

PO-CH/NL 0415

PART A

Part A.

Begins: 13/4/88 .

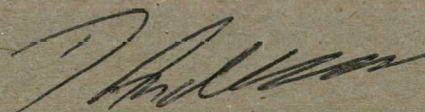
Ends : 25/4/88.

THIS FOLDER HAS BEEN
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REGISTRY SYSTEM

PO CH | NL | 0415
PART. A.

Chancellor's (Lawson) papers:
banks in the Republic of Palau.

DD's: 25 Years



24/1/96 .

PO CH | NL | 0415

PART. A.

Morgan Grenfell Group plc

23 Great Winchester Street
London EC2P 2AX

Telephone 01-588 4545
Telex 8953511 MG LDN G
Fax 01-588 5598

From Sir Peter Carey

13th April 1988

Arrived in Ch. office 14/4

bf 22/4
bf 25/4
**MORGAN
GRENFELL**

The Rt. Hon. Nigel Lawson,
Chancellor of the Exchequer,
Treasury Chambers,
Parliament Street,
London SW1

26/4

CH/EX OFFICE	
H.M. TREASURY - M.C.U.	
RECD:	14 APR 1988
ACTUAL:	MR HALSH
SIGNATURE:	
REF. No.	

Dear Chancellor,

Republic of Palau

You may already have some awareness that Morgan Grenfell, on behalf of a small syndicate of international banks has been lobbying in Washington to overturn a legislative measure which purports to confer a special sovereign immunity on Palau in relation to a debt it incurred for the construction of its electrical power plant.

The lobbying effort has involved, at various stages, support from H.M. Foreign Office and from the Bank of England in raising the issue with their counterparts in the U.S. The U.S. Administration has accepted the merits of the arguments raised, but has not yet succeeded in persuading certain key elements of the legislature.

Our U.S. advisers believe your support would be very valuable in reinforcing the position of the Administration, and the British Ambassador's staff have indicated to Secretary Baker's staff that the issue may be included in the Agenda for your talks with him. The Ambassador will have a briefing paper for you on the subject of Palau.

I should indeed be grateful if you felt able to include the issue in your Agenda. I believe there are at stake significant issues of principle regarding international credits, going beyond the specific issue of Palau's debt.

Yours sincerely,

Peter Carey



No.
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MDHIAN 6509

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FM WASHINGTON
TO IMMEDIATE FCO
TELNO 1042
OF 202252Z APRIL 88

Handwritten signature/initials: *AS 21/4*

PALAU
SUMMARY

1. THE BANKS' LAWYERS NOW CLAIM THAT KEY MEMBERS OF THE HOUSE FOREIGN AFFAIRS COMMITTEE HAVE AGREED TO RECOMMEND TO THE COMMITTEE THAT 104E SHOULD BE AMENDED AND THE OFFENSIVE SENATE LANGUAGE REMOVED.

DETAIL

2. CONGRESSMEN FASCELL (CHAIRMAN, HOUSE FOREIGN AFFAIRS COMMITTEE), SOLARZ (CHAIRMAN OF ASIAN AND PACIFIC AFFAIRS SUBCOMMITTEE) AND LEACH (RANKING MINORITY MEMBER OF THE A & PA SUBCOMMITTEE) HAVE APPARENTLY REACHED A DEAL WITH THE BANKS. PRESIDENT SOLII OF PALAU AND THE STATE DEPARTMENT HAVE ALSO ACCEPTED THE DEAL.

3. THE FOREIGN AFFAIRS COMMITTEE WILL MARK UP COMPACT ENABLING LEGISLATION ON 27 APRIL. THE 3 CONGRESSMEN WILL RECOMMEND THAT THE ORIGINAL 104E (THE COURT STRIPPING PROVISION) BE REMOVED FROM THE LEGISLATION AS PRESIDENT REAGAN REQUESTED. THEY WILL SUGGEST THE SUBSTITUTION OF THE SENATE VERSION OF 104E BUT WITHOUT THE PROVISION REQUIRING PRIOR NOTIFICATION BY THE PRESIDENT OF PALAU OF ANY INTENTION TO USE COMPACT FUNDS TO REPAY THE DEBT TO THE BANKS (SEE MY TELNO 794).

