

Confidential Filing

UK / Mexico Relations

MEXICO

Internal Situation

PART ONE

MAY 1981

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>29.5.81</del>		<del>30.9.83</del>					
<del>24.9.81</del>		<del>4.10.83</del>					
<del>12.7.82</del>		<del>13.10.83</del>					
<del>22.7.82</del>		<del>28.3.84</del>					
<del>17.8.82</del>		<del>16.4.84</del>					
<del>20.8.82</del>		<del>18.9.84</del>					
<del>8.9.82</del>		<del>21.1.85</del>					
<del>9.9.82</del>		<del>11.2.85</del>					
<del>11.4.82</del>		<del>14.2.85</del>					
<del>28.9.82</del>		<del>22.8.85</del>					
<del>2.10.82</del>		<del>11.6.85</del>					
<del>19.10.82</del>		<del>12.6.85</del>					
<del>21.10.82</del>		<del>11/6/85</del>					
<del>25.11.82</del>		<del>7/6/85</del>					
<del>3.12.82</del>		<del>20.9.85</del>					
<del>18.2.83</del>		<del>23.9.85</del>					
<del>22.2.83</del>		<del>1.4.86</del>					
<del>24.2.83</del>		<del>25.4.86</del>					
<del>25.4.83</del>		<del>20.5.86</del>					
<del>7.5.83</del>							
<del>28.6.83</del>		PART					
<del>1.7.83</del>		ENDS					
<del>4.7.83</del>							
<del>11.8.83</del>							

PREM 19/1843



NB: For Mexico's NATIONAL DEVELOPMENT PLAN 1983-1988

See: Folder at back of file.



PART 1 ends:-

Pres. de la Madrid to PM (T 958/86)

20.5.86

PART 2 begins:-

Pres. de la Madrid to PM (T 1568/86)

25.8.86







## Foreign and Commonwealth Office document

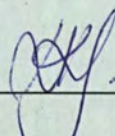
Reference: DD 1985/213  
Description: Mexico: A Year of Elections  
Date: 19 April 1985

---

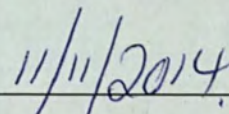
The above FCO documents, which were enclosed on this file have been removed and destroyed.

Such documents are the responsibility of the Foreign and Commonwealth Office. When released they are available in the appropriate FCO CLASSES.

Signed



Date



**PREM Records Team**



PRIME MINISTER

MEETING WITH PRESIDENT OF MEXICO

He comes at 1200 for an hour's meeting before lunch. He will be accompanied by his Foreign Minister, Ambassador in London and Private Secretary. Our Ambassador in Mexico City - Sir Cynlais James - will also be present.

The main subjects for discussion are:

- the Mexican economy and its prospects
- international debt questions
- trade prospects between Britain and Mexico
- oil market
- Central America
- Falklands

The question of the Sicartsa plate mill project on which you signed a Memorandum of Understanding in 1981 may come up. The Mexicans are in effect cancelling the project but have said that all commitments to foreign equipment suppliers will be met.

*, in hot box*

I attach the briefs, some cards and notes for a speech at lunch.

*CPD*

CHARLES POWELL

11 June 1985



11th June, 1985

BUCKINGHAM PALACE

**STATE BANQUET**

**The Prime Minister**

will be escorted by

**The Duke of Kent**

in the Royal Procession to the Banqueting Room.

