to claim damages for breach of contract, and might be tempted to take reprisals against British banks or other companies operating in Argentina

30. But British withdrawal could cause the failure of the Argentine financing package. This could have serious repercussions on the international banking markets. The several substantial debt renegotiation exercises which are in train, and the threat their failure would pose to the liquidity and solvency of major banks, have made the markets much less robust than they would be in normal circumstances. A failure of the Argentine package could force the Argentines to halt all payments of interest and principal. This might directly damage some banks and would at the very least reduce their capacity to contribute to other packages, and indded to other lending more generally, because of the effects - via provisioning and write-offs - on balance sheet strength. The breakdown of burden-sharing amongst banks, which has become an essential feature of the packages so far, could prejudice packages for other countries and make other creditor governments consider similar intervention where their own- or their banks' - particular interests might encourage it.

31. The authority of the Bank of England and the UK government in other circumstances requiring internationally co-ordinated action woudl be seriously weakened. Until now we have successfully maintained a tough line requiring debtor countries to mount adequate stabilisation policies, accompanied by debt relief where appropriate, with the minimum of direct support. This has been

an economically credible policy, though it has been much criticised as unhelpful and potentially dangerous. If the UK now took action which imperilled an otherwise promising recovery programme, this might be seen as evidence of 'wrecking tactics' in international finance, instead of a justifiable measure designed to protect our political and military interests. This would further weaken the coalition of interest which has made possible the success so far in preventing a major default.

CONCLUSIONS

a. Strenuous diplomatic efforts are already being made to persuade the US not to resume arms sales.

b. Despite this, US action to grant 'certification' seems inevitable. This opens the door to US arms sales to Argentina, with or without US credit becoming available.

c. Non-participation by British banks, or refusal by the UK to join in a rescheduling operation, could conceivably imperil the whole Argentine economic package with potentially serious consequences for the international banking system though this seems unlikely.

d. But if the package goes ahead without the UK, our non-participation would make only a marginal difference to the total finance available to Argentina in the next 12 months.

e. In these circumstances, such action is not likely to have much effect in preventing American arms sales.

Shd hint

f. Nevertheless, it may be politically important to demonstrate that no British money is being used for the purpose, directly or indirectly.

g. It would be possible to prevent future bank lending; but the immediate problem lies in the August agreement.

h. Drawings under this agreement can only be blocked by ensuring that banking and IMF conditions are not met; or requiring the British banks to break their obligations.

i. Argentina seems likely to meet the conditions set by the banks.

j. It would therefore be necessary to block IMF approval of the Argentine programme, despite the long standing principle that the UK does not introduce political consideration into IMF decision-making. The UK could not do this alone.

k. If the agreeement cannot be frustrated in this way, it would be necessary to induce British banks to break it.

l. The potential instruments are a direction to the banks, reimposition of sanctions or exchange controls; new legislation; or indirect pressure.

m. A direction would probably not serve to prevent the banks implementing the August agreement.

n. Nor would the exchange control or emergency powers, which are probably not available where there is no economic threat to the UK.

o. It is difficult to predict the banks' reactions to indirect pressure or threats requiring them to break contracts.

p. Direct action of any kind to force British banks to break existing contracts would have damaging effects on confidence in the City.

q. As to future loans, the choice would lie between a direction and fresh legislation.

r. British action to block loans to Argentina could damage our successful stance on other international debt issues.

Foreign and Commonwealth Office

London SW1A 2AH

pup

10 November, 1983

Dear John,

Falkland Islands: Territorial Limits

The Foreign Secretary, who is in Athens, has not had an opportunity to comment on the Secretary of State for Trade and Industry's minute to the Prime Minister of 8 November. But you might find it useful to have our views on the question of timing of an announcement.

Approval of the Letters Patent by the next Privy Council and their passage under the Great Seal will enable Sir Geoffrey Howe to instruct the Civil Commissioner to implement them by proclamation during the early months of 1984. The earliest date which had been considered for this was January 1984. This would be after the interregnum in Argentina and would give us a chance to assess the policies of the civilian Government before a proclamation was made. The first statement of President-elect Alfonsin does not seem hopeful: he insisted that a peaceful solution must be based on United Nations Resolutions which are acceptable to us. He made clear that he will not formally declare a cessation of hostilities on the grounds that this would be used to consolidate an unjust situation in the Islands. He also described our military dispositions there as a threat to the security of South America and suggested that they have a wider, strategic purpose. In recommending a date for the proclamation, the Foreign Secretary will take into account the position of the Falkland Islanders, who have expressed through their Council a desire to make progress with the extension of the territorial limits in this way.

Against this background, and in view of the shortness of time, it would be useful to know as soon as possible if Departments see any objection to this proposal going to the Privy Council as foreseen in Sir Geoffrey's minute of 31 October ie by 14 November. The question of the timing of the proclamation could then be considered further in the light of developments, including in Argentina.

I amsending copies of this minute to Private Secretaries of Ministers on OD, and to Richard Hatfield (Cabinet Office).

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

A J Coles Esq,
10 Downing Street

CONFIDENTIAL

FROM: J B UNWIN
DATE: 17 November 1983

MISS J C SIMPSON

C/ Minute to issue?
B.

cc Mr Middleton o/r
Mr Littler o/r
Mr Unwin/Mrs Case
Mr Ilett
Mr Denson

yes: Zone to Chxs

ARGENTINA

Thank you for your minute of earlier today.

2. The Chancellor was right in saying that the first tranche of the commercial bank loan had not been drawn down. The present proposal is that the first tranche ($500m) should be drawn on 30 November. But this is still subject to a number of conditions, which may not be met. One of these relates to whether the present Fund programme is still continuing in effect. Technically it still is - in the sense that the Fund have not cancelled it. But no further disbursements are likely to be made under it and this, combined with problems on the other conditions, could cause the commercial banks to postpone their first disbursement again beyond 30 November.

3. We are trying to find out precisely where matters stand, including the implications for the banks. I have asked Mr Wicks to discover discreetly what the Fund's latest intentions are. We will cover this in a revised version of the paper related to Arms Sales (which I will get to you as soon as we possibly can). On the face of it, the latest developments open up possible new options for delaying the commercial bank loan should we want to do so.

4. But we need more information before reaching firm conclusions and I suggest that in the meantime the Chancellor should minute the Prime Minister briefly as in the attached draft.

J B UNWIN

CONFIDENTIAL

CONFIDENTIAL

date 17/X.

Letter for to A.J. Coles Esq. No 10

~~DRAFT MINUTE~~ FROM ~~CHANCELLOR OF EXCHEQUER~~ TO:
PRIME MINISTER

? better from me to Coles ?

ARGENTINA

I understand that there was some discussion today about whether ~~You mentioned~~ at Cabinet ~~this morning~~ yesterday ~~that you had heard that~~ the first tranche of the $1.5bn commercial bank loan to Argentina had been drawn down. ~~I said that I did not think this was the case~~.

I ~~may~~ can confirm that no drawings have been made. ~~The present position is as follows:~~ NP The loan agreement was signed in August, but the first drawing of $500m has been repeatedly postponed because of Argentina's failure to meet conditions attached to it. These include settlement of arrears up to the end of September; progress on public sector debt rescheduling negotiations; and the continuing in effect of ~~the~~ IMF 15 month standby programme.

~~3. Subject to these conditions being met,~~ The proposed ~~date for~~ date disbursement of ~~the first tranche~~ is now 30 November. But since ~~the prospects for this are uncertain.~~ Argentina has introduced new (though non-discriminatory) payments restrictions, contrary to the terms of the Fund programme, and ~~And our latest information is that~~ and since ~~the Fund programme may have broken down and that~~ has no further Fund disbursements will be made until at least the Fund have been able to reassess the situation in consultation with

CONFIDENTIAL

the new Argentine Government, it follows that a further postponement must be on the cards. We are ~~I am~~ investigating the position ~~further~~ urgently. ~~Including the precise implications for the commercial bank loan.~~ [I will report more fully in the note on the implications for arms sales which you have already asked Geoffrey Howe and me to prepare.]

NP 8. Copies of this letter go to Brian Hall at the FCO, John Bartlett at the Bank, and Richard Hatfield at the Cabinet Office.

~~9. I am copying this minute to Geoffrey Howe and to Robin Leigh Pemberton at the Bank.~~

Gill.

3.19 CONFIDENTIAL

cc Mr Middleton o.r.
Mr Littler o.r.
Mr Unwin
Mr Mountfield
Mrs Case
Mr Danison

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

17 November 1983

A J Coles Esq.
No.10 Downing Street
LONDON
SW1

Dear John,

ARGENTINA

I understand that there was some discussion at Cabinet today about whether the first tranche of the $1.5 bn commercial bank loan to Argentina had been drawn down. I can confirm that no drawings have been made.

The loan agreement was signed in August, but the first drawing of $500m has been repeatedly postponed because of Argentina's failure to meet conditions attached to it. The proposed disbursement date is now 30 November. But since Argentina has introduced new (though non-discriminatory) payments restrictions, contrary to the terms of the Fund programme, and since no further Fund disbursements will be made until the Fund have at least been able to reassess the situation in consultation with the new Argentine Government, it follows that a further postponement must be on the cards. We are investigating the position urgently.

Copies of this letter go to Brian Fall at the FCO, John Bartlett at the Bank, and Richard Hatfield at the Cabinet Office.

Yours ever,

John Kerr.