4. PALAU CAN THEREFORE REPAY THE BANKS WITH THE CAPITAL ACCOUNT AND PART OF THE CURRENT PAYMENTS FOR ENERGY. THEY CANNOT USE THE BULK OF THE CURRENT ACCOUNT. THIS IS SLIGHTLY AWKWARD SINCE ANY SETTLEMENT WITH THE BANKS IS LIKELY TO USE UP WELL OVER HALF OF THE CAPITAL ACCOUNT FUNDS. THE BANKS HAVE ACCEPTED THIS BUT RESERVE THE RIGHT TO REOPEN THE ISSUE.

5. THE REMOVAL OF THE PRIOR NOTIFICATION PROVISION MEANS THAT THE BANKS, IF THEY GET A FAVOURABLE COURT JUDGMENT, COULD ASK THE NEW YORK COURT TO ATTACH COMPACT FUNDS. THIS IN TURN WILL ENCOURAGE PALAU TO NEGOTIATE A SETTLEMENT. THE BANKS WILL RESUME NEGOTIATIONS AFTER MARK UP.

COMMENT

6. THIS IS REMARKABLY GOOD NEWS FOR THE BANKS PROVIDED THE FAC LIVES UP TO THE AGREEMENT. STATE DEPARTMENT APPARENTLY PERSUADED SOLII TO AGREE BY THREATENING TO DELAY THE COMPACT. HOWEVER, THE BANKS ARE NOT OUT OF THE WOOD YET. THEY HAVE TO GET THROUGH THE HOUSE INTERIOR COMMITTEE AND THEN PERSUADE THE SENATE, IN

UNCLASSIFIED

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CONFERENCE, TO DROP THE OFFENSIVE LANGUAGE. NEVERTHELESS, THIS IS A FAVOURABLE RESULT OF INTENSIVE NEGOTIATIONS.
7. FCO PLEASE ADVANCE TO LOEHNIS AND GREEN (BANK).

ACLAND

YYYY

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ADDITIONAL 3

TREASURY (FIM1 DIV)
BANK OF ENGLAND (MR LOEHNIS)

BANK OF ENGLAND (MR GREEN)

NNNN

Morgan Grenfell Group plc

A/2

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London EC2P 2AX

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Monday
bills pl.
A.W. 15/4

From Sir Peter Carey

Arrived in Ch office 14/4

13th April 1988

**MORGAN
GRENFELL**

The Rt. Hon. Nigel Lawson,
Chancellor of the Exchequer,
Treasury Chambers,
Parliament Street,
London SW1

CH/EXCHANGE	
REC.	15 APR 1988
ACCT.	MR WALSH
DEPTS TO	

✓ 15/4
3

C.

Dear Sir

Republic of Palau

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and TS

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Yours sincerely,

51/4



Peter Carey

ppp (m of p
Linnon)

FROM: H G WALSH
DATE: 25 April 1988

PS/CHANCELLOR

Oh.
Content for me to
write to Sir P Carey as
proposed?
25/4

cc: Mr Evans
Ms Life
Mr Roberts (FIM)

Mr Green (Bank)
Mr Furness (FCO)
Mr O'Donnell
(Washington)

OK -

REPUBLIC OF PALAU

We spoke.

2. Please see the attached telegram. I attach a self-explanatory draft reply for you to send to Sir Peter Carey at Morgan Grenfell.

H.G.W.

H G WALSH

be type first

DRAFT LETTER FOR PS/CHANCELLOR TO SEND TO SIR PETER CAREY

REPUBLIC OF PALAU

Thank you for your letter of 13 April about developments in the US Congress affecting the debts that Palau contracted ^{over} ~~in respect of~~ the construction of its electrical power plant.

Your letter unfortunately was sent only after the Chancellor had seen Secretary Baker at the Spring Meetings in Washington. We understand that the most recent developments in the House of Representatives have been encouraging, and that the banks will resume their discussions with the Palau authorities. We shall continue to keep up the necessary pressure on the US administration to make representations in the Congress so as to allow Morgan Grenfell and other creditors the right to pursue their legitimate claims for the recovery of Palau's debts.