J O KERR
Principal Private Secretary

FROM: MISS J C SIMPSON
DATE: 17 November 1983

MR UNWIN

cc Mr Middleton
Mr Littler

ARGENTINA: ARMS SALES AND BANK LOANS

The question of the paper which last week the Foreign Secretary and the Chancellor were asked to prepare for Cabinet was raised again at this morning's meeting. As you will see from the attached minute from John Kerr to Peter Mountfield, the Chancellor was very unhappy with the first draft which was presented to him, and for this reason the paper has not yet gone forward to Cabinet. It is clear,however, from this morning's discussion that we do need to produce an acceptable version of the paper rather quickly. We should therefore be grateful if you could expedite its production.

2. During the course of this morning's discussion, the Prime Minister also said that she had been told that the first tranche of the commercial bank loan had been drawn down. The Chancellor's understanding is that this is not in fact the case, and Mr Denison has confirmed this to me (although he is checking again with the Bank). We should be grateful if you could provide us with a draft note from the Chancellor to the Prime Minister, explaining succinctly what the facts of the present case are.

3. The Chancellor has also noted that the IMF programme is generally regarded as a dead letter. He would therefore like to be advised on whether in the context of a new IMF agreement, and a new Argentine Government, the British commercial banks would still be bound by the agreement which they signed last August. This is a point that should be covered in the revised paper.

JS.

MISS J C SIMPSON
Private Secretary

PERSONAL AND CONFIDENTIAL

FROM: J O KERR
DATE: 14 November 1983

MR MOUNTFIELD

cc Mr Middleton
Mr Littler

ARGENTINA: ARMS SALES AND BANK LOANS

The Chancellor saw on 9 November your undated minute and the note on this subject prepared in consultation with the FCO and the Bank. He did not raise the matter in Cabinet on 10 November. Nor has he sent a copy of the paper to the Prime Minister, or heard from the Foreign Secretary about it.

2. The Chancellor's own reaction to the paper is that it inevitably bears the marks of the haste with which it was prepared. He would not wish it to go forward in this form, and would prefer that it should first be greatly shortened and more sharply focused. In his view, the key points to be brought out are:-

(a) the banks can only be stopped by /?/ legislation, which would still involve breach of contract.

(b) the major row which this would create would do more damage to us than to the Argentines.

(c) but we should certainly tell the banks that they must consult us before discussing any future loan.

The Chancellor assumes that the legal advice which you should by now have received will cover (a).

3. He would be grateful if you could submit an appropriately revised paper, with a very short draft covering minute from him to the Prime Minister, recalling the Cabinet remit, and reporting that he would be happy t discuss the issues at a convenient moment.

J O KERR

c PS/Chancellor

Treasury Chambers, Parliament Street, SW1P 3AG

David Heyhoe Esq
Lord Privy Seal's Office
House of Commons
LONDON SW1

21 November 1983

Dear David,

WITHDRAWAL OF FALKLAND ISLANDS DRAFT ORDER IN COUNCIL

The Lord Privy Seal may conceivably be asked, at Prime Minister's Questions Time tomorrow, why the draft Order on a new double taxation Arrangement with the Falkland Islands was laid last Wednesday and has now been withdrawn.

The background is this. The text of a new double taxation Arrangement with the Falkland Islands was originally agreed at officia level in 1981 with the authorities there and the Foreign Office. The new provisions replace, and are more generous (to the Falklands) than, the existing arrangements which date mainly from 1949.

Progress towards bringing the new provisions into force was delayed by the invasion, but further discussions took place this Summer and after some remaining issues had been resolved, the Revenue made arrangements for the draft Order to be prepared and it was laid last Wednesday. We had hoped that it would be debated next Wednesday in the Standing Committee on Statutory Instruments along with three other similar draft Orders (relating to Trinidad and Tobago, Tunisia, and the Netherlands).

However, I am afraid that it was only last Thursday that the Foreign Office realised the implications of the definition of the "Falkland Islands" in the Order and decided it had to be withdrawn. The short point is that the draft Order contains a definition of the Falkland Islands including a reference to the Falkland Islands Dependencies. The latter are of course a separate Colony with their own laws.

The definition of the countries with which the Revenue concludes double taxation agreements is of course a matter for the Foreign Office; and the invasion had changed things very considerably since the definition of the Falkland Islands in the new Arrangements was agreed in 1981. Moreover, this was not one of the subjects dealt with during the discussions in the Summer. I understand, however, that sometime last year, No 10 asked the Foreign Office to ensure that in future Government pronouncements left no doubt about the existence of two separate colonies. We and the Revenue have never seen that advice, and so saw no reason to enquire further as to whether the new Arrangement correctly reflected the strict constitutional position in the Falklands.

I am copying this and the briefing to Andrew Turnbull at No 10, Murdo Maclean in the Chief Whip's Office, to Lady Young's Office at FCO, and to Sir Robert Armstrong.

Yours ever,

Andrew

A P HUDSON

.IEF FOR PRIME MINISTER'S QUESTIONS

WITHDRAWAL OF FALKLAND ISLANDS ORDER IN COUNCIL

FACTS

1. The draft Order providing for a new Arrangement between the UK and Falkland Islands dealing with double taxation relief was laid in the House on 16 November. It was expected to be debated in the Standing Committee on Statutory Instruments on 23 November but had to be withdrawn.

2. It was withdrawn because a drafting defect was unfortunately discovered in the definition of the Falkland Islands. The text wrongly suggested that there is only one Colony rather than two, ie the Falkland Islands themselves and the separate Colony of the Falkland Islands Dependencies.

3. The difficulty arises because -

(a) the Arrangement is declared in the Order to be with "the Government of the Falkland Islands"; and

(b) the "Falkland Islands" are defined as " .... the islands of the Falkland Islands, including the islands of the Falkland Islands Dependencies .....".

4. A copy of the draft Order is attached. (Top copy only.)

5. It is Government policy, in view of the Argentine claim, to make it clear that there are two quite separate Colonies, but the Foreign Office only realised the significance of the text (originally agreed with them in 1981 before the invasion) after it had been laid and they decided it had to be withdrawn.

6. A background note by the FCO is attached.

7. Other matter. Attached is a copy of a recent reply to a Question by Mr McQuarrie about a double taxation arrangement with Gibraltar. He may have heard of the proposed Falkland Islands Arrangement and wondered whether similar provisions were being considered for Gibraltar whose territory is also claimed by a foreign power.

'NE' TO TAKE

1. The draft Order was withdrawn because of a drafting defect.

If pressed for further explanation

2. The draft Order referred to Arrangements made with the "Government of the Falkland Islands" about double taxation relief. Unfortunately these Arrangements contain a definition of the Falkland Islands which includes a reference to the Falkland Islands Dependencies. The latter are of course a separate Colony with its own laws; and Arrangements in respect of it cannot be included in Arrangements made only with the Government of the Falkland Islands.

What now?

3. We shall be having fresh discussions with the appropriate authorities and a new Order will be laid.

Are the existing (1949) Arrangements not broadly the same as those withdrawn?

4. Yes, and although this has not given rise to any problems in practice, it is important to get matters right in new Order.

Will delay penalise the Islands' economy?

5. No, the new provisions and the relief they provide will operate with effect from 1982.

Will there be Arrangements with Gibraltar?

6. I have nothing to add to the reply given on 15 November 1983 to my hon Friend the Member for Banff and Buchan (Mr A McQuarrie).

Background Note by FCO

When the Haig proposals were being considered by HMG in April last year the Prime Minister raised the fundamental point whether the proposed text would include the Falkland Islands Dependencies, since if it did this would have caused us great difficulties both immediately and later. Once South Georgia had been repossessed we could not accept that any short term arrangements for administering the Falkland Islands which involved Argentine or other outside participation should include the Dependencies. Furthermore in case there were ever to be a resumption of negotiations with Argentina over the future of the Falkland Islands, it would be essential that the legally distinct status of the Dependencies be maintained and emphasised.

The Government has been at pains to do this ever since. The amendment to the British Nationality Act to confer British citizenship on the Falkland Islanders does not apply to the Dependencies. All agreements, Bills or statutory instruments which are intended to apply to both the Islands and the Dependencies list them separately rather than using the previous formula of "Falkland Islands and its Dependencies".

In a report by officials which was considered and approved by last Wednesday's meeting of OD (chaired by the Prime Minister) it was stated that the new constitution for the Islands will make no provision for the Dependencies for which a quite separate constitution will be promulgated.

Parliamentary Debates 15 November 1983
(Daily Reports)

Vol 48 No.49 Col 404

Gibraltar (Double Taxation Relief)

Mr. McQuarrie: asked the Chancellor of the Exchequer whether there exists a double taxation relief arrangement relating to taxes on income between the United Kingdom and Gibraltar; and if he will make a statement.

Mr. Moore: There is no arrangement of this kind. However, the domestic tax laws of both the United Kingdom and Gibraltar contain provisions for unilateral relief in respect of tax paid in the other country on income arising there and flowing to their residents.

PS/CHANCELLOR, TREASURY,

GPS 400 CONFIDENTIAL

CONFIDENTIAL

FM WASHINGTON 212226Z NOV 83

TO PRIORITY F C O

TELEGRAM NUMBER 3509 OF 21 NOVEMBER.

M.I.P.T.

ANTI-AMERICANISM IN THE U.K. AND THE CERTIFICATION OF ARGENTINA

FOLLOWING IS DRAFT OF MESSAGE FROM YOU TO SHULTZ:

QUOTE JANET YOUNG HAS TOLD ME OF THE VERY USEFUL TALKS WHICH SHE HAD IN WASHINGTON LAST WEEK WITH KEN DAM AND LARRY EAGLEBURGER ABOUT YOUR PROBABLE CERTIFICATION OF ARGENTINA, AND, SUBSEQUENTLY, THE LIKELY RESUMPTION OF ARMS SALES TO THAT COUNTRY.

2. YOU KNOW WHAT DIFFICULTIES THIS POSES FOR US. THE PRIME MINISTER TOOK THE MATTER UP WITH THE PRESIDENT ON HER RECENT VISIT TO WASHINGTON AND I HAVE MENTIONED IT FREQUENTLY TO YOU. I AM CONCERNED CHIEFLY ABOUT THE CONSEQUENCES OF ARMS SALES UPON OUR FORCES IN THE FALKLANDS, PARTICULARLY IN THE ABSENCE OF ANY CESSATION OF HOSTILITIES BY THE ARGENTINIANS, AND ABOUT THE PROBLEMS OF EXPLAINING TO BRITISH PUBLIC OPINION HOW OUR PRINCIPAL ALLY CAN SUPPLY ARMS TO AN OPPONENT OF OURS WHO HAS NOT YET RENOUNCED THE USE OF FORCE TO PERSECUTE HIS CLAIM TO OUR TERRITORY. I WOULD HOPE, THOUGH WITHOUT MUCH EXPECTATION OF RESULTS, THAT A DEMOCRATICALLY ELECTED GOVERNMENT OF ARGENTIAN WOULD PERCEIVE THAT DEMOCRACY IS INCOMPATIBLE WITH A CONTINUED DETERMINATION TO PURSUE ITS CLAIM BY FORCE AND THAT AREGENTINA, SHORTLY TO BE GOVERNED BY A GOVERNMENT OF ITS OWN CHOICE, SHOULD NOT DENY THAT RIGHT TO THE FALKLAND ISLANDERS. YOU MAY FEEL ABLE TO PUT THESE POINTS TO THE NEW GOVERNMENT IN ARGENTINA.

3. HOWEVER, IT IS CLEAR THAT YOU INTEND TO CERTIFY, AND THAT YOU SEE IT TO BE AN AMERICAN INTEREST TO ESTABLISH A MILITARY RELATIONSHIP WITH THE NEW GOVERNMENT AND THAT ARMS SALES ARE LIKELY TO BE A COMPONENT OF THAT RELATIONSHIP. I AM CONCERNED THEREFORE, AND I HOPE YOU MAY BE TOO, TO LIMIT THE DAMAGE WHICH YOUR DECISION MAY CAUSE NOT ONLY TO THE SECURITY OF OUR FORCES IN THE FALKLANDS BUT TO THE PUBLIC PERCEPTION IN BRITAIN OF THE ROLE OF THE UNITED STATES. I HAVE BEEN WORRIED, AS NO DOUBT YOU HAVE BEEN ALSO, BY THE STRIDENCY, AMOUNTING IN SOME CASES TO ANTI-AMERICANISM, OF THE PUBLIC AND PARLIAMENTARY OPPOSITION TO YOUR ACTION IN GRENADA AND TO THE DEPLOYMENT OF CRUISE IN THE U.K. I AM ANXIOUS TO MINIMISE THE INEVITABLE DAMAGE TO OUR RELATIONSHIP THAT YOUR DECISIONS ON CERTIFICATION AND ARMS SALES WILL CAUSE.

CONFIDENTIAL /4.

4. IT WILL GREATLY HELP ME IN THIS TASK IF I TAKE UP WITH YOU TWO POINTS WHICH BOTH KEN DAM AND LARRY EAGLEBURGER MADE TO JANET YOUNG. THE FIRST IS THE QUESTION OF CONSULTATION ON ARMS SALES. I SHOULD BE GRATEFUL IF YOU WOULD CONFIRM THAT WE SHALL BE CONSULTED, BEFORE DECISIONS ARE TAKEN, UBOUT ANY ARGENTINE REQUEST FOR ARMS SALES WHICH COULD AFFECT THE SECURITY OF OUR FORCES ON OUR ISLANDS, AND THE RESOURCES NEED TO DEFEND THEM. THIS WOULD ENABLE US TO LET YOU HAVE OUR CONSIDERED VIEW ON THE LIKELY REPERCUSSIONS OF YOUR ARMS DELIVERIES ON OUR FORCES IN THE FALKLANDS AND ON OUR OVERALL RELATIONSHIP. THE SECOND CONCERNS THOSE WEAPONS SYSTEMS WHICH WE SHOULD FIND IT MOST DIFFICULT TO ACCEPT. I AM IN TOUCH WITH MICHAEL HESELTINE ABOUT THIS. WHILE IT IS IMPOSSIBLE TO BE TOO CATEGORIC ABOUT THESE MATTERS, IT IS OBVIOUS THAT SOME WEAPONS WILL BE WORSE THAN OTHERS FROM OUR POINT OF VIEW. IF, AS I HOPE, WE CAN IDENTIFY WEAPONS OF PARTICULAR DIFFICULTY TO US, THEN I HOPE WE COULD RELY ON YOUR ASSURANCE THAT THERE WOULD BE NO QUESTION OF YOUR SUPPLYING THEM TO ARGENTINA.

5. ONE FINAL POINT. THE BRITISH GOVERNMENT HAVE WELCOMED THE RESTORATION OF DEMOCRACY IN ARGENTINA AND HAVE SAID SO PUBLICLY. WE WISH TO RESTORE OUR RELATIONSHIP WITH ARGENTINA TO NORMALITY. WHILE THERE CAN BE NO QUESTION OF NEGOTIATIONS ABOUT SOVEREIGNTY, SINCE WE HAVE NO INTENTION OF LETTING AREGENTINA OBTAIN BY NEGOTIATION WHAT WE HAD TO PREVENT HER ACQUIRING BY FORCE, WE ARE READY TO RESUME A NORMAL RELATIONSHIP, AS FRIENDLY AS CIRCUMSTANCES PERMIT. WE HAVE ALREADY DEMONSTRATED OUR GOOD WILL BY JOINING IN THE INTERNATIONAL RESCUE OPERATION FOR ARGENTINA, WE ARE READY TO RESUME FULL COMMERCIAL, CONSULAR AND DIPLOMATIC RELATIONS AS SOON AS ARGENTINA IS READY TO RESPOND. IF YOU THINK IT WOULD BE USEFUL, PLEASE FEEL AT LIBERY TO MAKE THIS KNOWN TO THE NEW ARGENTINE GOVERNMENT. WITH BEST WISHES UNQUOTE.

WRIGHT

FALKLAND ISLANDS GENERAL
FCO

FID
CABINET OFFICE

[COPIES SENT TO NO 10 DOWNING ST]

ADDITIONAL DISTRIBUTION
FALKLAND ISLANDS

THIS TELEGRAM WAS NOT ADVANCED

FROM: J B UNWIN
DATE: 22 November 1983

MR J O KERR

C.

A worrying development over lunch time

JBU

cc Mr Middleton
Mr Littler
Mr Lavelle
Mr Mountfield
Mrs Case o/r
Mrs Diggle
Mr Denison

ARGENTINA

This note is to confirm developments this morning which we discussed on the telephone.

2. In the course of finalising our (revised) note on Argentina, I telephoned Mr Loehnis shortly after noon. He told me, to my surprise, that the Advisory Group of Banks on Argentina is meeting in New York today to decide whether to go ahead with the first tranche of the $1.5bn commercial bank loan on 30 November. This was the first news we had had of this meeting. The Bank had not mentioned it to us in any of the (numerous) contacts at different levels about Argentina last week or yesterday. (not mentioned to my [illegible] of [illegible] — [illegible])

3. Mr Loehnis said that he had talked to Lloyds Bank International (LBI) yesterday. They thought the chances of a decision to go ahead with the first tranche on 30 November were evenly balanced. On the one hand, a full statement from the IMF that the end-September programme criteria had been met and that the programme is still in effect had not been received (earlier telexes from the Managing Director were not sufficient). Further, none of the rescheduling agreements on which disbursement was also conditional had been signed. On the other hand, LBI thought that there would be some disposition not to upset the general international debt applecart (particularly in view of the more favourable prospects for the Brazil programme) by postponing the loan to Argentina further if the benefit of the doubt on the conditions could be given. For example, some of the banks might be willing to accept assurances about future intentions on rescheduling.

4. I pressed Mr Loehnis further for his assessment of the likely outturn of today's meeting. He could say no more than that it was evenly balanced and would depend entirely on the banks' judgement of their own best commercial interests.

I said you would blow a gasket, and the PM, second. I told him that you would want LBI to be told that MMG might be unable to support a decision to proceed.

5. After reporting this to you, I telephoned Mr Loehnis again. I repeated my regret that the Bank had not informed us about this meeting earlier (Mr Loehnis said that the Bank themselves had not known of it until yesterday). I said that I felt certain that, even at this late stage, the Prime Minister and the Chancellor would want to keep open the option of influencing the position taken by LBI at today's meeting. I therefore asked him to contact the LBI representative (Mr Huntrods) immediately and make it clear to him that the Government regarded today's meeting as one of extreme political concern and sensitivity. In addition to the wider political background with which he was familiar, the Chancellor himself was already faced with a difficult PQ from Mr Skinner in the House on Thursday. We should therefore much regret it if Mr Huntrods found it necessary to adopt a position in the Advisory Committee that swayed any decision in the direction of disbursement of the first tranche on 30 November. (Loehnis also agreed to tell Huntrods that we must be told, today, what goes on.)

6. Mr Loehnis agreed to convey this message. I asked him to report the outcome to me immediately. If Mr Huntrods' latest assessment was that the first tranche was likely to be postponed further, then we might be able to relax. If, however, he thought things were likely to go the other way, then we should want to consider urgently the possibility of further action.

7. I will report further in the light of developments.

J B UNWIN

PS: I will in any case let you have the revised paper in the course of the afternoon.

CONFIDENTIAL

(PWP)

FROM: J O KERR
22 November 1983

MR UNWIN

cc Economic Secretary
Mr Middleton
Mr Littler
Mr Lavelle
Mr Mountfield
Mrs Case
Mr Ridley
Mr Hall

ARGENTINA: COMMERCIAL BANK LOAN

At this afternoon's meeting with the Chancellor, you updated your 2.00 pm minute by reporting that Mr Huntrods of LBI had informed Mr Loehnis that he had been mandated by the UK clearing banks to seek, at today's meeting in New York, the necessary waivers which would permit the first $500 million drawing under the commercial bank loan to go ahead. When told by Mr Loehnis of the considerations mentioned in para 5 of your 2.00 pm minute, Mr Huntrods had said that he would need to consult again with his principals.

2. The Chancellor stressed his surprise and concern that the clearers should be contemplating proceeding with the first drawing while the IMF programme had effectively collapsed, and before any new negotiation between Argentina and the Fund had been begun, let alone concluded. If they went ahead, they would undercut the Fund. It was agreed that this concern should be urgently made known to the clearers. They should also be told that if today's meeting agreed that the drawing should go ahead, and the Chancellor were questioned in the House on 24 November about the decision, he would have to say that it was both premature and regrettable. Mr Littler agreed to speak to Sir J Morse, and to ask him to pass the word round.
Mr Middleton agreed to speak to the Governor, and you planned to have a further word with Mr Loehnis.

3. The Chancellor also shared your disquiet at the fact

that the Bank had not informed HMT until noon today about the latest developments, and today's meeting in New York. It was noted that the Governor's office too had - at 1.30 pm - still been entirely in the dark (my telephone call to the Governor's Private Secretary). The Chancellor asked that steps be taken to urge the Bank to keep a closer eye on developments on the major country debt issues, and to keep the Treasury fully informed at each stage.

J O KERR

FROM: J B UNWIN
DATE: 22 November 1983

MR J O KERR

cc PS/Economic Secretary
Mr Middleton
Mr Littler
Mr Lavelle
Mr Mountfield
Mrs Case
Mr Ridley
Mr Hall

please that the pos. [illegible] & [illegible] & [illegible] & [illegible] communication. N.

ARGENTINA

I have spoken again to Mr Loehnis, but I fear there is no further news as yet from New York. Mr Huntrods telephoned back, but merely to confirm that he was in touch with his principals in London and that he thought the meeting would stretch over until tomorrow (Argentina is not the only item on the agenda). I have no doubt that Sir Jeremy Mose will now have been in touch with him following his conversation with Mr Littler.

2. I have asked Mr Loehnis to keep me closely in touch with any developments and I reported to him the Chancellor's reactions as set out in your minute to me of earlier this evening. I also asked Mr Loehnis whether it would be possible to let us see, if only on an informal basis, a copy of the agreement between the banks and Argentina. He said that, since this was a private commercial agreement, he did not think the Bank itself had a copy; but he would investigate further and contact me on this again.

3. These rapid developments have obviously overtaken the revised paper we were preparing. I attach, however, a copy of the draft as finalised by AEF earlier this afternoon. The Chancellor may care to glance at it. I think much of it will still be able to stand, but we will consider further tomorrow morning in the light of overnight developments and let you have a further revised version, together with a covering letter to No 10 reporting the latest state of play.

(We have to square it with No 10. Not that that should be difficult — it reads like an FCO paper!)

J B UNWIN

ARGENTINA: ARMS SALES AND BANK LENDING

Note by the Treasury

1. Cabinet on 3 November commissioned an examination of ways in which British banks could be stopped from lending money to Argentina for the purchase of arms from the USA. This paper concludes:

(i) provided that the loan conditions are fulfilled the British banks can only be prevented disbursing under the present loan by primary legisaltion which may entail breach of contract.

(ii) if British banks alone took this action, the major row which this would create would be likely to hurt the UK more than Argentina, at least financially.

(iii) but HMG should ensure that the British banks consult us fully before any future loan is discussed.

The Commercial Bank Loan

2. In August, international commerical banks, including British banks, signed an agreement for a loan of $1.5 billion to Argentina. The share of UK-based is just over 10 per cent, of which British-owned banks account for 7%. Nothing has yet been disbursed. The date of the first tranche intended to be drawn paripassu with the May IMF tranche has been repeatedly postponed, most recently from 28 October to 30 November. It has been held up by the Argentine failure to meet certain criteria relating to arrears, and rescheduling of public sector debt. The agreement also requires the IMF to certify at least ten days before the loan is made available that the stand-by continues in effect. The IMF did this on 30 October but in a form

which does not fully meet the banks' requirements. The banks also need to accept amendments which entail, inter alia, a waiver by them of payments by Argentina of arrears of interest. At present it still seems possible that the conditions will be met. The Advisory Group is meeting in New York on 22 November to decide whether this is satisfactory.

3. In practice, most of the first tranche would come straight back, without giving Argentina the benefit of any new money. $350 million would repay the instalment due on an earlier bridging loan and the bulk of the remainder would be used to settle arrears oustanding to the banks.

The IMF Programme

4. The bank loan is closely related to the IMF support operation for Argentine. Without it, the Argentine balance of payments, and the whole economic recovery programme, would be at risk of failure. And the bank loan is directly contingent on the standby continuing in effect. The SDR 1.5 billion IMF facility for Argentina was agreed in January 1983, to last for 15 months. Drawings are conditional on economic performance criteria in the usual way. So far only two drawings, of SDR 600 million in total, have been made. After May further drawings were suspended because of continuing discriminatory payments restrictions against UK companies in Argentina. After their withdrawal in August, the IMF Board agreed that drawings could be resumed. But no further drawings have in fact been made since the backlog of payments arrears has not been cleared.

5. Recently two further developments put the programme in doubt. First, further (non-discriminatory) payments restrictions were

ntroduced in September because of a foreign exchange shortage. Second, the economic performance criteria are no longer being met. Although the end September figures were just within, the figures for October and November are likely to be well outside. The approval of the IMF Board would be necessary before drawings under the programme could resume in these circumstances. But none are in prospect so long as substantial arrears continue. Argentina would also need a waiver for restrictive exchange practices introduced last month. Despite these factors the IMF Management are unlikely formally to cancel the programme because no new drawings are in prospect and this action would have no effect. It is not yet clear whether the Fund will maintain its certification to the commercial banks. The most likely course for the Fund would be to bide their time and in due course initiate discussions with a new Argentine Government on a replacement programme.

Loans by commercial banks: options for government action

6. If the commercial banks are satisfied that the loan conditions have been met, participation in the August agreement would be legally enforcible. A distinction therefore has to be drawn between the November and subsequent drawings under the August loan, and any future loans.

(a) Instructions to the banks

7. A direction by the Bank of England under the Bank of England Act might be sufficient to prevent British banks signing a new loan agreement. However, now that the August loan documentation has been signed, a direction under this Act to desist from actual disbursement would almost certainly be ultra vires.

(b) Sanctions and Exchange Control

8. Reintroduction of the sanctions, originally imposed at the start of the Falklands conflict under the Emergency Laws

(Re-enactments and Repeals Act) 1964 would require the Treasury to be satisfied that Argentina is taking, or is likely to take action to the detriment of the economic position of the UK. It would be hard to establish that potential sales of US arms to Argentina had this effect, at a time when there is no active conflict. Other powers available to the Treasury under the Exchange Control Act 1947 are also constrained.

(c) Primary legislation

9. Fresh primary legislation remains a possible option. It could in principle be made retrospective, so as to forbid disbursment under the August agreeement. But, as with any action of this kind, it could well lead to action being taken in foreign courts against the banks for breaking their contract and to demands for compensation from HMG.

10. For the future, we should certainly seek to ensure that the banks consult us again before making any new loan agreements with Argentina. If we wanted to stop them where their judgement was to participate the choice would lie between a direction and fresh legislation. We could also seek to be kept informed about future disbursements under the August agreement, although there is little we could do in practice to prevent them.

Possible UK Action on IMF Programme

11. One possiblity would be to take action at the IMF to block the Argentine programme and thus frustrate the bank agreement. But this would introduce a direct political element into Fund judgements. We doubt if this would be successful, and it would be an awkward precedent for the future.

ther possibilities

12.A further option would be to secure the non-participation of British banks by a mixture of persuasion and the threat of public opinion. The banks would be in a strong legal position to resist. They would lay the blame on HMG, and might seek compensation

Would they have a case in law. [I doubt it, but we need the lawyers view, and we should state it]

Official Rescheduling

13. One further possible instrument, mentioned in the Cabinet discussion, but not involving the banks is to withhold UK participation in rescheduling of official debt should the new Government seek that. The UK could not veto a Paris Club rescheduling but it could refuse to join in. However, the effect would be that other creditors would take precedence over the UK in obtaining a share of any money available for debt service. Assuming Argentina continued to withold payment on non-rescheduled debt, it would still secure the benefits of debt relief to its balance of payments.

Implications of financial measures

14. For HMG to take overt action to frustrate an existing agreement would run counter to our previous policy of seeking to restore more normal relations with Argentina especially in financial and commerical matters, just at the time when a democratic government was about to take over.

15. There are also banking considerations. It is possible that the package could go ahead without the support of British banks. Their contribution is only about 10 per cent of the total and could either be made up by extra contributions from other banks or left unreplaced and drawn down later, if and when British banks resumed their participation. Argentina could well be entitled to claim damages for breach of contract and might be tempted to take economic

prisals. Argentina would not be put under any severe financial pressure by the absence of the British banks' contribution.

16. But British withdrawal would (in the view of the Bank of England) be much more likely to cause the failure of the Argentine financing package, with adverse repercussions on the international debt situation. It would damage the UK's ability to influence events, as well as hurting the City's reputation in the longer term. Our assessment earlier this year was that the impact on British banks would be serious, but not disastrous. Assuming that banks' profits ran at much the same level as last year, it appeared that five out of the eight banks would probably still show a profit, although in some cases at less than half last year's level. The remaining three would make losses which could easily be absorbed out of their reserves.

17. Finally, it is worth noting that a similar problem may face us next year if and when a revised IMF programme for Argentina comes to be considered. No decisions are needed on this point at present.

CONFIDENTIAL

Undisclosed copies:

EST
Mr Middleton
Mr Littler
Mr Unwin
Mr Lavelle
Mr Mountfield

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

23 November 1983

Andrew Turnbull Esq
No 10 Downing Street
LONDON SW1

Dear Andrew,

ARGENTINA: COMMERCIAL BANK LENDING

We spoke about developments on the Argentina commercial bank loan subsequent to my letter of 17 November.

I now attach a draft telegram to New Delhi. The Chancellor would be grateful if you could ensure that it reaches the Prime Minister this evening, Indian time.

Copies of this letter and enclosure go to Roger Bone at the FCO and John Bartlett at the Bank.

Yours ever,

John Kerr.

J O KERR

(16939) Dd.897300 200m 9/72 G.W.B.Ltd. Gp.863
(17785) Dd.897533 400m 5/73 G.W.B.Ltd. Gp.863

File No.

Department HM TREASURY

Drafted by (Block Capitals) J. G. LITTLER

Tel. Extn. 233-4225

OUTWARD TELEGRAM

Security Classification: SECRET

Precedence: IMMEDIATE

DESKBY Z

FOR COMMS. DEPT. USE — Despatched (Date) (Time) Z

POSTBY Z

PREAMBLE

(Time of Origin) Z(G.M.T.)

(Security Class.) SECRET

(Codeword)

(Restrictive Prefix)

(Caveat/ Privacy Marking)

(Deskby) Z

TO Flash. (precedence) DELHI (post) Tel. No. of

AND TO (precedence/post)

AND SAVING TO

REPEATED TO (for info) Flash UKDEL IMF/IBRD

SAVING TO (for info)

Distribution:-

Copies to:-

[TEXT] FROM CHANCELLOR FOR PRIME MINISTER AND FOREIGN SECRETARY

We learnt late yesterday morning (22 November) that there was a meeting taking place in New York of the Advisory Committee of the commercial banks, to decide whether to recommend the necessary unanimous agreement to make the first disbursement (of $500 million) under the $1.5 billion medium-term loan agreement on 30 November. A final decision is likely to be taken today. (The awkward timing is apparently determined by American Thanksgiving and the urgent desire of US banks to avoid "non-performing" loans to Argentina before closing their books on 30 November. Of the $500 million, $350 million ~~is~~ would be retained by the banks to extinguish part of a previous bridging loan, the remainder going into an escrow account to settle other arrears.)

/It

2. It appears that US and other representatives are seeking to persuade the Committee that the loan conditions have been met. The only condition in which we might be considered to have some locus is that Argentina should remain in good standing with the IMF, despite recent failure to meet all the performance criteria under the Fund programme. The Fund Managing Director conveyed a message to the commercial banks around end-October, to the effect that the IMF programme remains in being, although further drawings are not being made, and will not be made, until, when the new Argentine Government has taken stock, a satisfactory new programme is agreed.

3. It remains possible that the Advisory Committee will not reach a positive decision, or that some banks will ignore its advice. The disbursement could therefore still be postponed, particularly since unanimity is required.

4. I have instructed Wicks in Washington to raise this matter with the Managing Director during the day, to ascertain whether he is fully satisfied with the loan going ahead, and to ask that he should make a statement in the IMF Board today. If the Board withdraws support, the banks will probably not go ahead. But if the Fund confirms support, and the banks go ahead, they will be able to say that this was a purely commercial decision under an existing contractual arrangement whose conditions have been met.

NOTHING TO BE WRITTEN IN THIS MARGIN

5. I have however, made it clear to Sir Jeremy Morse, as Chairman of the leading British bank in this operation, that if it goes ahead I shall have to state publicly that the decision is premature and regrettable. (The need for me to do so may arise tomorrow at 2.30 when Skinner has a question down.) I have discussed this with the Governor. He would have preferred no action in Washington, but is content with the line taken with Morse.

(17865) Dd.145178 400m 5/73 G.W.B.Ltd. Gp.863

NOTHING TO BE WRITTEN IN THIS MARGIN

CONFIDENTIAL

Undisclosed copies:

EST
Mr Middleton
Mr Littler
Mr Unwin
Mr Lavelle
Mr Mountfield

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

23 November 1983

Andrew Turnbull Esq
No 10 Downing Street
LONDON SW1

Dear Andrew,

ARGENTINA: COMMERCIAL BANK LENDING

We spoke about developments on the Argentina commercial bank loan subsequent to my letter of 17 November.

I now attach a draft telegram to New Delhi. The Chancellor would be grateful if you could ensure that it reaches the Prime Minister this evening, Indian time.

Copies of this letter and enclosure go to Roger Bone at the FCO and John Bartlett at the Bank.

Yours ever,

John Kerr.

J O KERR

BOE

RECORD OF A DISCUSSION BETWEEN THE CHANCELLOR AND THE GOVERNOR ON COMMERCIAL BANK LENDING TO ARGENTINA: 12.15PM, 23 NOVEMBER 1983 AT NO 11

Present:

Chancellor	Governor
Mr Middleton	Deputy Governor
Mr Littler	Mr Loehnis
Mr Mountfield	

The Chancellor said that he was grateful to the Governor for agreeing at short notice to discuss how the authorities should react to reports, which had first reached the Treasury shortly after noon on 22 November, that the advisory committee on the $1.5 billion commercial bank loan to Argentina was meeting in New York on 22 and 23 November, and might recommend that the first $500 million drawing should be permitted before 30 November.

2. Mr McMahon said that Sir J Morse had this morning reported that no decision had been taken in New York on 22 November, but that the resumed meeting on 23 November could agree on the issue of a telex to the 300 participating banks designed to secure agreement, particularly from the 30 who had not so far come into line, to the release of the $500 million tranche over the weekend of 26/27 November, or at least before 30 November. $350 million would be used to repay an instalment due on an earlier bridging loan: the remainder would be used to settle arrears of interest outstanding. The impetus for action by 30 November came from the US banks, who were concerned to be able to classify loans outstanding on that date as performing rather than non-performing. No green light from the IMF was thought necessary: a red light from the IMF

would probably block action, but Larosiere's last signal had been positive. Unanimity among all 300 banks was required before a drawing could take place; but most and perhaps all banks were concerned at the risk of an Argentine moratorium - which might in practice improve their cash flow position - if no drawing were allowed. The LBI representative in New York, acting for all the participating UK banks was now under instructions to take a neutral line: a move to casting a veto would be very high profile indeed. Mr McMahon added that LBI believed that the drawing could proceed only on the basis that the Argentine were in good standing with the IMF as of 30 November; and that the advisory committee would assume that this was the case unless they received contrary advice from the IMF.

3. The Chancellor suggested that the proper course would be for the IMF Board to meet. The fact was that the IMF's own agreement and programme with the Argentine had collapsed: to pretend otherwise would be a fiction, and the line that a collapse was not a collapse until so certified by the Fund to the commercial banks would not be sustainable in the House of Commons. If the advisory committee went ahead with the issue of telexes tonight from New York, the inevitable publicity would ensure that the matter was raised in the House on 24 November, and he would be obliged to say that HMG thought the decision premature and regrettable. If the Fund were to decide that the Argentine was not at present a member in good standing, the proposed $500 million commercial bank disbursement would presumably stop. If, on the other hand, the Fund were to decide that the disbursement was on balance desirable, given the change of government in Argentina, the participation of UK banks would seem less inexplicable to UK public opinion. The key point was that the Fund should not connive at a breach of its own rules: the maintenance of its authority was more important than the wishes of the US banks to be able to classify more of their loans as "performing" on 30 November.

4. The Governor and Mr McMahon thought it likely that news that the IMF's views were in doubt, and being reconsidered, would stop the loan. The British hand would be detected, and considerable publicity would ensue. It might be better for HMG to rest on, and if necessary act on, the warning given to Sir J Morse on 22 November that HMG would distance itself from any decision to allow new commercial bank lending to Argentina under present circumstances. And it was noted that a majority on the IMF Board would probably agree with the US view (and Larosiere's) that the $500 million disbursement should go ahead: to raise the matter in Washington might therefore combine the disadvantages of stopping the loan and losing the argument.

5. The Chancellor was however concerned that a damaging precedent would be set if the fiction that Argentina was in good standing with the Fund were taken as permitting new commercial bank lending. Apart from the difficulties of public presentation in this country, there would be a clear breach of the important rule that the international banking community was ready and willing to assist debtor countries, but only when they had, in agreement with the Fund, accepted sensible programmes of adjustment. If the rule were to be breached, that should be with the prior knowledge of the Board: Larosiere should be asked to explain his reasoning to it. He would however ensure that the Governor's advice against action in Washington was recorded in the report to the Prime Minister in New Delhi which would be required immediately.

J O KERR
23 November 1983

Distribution:

Economic Secretary
Mr Middleton
Mr Littler
Mr Unwin
Mr Lavelle

Mr Mountfield
Mrs Case
Mr Ridley
Mr Hall

PS/Governor)
Mr McMahon) Bank of England
Mr Loehnis)

PS/Secretary of State, FCO
Mr Turnbull, No 10

CONFIDENTIAL

FROM: J.G.LITTLER
DATE: 23 NOVEMBER, 1983

MR. KERR

cc Economic Secretary
Mr.Middleton
Mr.Unwin
Mr.Lavelle
Mr.Mountfield
Mrs.Case
Mr.Ridley
Mr.Hall

ARGENTINA: COMMERCIAL BANK LOAN

This is just to record conversations I had last night following our discussion yesterday afternoon with the Chancellor.

2. I was able to get hold of Sir Jeremy Morse immediately. He did not seem to be personally seized of details of any proposed discussions in New York, and I had to explain to him what we had heard. I said that we were disturbed at the prospect that British banks might be going ahead with lending to Argentina at this juncture.

3. He immediately asked whether this was not a change of policy, since we had earlier accepted that the British banks could go ahead and sign the loan. I maintained that it was not a change of policy at all: the fact that we had withdrawn our objections to signature some time ago did not mean that we had no further interest; on the contrary, the need to link any action by British banks closely with action by the IMF remained important. Our understanding was that the IMF programme of assistance was in effect suspended for the time being and that Argentina was not at present conforming to the performance criteria for its continuation. The programme had not been withdrawn or cancelled, because the IMF were naturally hoping that it would prove possible soon, when the newly elected Government has settled down and taken stock, to negotiate a revised programme on the basis of which assistance could be resumed.

4. Against this background, it seemed to us that a move now by the banks would be inappropriate. Indeed, I was approaching Sir Jeremy on instructions as the Chairman of the leading British bank in this operation, to make it clear to him that, if there were any announcement of commercial bank assistance in the near future, in advance of the resumption of IMF assistance, the Chancellor would find himself obliged in answer to any questions to give his judgment that such commercial bank lending now was premature and regrettable. I also said that we were in touch with our representative in Washington (see below) and that, if the IMF were called upon to give any certification or

encouragement for immediate commercial bank lending, we would seek to dissuade them from doing so.

5. Sir Jeremy was evidently taken aback by this approach and probably feels that it represents some toughening of HMG's attitude. But he took note of what I had said and will be in touch with Mr.Huntrods and others, including probably the Governor of the Bank of England. He concluded that there was a problem here which could well be worth further discussion, and said that he would hope to get in touch later, and I encouraged this.

6. I should add that, in the course of our discussion, Sir Jeremy at one stage said that he was quite sure that no decision to go ahead with lending was so imminent that we would wake up this morning to find reports of it in our newspapers. I have in fact not seen any in the papers I have looked at so far.

There are none.

7. I then talked later in the evening with Mr.Wicks in Washington. I told him of our discussion yesterday afternoon and of my talk with Sir Jeremy Morse. I asked him to keep very close watch on any possible move by the IMF, and to try to prevent any fresh action by the IMF which might be interpreted by the commercial banks as an authorisation or encouragement to go ahead. Mr.Wicks said that he would do so, and would seek immediately a talk with the Deputy Managing Director, to try to ensure that nothing slips through without our knowledge and the opportunity to intervene. He warned me - quite correctly - that we do not necessarily have control over what the IMF may choose to do, even without giving us advance warning. But he will do his best, and perhaps the earlier incident in which we protested about certification may have helpful after-effects.

8. I reported orally to you and Mr. Middleton last night about the first of the conversations recorded above.* I have had no other news or discussions on this subject since then.

(J. G. LITTLER)

* 9-30 a.m.

PERSONAL AND CONFIDENTIAL

FROM: J O KERR
DATE: 23 November 1983

MR UNWIN

ARGENTINA

Mr Turnbull tells me that the Prime Minister's reaction to my letter of 17 November was to scribble on it that "the point at issue was not the first tranche of the commercial loans associated with the second IMF drawing, but the $300 million tranche associated with the first IMF drawing."

2. In other words, she thinks that there was a commercial bank loan to Argentina extant before August, and that a $300 million drawing was made on it at some time between mid-1982 and mid-1983, and possibly at around the time of the May IMF drawing.

3. Is she right? I have a nasty sneaking suspicion that she may be, but my recollection of the facts is very hazy.

JOK.

J O KERR

COVERING CONFIDENTIAL

Thanks pr.

PS/Chancellor

PS/Chief Secretary

PS/Minister of State

PS/Economic Secretary

DOUBLE TAXATION ORDERS:
WITHDRAWAL OF FALKLANDS ORDERS

I attach facts, line to take, and background briefing on this subject, in case it is raised at Oral Questions today. I am sorry ~~to do~~ not to have done this earlier.

AH

24.11.

IEF FOR PRIME MINISTER'S QUESTIONS

WITHDRAWAL OF FALKLAND ISLANDS ORDER IN COUNCIL

FACTS

1. The draft Order providing for a new Arrangement between the UK and Falkland Islands dealing with double taxation relief was laid in the House on 16 November. It was expected to be debated in the Standing Committee on Statutory Instruments on 23 November but had to be withdrawn.

2. It was withdrawn because a drafting defect was unfortunately discovered in the definition of the Falkland Islands. The text wrongly suggested that there is only one Colony rather than two, ie the Falkland Islands themselves and the separate Colony of the Falkland Islands Dependencies.

3. The difficulty arises because -

(a) the Arrangement is declared in the Order to be with "the Government of the Falkland Islands"; and

(b) the "Falkland Islands" are defined as " .... the islands of the Falkland Islands, including the islands of the Falkland Islands Dependencies .....".

4. A copy of the draft Order is attached. (Top copy only.)

5. It is Government policy, in view of the Argentine claim, to make it clear that there are two quite separate Colonies, but the Foreign Office only realised the significance of the text (originally agreed with them in 1981 before the invasion) after it had been laid and they decided it had to be withdrawn.

6. A background note by the FCO is attached.

7. Other matter. Attached is a copy of a recent reply to a Question by Mr McQuarrie about a double taxation arrangement with Gibraltar. He may have heard of the proposed Falkland Islands Arrangement and wondered whether similar provisions were being considered for Gibraltar whose territory is also claimed by a foreign power.

TNE TO TAKE

1. The draft Order was withdrawn because of a drafting defect.

If pressed for further explanation

2. The draft Order referred to Arrangements made with the "Government of the Falkland Islands" about double taxation relief. Unfortunately these Arrangements contain a definition of the Falkland Islands which includes a reference to the Falkland Islands Dependencies. The latter are of course a separate Colony with its own laws; and Arrangements in respect of it cannot be included in Arrangements made only with the Government of the Falkland Islands.

What now?

3. We shall be having fresh discussions with the appropriate authorities and a new Order will be laid.

Are the existing (1949) Arrangements not broadly the same as those withdrawn?

4. Yes, and although this has not given rise to any problems in practice, it is important to get matters right in new Order.

Will delay penalise the Islands' economy?

5. No, the new provisions and the relief they provide will operate with effect from 1982.

Will there be Arrangements with Gibraltar?

6. I have nothing to add to the reply given on 15 November 1983 to my hon Friend the Member for Banff and Buchan (Mr A McQuarrie).

Background Note by FCO

When the Haig proposals were being considered by HMG in April last year the Prime Minister raised the fundamental point whether the proposed text would include the Falkland Islands Dependencies, since if it did this would have caused us great difficulties both immediately and later. Once South Georgia had been repossessed we could not accept that any short term arrangements for administering the Falkland Islands which involved Argentine or other outside participation should include the Dependencies. Furthermore in case there were ever to be a resumption of negotiations with Argentina over the future of the Falkland Islands, it would be essential that the legally distinct status of the Dependencies be maintained and emphasised.

The Government has been at pains to do this ever since. The amendment to the British Nationality Act to confer British citizenship on the Falkland Islanders does not apply to the Dependencies. All agreements, Bills or statutory instruments which are intended to apply to both the Islands and the Dependencies list them separately rather than using the previous formula of "Falkland Islands and its Dependencies".

In a report by officials which was considered and approved by last Wednesday's meeting of OD (chaired by the Prime Minister) it was stated that the new constitution for the Islands will make no provision for the Dependencies for which a quite separate constitution will be promulgated.

Parliamentary Debates 15 November 1983
(Daily Reports)

Vol 48 No.49 Col 404

Gibraltar (Double Taxation Relief)

Mr. McQuarrie: asked the Chancellor of the Exchequer whether there exists a double taxation relief arrangement relating to taxes on income between the United Kingdom and Gibraltar; and if he will make a statement.

Mr. Moore: There is no arrangement of this kind. However, the domestic tax laws of both the United Kingdom and Gibraltar contain provisions for unilateral relief in respect of tax paid in the other country on income arising there and flowing to their residents.

CONFIDENTIAL

10 DOWNING STREET

Mr Littler.
Mr. Mountfield.

From the Private Secretary

24 November 1983

We have spoken Mr Butler for fuller an update. JN

C.
See also Works' telegram, and a second Howe telegram, below.
JM

[Littler "Line to take" to follow]
New letter here - others follow

Dear John,

Argentina: Commercial Bank Lending

I have spoken to Robin Butler on the telephone in Delhi and have taken the opportunity to clarify the Prime Minister's view on how the Chancellor should respond if he is questioned about drawings on the commercial bank loan. I asked specifically whether the Prime Minister thought that "premature and regrettable" was going too far. Robin said that the Prime Minister did not necessarily object to this wording but did feel that if such a statement were made it would be important to make very clear the grounds for our reservations. These would be that we were not satisfied that the Fund's normal approach to conditionality was being followed. As indicated in the Foreign Secretary's telegram No. 927, it was important to avoid any suggestion that our reaction was prompted by political considerations.

I am copying this letter to Roger Bone (Foreign and Commonwealth Office) and John Bartlett (Governor of the Bank of England's Office).

Yours sincerely
Andrew

Andrew Turnbull

John Kerr, Esq.,
H.M. Treasury.

CONFIDENTIAL

Restricted.

pwp

FROM: J O KERR
24 November 1983

MR LITTLER

cc Mr Mountfield
Mrs Case

ARGENTINA: COMMERCIAL BANK LENDING

The Chancellor was grateful for the revised briefing on Argentina provided for his use in the House today. In the event, no Question on Argentina was raised.

2. The Chancellor has seen the Foreign Secretary's two telegrams, Mr Wicks' telegram, and Mr Turnbull's letter. I have told the FCO that if the issue of commercial bank lending to the Argentine had arisen in the House today, he would have made it plain that he thought the decision taken by the Advisory Committee in New York yesterday premature.

3. He has asked to be kept fully informed of further developments as they arise.

JOK.

J O KERR

FROM: MISS J C SIMPSON

DATE: 25 November 1983

MR TOWERS
IDT

cc Mr Littler
Mr Unwin
Mr Mountfield
Mr Lavelle
Mrs Case
Mr Denison
Mr Balfour - Bank of England
Mr Appleyard FCO

ARGENTINA

As I told you this morning, the Chancellor wanted a small change in part of the answer to Question 3 in the defensive briefing attached to Mr Mountfield's minute of 25 November. He thinks that the third sentence of the second paragraph of this answer should read "For this purpose it might have been better to wait..." I assume, although I admit I did not ask you to do so, that you passed this comment on to No 10 and anybody else who had received copies of the original brief.

JS

MISS J C SIMPSON

From: P Mountfield
Date: 25 November 1983

MR TOWERS IDT

cc -

PS/Chancellor
Mr Littler
Mr Unwin
Mr Lavelle
Mrs Case
Mr Denison

Mr Balfour Bank of England
Mr Appleyard, FCO

ARGENTINA

I attach some defensive briefing (agreed with Mr Littler and cleared with Bank and FCO) on the points raised in the Guardian story this morning.

P Mountfield

ARGENTINA: NEW BANK LOAN AND ARMS SALES

RF"3 LINE (DEFENSIVE ONLY)

1. Is the Guardian report correct?

We have no direct knowledge of these negotiations, which are nothing to do with HMG. But we have no reason to doubt the report.

2. Was HMG aware of the new loan?

Yes, although we are not familiar with the details; but HMG's approval is not needed, and we did not need to be consulted.

3. Does HMG approve?

The banks appear to be acting under an existing contractual commitment (signed in August). So far as we know, the conditions of the contract have been met in general terms. Our understanding is that the conditions allow for waiver in certain respects and this is the point which the banks are now considering.

The IMF standly remains technically in existence but no further disbursements are being made or contemplated at present. We beleive that the IMF expect to resume discussions when the new government is in office in the hope of establishing a satisfactory revised programme. For this purpose it ~~is questionable whether it would~~ MUCH have been better to wait until the new government was in office and had begun the programme of economic recovery which has been promised. This would have provided a basis for a revised IMF programme, and that in turn would have given the banks greater assurance.

4. Will the loans be used to buy arms?

No. Of the $500m which we understand is to be disbursed at the end of November, $350m is to be used immediately to repay an earlier bridging loan, while the remaining $150m will go into an escrow account to be used to pay off other arrears.

5. US resuming arms sales?

/Ask the FCO./

6. Will HMG join in a rescheduling of offical /public sector/ debt?

No request has been recived for any debt restructuring.

7. Past Government statements?

/See attached Hansard extracts./

Argentina to get $500m aid

By Peter Rodgers,
Financial Correspondent

Argentina is expected to get a $500 million cash injection by next Wednesday from British and other banks, in a rushed deal which it is hoped will pre-empt any attempt by the new civilian government to fundamentally renegotiate terms with foreign creditors.

The arrangement, put together late on Wednesday night at the headquarters of Citibank in New York, is also designed to allow the Argentines to catch up with some of the overdue interest payments, otherwise American banks will be forced by their auditors to make huge and damaging loan write-offs at the year end.

Some banks have had reservations about handing over the $500 million by the end of this month, because the new civilian government does not take over from the military until December 10. The money will also have to be paid over before a series of rescheduling deals with Argentine public sector bodies is signed, which until now has been a condition of payment.

The $500 million is part of a $1.5 billion medium-term loan first mooted over a year ago but continually delayed. Argentina has indicated that it wants better terms from the banks next year but has been ambiguous about whether it will try and change the terms of the present loan. Argentine central banks officials at the Citibank meeting in New York were suggesting however that they have agreed the proposal to go ahead next week.

So far 90 per cent of the several hundred banks involved have agreed to payment by next Wednesday, and the leading banks are now trying to whip the rest into line.

Yesterday telexes went out from Citibank and from the steering group of banks organising the loan.

The Citibank telex said that Argentina will be drawing $500 million by or on November 30. It said banks were asked to waive two loan conditions — that interest on bank debt should be up to date and that public-sector reschedulings should be "in place" by December 15. The new economy minister, Mr Bernardo Grinspun, has indicated that he wants to revise some of the terms of the rescheduling and it now looks as if signature could be delayed past the year end.

A second telex from the steering group confirmed that with the new government coming in on December 10, it would be impossible to finish the rescheduling deals by December 15, which had been the original target date.

The $500 million will be instantly recycled to the banks to repay a bridging loan and interest arrears to the end of September, and possibly into October. The British banks, led by Lloyds, appear to be in favour of this scheme.

Extract Hansard 24 3 83 OA 1008 - 1010 Vol 39

Argentina (Bank Loan)

7. Mr. Newens asked the Chancellor of the Exchequer whether he has given any advice to British banks about their involvement in a consortium of foreign banks which is seeking to negotiate the new medium term loan to Argentina following the Argentine decision to suspend repayment on nearly £1,000 million of its foreign debt.

Mr. Bruce-Gardyne: No, Sir. This must be a matter for the individual banks concerned. The swap facilities, to which I assume the hon. Gentleman refers in the latter part of his question, form part of the foreign debt obligations of Argentina which are the subject of negotiations currently in progress between that country and international banks.

Mr. Newens: Will the hon. Gentleman confirm that there are no conditions attached to the loan to prevent the Argentine Government from using it to purchase arms, and that recently the Almirante Brown has been delivered, replete with British components, along with 70 Mirage III or Dagger jet fighters? Numerous other items are on order. Is it not a disgrace that the Government are prepared to finance the rearming of Fascist Argentina?

Mr. Bruce-Gardyne: The part of the hon. Gentleman's question relating to Argentina's recent acquisition of frigates is not a matter for the Treasury—[HON. MEMBERS: "Oh".] There is no shortage of arms sellers around the world. We would not deny the Argentines the opportunity of purchasing arms by driving Argentina into default.

Mr. Newens: Really. What a disgrace.

Mr. Bruce-Gardyne: It is clear that this loan is an integral part of the IMF programme for Argentina which puts tight controls on Argentina's public finances. If Argentina diverted money to buy more arms that could jeopardise the IMF programme and hence Argentina's ability for future drawings.

Mr. James Lamond: Disgraceful.

Mr. McCrindle: On the more general point, is it the Government's view that no one economy can be allowed to disintegrate without a substantial knock-on effect on its neighbours and, ultimately, on the whole international economic scene? In those circumstances, does my hon. Friend agree that the Government have no alternative but to pursue their policies irrespective of their views of the regime in Buenos Aires?

Mr. Bruce-Gardyne: My hon. Friend is entirely right. We are a major trading nation and we depend upon exports for a larger proportion of our total output than do most other major trading nations and upon a steady expansion of international trade. A default that was triggered in Argentina by a failure to resolve the immediate problems of Argentina's indebtedness could have repercussions in other countries and serious implications for international trade that would be seriously to our disadvantage.

Mr. Dalyell: To borrow the Minister's graphic phrase of last year, is not this a mug's game?

Mr. Bruce-Gardyne: No, Sir. It would be a mug's game to perform otherwise.

Mr. Eggar: If Argentina were to default, would that not mean that British banks would have to write off considerable loans. *[Interruption.]* Before the Opposition jump for joy will my hon. Friend confirm that the effect would be a reduction in their capital base which would mean that they would find difficulty in lending to domestic companies? Would not that mean a reduction in jobs?

Mr. Cryer: I think that the hon. Gentleman is a merchant banker.

Mr. Bruce-Gardyne: My hon. Friend is entirely right. The propositions advanced by the Opposition would be damaging to international trade and to the structure of international banking and would ultimately have repercussions on employment.

Mr. Robert Sheldon: Is the hon. Gentleman aware of Tuesday's report in the *Financial Times*, that despite Argentina's reduction in interest arrears, the conditions for the $1·5 billion loan have not yet been settled? As the Prime Minister has stated categorically that the money is not being lent to purchase armaments, why is that not to be a condition of the loan?

Mr. Bruce-Gardyne: As the right hon. Gentleman knows well, international arms trading is conducted on credit which is not necessarily pervious to the consequences of such banking negotiations. All the arrangements that are being conducted by the IMF are designed to ensure that Argentina, like other countries with debt problems, pursues correction policies that will enable it to settle its debts and not involve itself in additional outgoings that it could not meet.

Mr. Newens: On a point of order, Mr. Speaker. In view of that disgraceful Pontius Pilate-like reply, I shall seek to raise the matter on the Adjournment.

Mr. Dalyell: Further to that point of order, Mr. Speaker.

Mr. Speaker: Order. There can be no further point of order on that point of order except to the extent that it was not expressed in the usual language.

Mr. Dalyell: Further to that point of order, Mr. Speaker. I give notice that I intend to raise this matter tonight on the Consolidated Fund (No. 2) Bill.

Pratts Bottom

Q. Mr. Stanbrook asked the Prime Minister if she will pay an official visit to Pratts Bottom.

The Prime Minister: I have at present no plans to do so, although I know Pratts Bottom well because I used to live within walking distance. Will my hon. Friend please give my warm regards to the people there?

Mr. Stanbrook: Is my right hon. Friend aware that her reply, notwithstanding her good wishes, will be deeply disappointing to the villagers of Pratts Bottom? Is she aware that they seek an early opportunity to express to her their appreciation of the benefits of the Budget—*[Interruption.]*—in which they are keenly interested, especially the raising of the tax threshold and the further relief given to mortgagors?

The Prime Minister: I am grateful for my hon. Friend's warm and fully justified praise for my right hon. and learned Friend's Budget. I am especially grateful for his praise of the extra relief on mortgages. In the Greater London area, about 23 per cent. of first-time house purchasers, and about 30 per cent. of those not buying for the first time, have mortgage loans above the former tax relief limit. The extra relief is well deserved.

Mr. Christopher Price: Is the Prime Minister aware that, were she to visit Pratts Bottom, she would be in P district of the Metropolitan police area and that, to get there, she would have to drive through my constituency down the Bromley road? Is she aware that if she happened to stop on Bromley road, get out of her car and talk to my constituents about the Police and Criminal Evidence Bill, she would find them enormously encouraged by the remarks of her right hon. Friend the Home Secretary from the Dispatch Box on Tuesday—when she was unhappily away—to the effect that the Government intend to withdraw two clauses from the Bill because they know that it will be rubbished by the bishops and the judges in the House of Lords? Will she tell us about the Government's exact intentions in respect of that Bill now that it has fallen into such contempt on both sides of the House?

The Prime Minister: My right hon. Friend the Home Secretary has audibly dissented from the hon. Gentleman's interpretation of his remarks when I was away on Tuesday. The hon. Gentleman will accept that the Bill was based on the findings of a Royal Commission. He will also accept that we wish to fight crime with every possible legitimate weapon, and it is important that we should be denied neither the means of identification nor the means of proof for fighting those crimes.

Engagements

Q3. Mr. Heddle asked the Prime Minister if she will list her official engagements for Thursday 24 March.

The Prime Minister: This morning I presided at a meeting of the Cabinet and had meetings with ministerial colleagues and others. In addition to my duties in the House I shall be having further meetings later today. This evening I shall be attending a dinner given by President Kaunda.

Mr. Heddle: Does my right hon. Friend agree that for far too long teacher training courses have contained too many irrelevant and spurious subjects such as sociology and psychology? Does she agree that the timely announcement earlier this week by my right hon. Friend the Secretary of State for Education and Science will better equip teachers to teach children real subjects that will be of practical benefit to them in the real world? Will she undertake to bring forward the White Paper proposals as early as possible?

The Prime Minister: I welcome my right hon. Friend's White Paper on the training of teachers. There is an opportunity to improve teaching in our schools, to secure a match of teachers' qualifications with the shortage subjects, which is most important, and to assess what really matters, which is their competence in the classroom. Those things will be done and will be warmly welcomed in the country.

Mr. Foot: Perhaps the Prime Minister can help us by clearing up the confusion created by some answers we heard earlier this afternoon from Treasury spokesmen about loans to Argentina. Can she confirm that talks on the legal conditions of the loan have proved difficult, as was reported in a newspaper a few days ago? Have those difficulties been created by the British Government because they are trying, at last, to lay down conditions about the expenditure of that money on arms?

The Prime Minister: I remember the right hon. Gentleman saying from that Dispatch Box that it was no earthly good trying to lay down such conditions, but his question now is completely different. We supported the loans from the IMF to Argentina on certain stringent conditions. There are two commercial loans to which different conditions apply. We supported the loans for two reasons. First, in the absence of either an IMF loan or commercial loans there was a possibility that Argentina would default. If it did so, it would have far more money to spend on arms than if it met the debt. *[Interruption.]* I am afraid that is a fact of life. Furthermore, unless Argentina receives some help, it could default to third countries and, therefore, trigger off the collapse of the difficult and delicate packages that were agreed between the IMF and those countries. Therefore, it was in our interests to do what we did, both through the IMF and through the agreement of two commercial loans under different circumstances.

Mr. Foot: Does the right hon. Lady stand by her statement of 27 January that the money has not been lent for arms? Is it not the case that, under the plans that she is now apparently allowing to go ahead, the money may be spent on arms? Does she take account of the fact that, according to recent reports, up to £6 million of Argentina's £38 million foreign debt is believed to have been spent on defence? Is she aware that Argentina has greatly increased its arms supplies, some of which may have been paid for with British money?

The Prime Minister: The right hon. Gentleman has still not taken note of my first point. The alternative was that Argentina may default. *[Interruption.]* The right hon. Gentleman may not like it, but if a country defaults on all its debts, much more money is released that could pay for arms than would have been the case if that country was held to repaying its debts. That is obvious.

Mr. David Steel: Has the Prime Minister had time to see the study by the Association for the Conservation of Energy, which suggested that 150,000 new jobs could be

EXTRACT FROM HANSARD 20.7.83
VOL 46 .. Nº 25 WA 142/3

Argentina (Arms Purchases)

Mr. Dalyell asked the Prime Minister what evidence Her Majesty's Government have for the statement by the Economic Secretary to the Treasury, *Official Report*, 11 July, c. 617, that International Monetary Fund loans will make Argentina less likely to purchase arms.

The Prime Minister: The International Monetary Fund cannot lay down the detailed public expenditure programmes. It requires a disciplined financial policy which limits the level of public expenditure and which sets other performance targets. To the extent, therefore, that Argentina is forced to give priority to paying debt, controlling public expenditure and limiting borrowing, its ability to purchase arms should be constrained.

From: P Mountfield
Date: 28 November 1983

1. Mr Littler
2. Chancellor

Spoke Mountfield

cc

Mr Unwin or
Mr Lavelle
Mrs Case
Mr Denison
Mr Hall
Mr Towers

Mr Balfour - Bank of England
Mr Appleyard - FCO

ARGENTINA: ARMS SALES

Mr Balfour (Bank of England) tells me (4pm Monday) that there are now only 14 replies outstanding to the telex from the Co-ordinating Committee: of these, 10 banks are expected to give favourable replies, shortly, leaving only 4 recalcitrants. These 4 can of course expect to come under considerable pressure. We suspect these are not British banks, but do not know for sure.

2. It therefore seems probable that disbursements under the loan will go ahead as planned on Wednesday 30 November. We can expect some press coverage (though in the absence of some of the national papers, this may be less than expected). We can also expect some Parliamentary criticism, though this may not develop immediately. (Prime Minister's Questions on Thursday seems the next obvious time.)

3. Should we anticipate this? I recommend that we do not positively offer comment, even of the modified kind agreed between the Chancellor, Foreign Secretary and Prime Minister last week. But what we might do is remind the press that the $500 million disbursements will come straight back to the banks, either by way of repayment of the bridging loan, or through payment into an ESCROW account to be used to deal with previous arrears. By inference, therefore, none will be available to finance arms sales - though we need not say this directly.

4. The Bank of England can say this without in anyway involving HMG: and they can also drop a hint to LBI that they should take the same line with the press.

5. We still owe the Prime Minister a paper about this. A revised and shortened version of my earlier draft has been prepared, and (subject to some minor updating) can be sent forward tomorrow. We shall also provide No 10 with background briefing and a supplementary for Prime Minister's Questions, on the lines already agreed.

RM

P Mountfield

25/28