---

**THE PROCESSION**

THE PRESIDENT OF  
MEXICO

THE PRINCE PHILIP,  
DUKE OF EDINBURGH

The Prince of Wales

The Archbishop  
of Canterbury

Senor Bernardo Sepulveda

The Lord Chancellor

The Duke of Gloucester

Mr. Denis Thatcher

**The Duke of Kent**

The Lord President  
of the Council

Prince Michael of Kent

Senador Antonio  
Riva Palacio

The Hon. Angus Ogilvy

THE QUEEN

SENORA DE LA MADRID

Senora de Sepulveda

The Princess of Wales

The Princess Anne,  
Mrs. Mark Phillips

The Princess Margaret,  
Countess of Snowdon

Mrs. Runcie

The Duchess of Gloucester

**The Prime Minister**

The Duchess of Kent

Senora de Riva Palacio

Princess Alexandra, the  
Hon. Mrs. Angus Ogilvy

The Viscountess Whitelaw



THE QUEEN

THE PRESIDENT OF MEXICO

THE PRINCE PHILIP,  
DUKE OF EDINBURGH

The Princess of Wales

SENORA DE LA MADRID

Archbishop of Canterbury

The Prince of Wales

The Princess Anne,  
Mrs. Mark Phillips

Senora de Sepulveda

Senor Bernardo Sepulveda

The Duke of Gloucester

The Princess Margaret,  
Countess of Snowdon

Mrs. Runcie

Lord Chancellor

Senador Antonio  
Riva Palacio

The Duchess of  
Gloucester

Princess Alexandra the,  
Hon. Mrs. Angus Ogilvy

Mr. Denis Thatcher

\* Senor Miguel de la Madrid

The Duchess of Kent

\* Duchess of Northumberland

Lord President  
of the Council

● The Duke of Kent

● Prime Minister

Prince Michael of Kent

Senora de Riva Palacio

Hon. Angus Ogilvy

Viscountess Whitelaw

\* Not Processing





STATE VISIT OF PRESIDENT DE LA MADRID OF MEXICO: 11-14 JUNE 1985

MEETING WITH THE PRIME MINISTER

Our Objectives

- a) to endorse Mexico's current economic policies and encourage continued adjustment
- b) to affirm our support for Mexico's economic strategy and draw attention to commercial collaboration in the form of direct exports, joint ventures etc
- c) to show understanding of continuing debtor problems but to head off calls for a high level political dialogue between creditors and debtors
- d) to defend the UK view on the oil market
- e) to reaffirm our support for the Contadora process and Mexico's important role therein; to explain British/European Community objectives in Central America
- f) to explain our position on the Falklands and Argentina

Arguments to Use

- a) i) congratulate on progress in coping with debt problems. Hope it will be maintained. Recognise difficult decisions were needed and problems not yet solved, but admire tenacity to adjustment programme.  
  
ii) what are prospects for keeping to targets in next year eg on balance of payments, inflation, public sector deficit?
- b) i) pleased that a number of agreements on investment and trade have been signed. Investments demonstrate our industry's confidence in Mexican economy over long term. Believe there is





great scope for further cooperation in education, fisheries aerospace and tourism (see Annex).

ii) we are making available a £1 million pound technical cooperation package over next 3 years for the training of Mexican personnel in Britain associated with projects announced during your visit.

iii) Glad to inform you we are now able to increase official credit cover and to include the private sector.

iv) understand your present need to limit imports. But believe UK should account for more than 2% of your import market. Our companies are increasingly competitive.

v) note you are addressing CBI conference tomorrow. British companies will welcome opportunity to hear from you at first hand.

vi) understand that the Sicartsa plate mill project will be effectively cancelled - we understand this means the full project will not be completed but foreign supply contracts will be honoured.

vii) recognise that you have had to take a difficult decision. Our concern now is that Davy and Sicartsa should reach a fair settlement as quickly as possible.

c) i) recognise that serious debt problems remain, but no easy solutions.

ii) existing case by case approach has contained immediate situation and is only practical way forward, though appreciate social and political costs involved. Mexico a good example of what can be achieved.

iii) Britain has and will continue to participate fully in efforts to assist official debtors (eg through Paris Club). British banks also play an active part.





iv) technical dialogue between creditor/debtor best pursued through existing channels. UK very ready to discuss problems of particular countries. The broader issues most effectively pursued within the competent fora, such as the IMF/IBRD.

d) i) Stability in the oil market is in the interests of both producers and consumers.

ii) BNOC was abolished because it could no longer contribute to oil market stability: indeed the BNOC term price induced speculation and instability.

iii) [If asked about current status of BNOC] Legislation was introduced on 2 May to replace BNOC with a small body responsible for:

(i) custody of participation agreements;

(ii) the disposal of royalty oil;

and (iii) management of the Government pipeline system.

Meanwhile, BNOC is running down the volumes of oil it takes. There is no longer a BNOC term price. BNOC sets prices on the basis of negotiations with individual purchasers. These prices reflect those at which BNOC has been able to sell the oil.

e) i) Fully agree that a comprehensive and verifiable Contadora agreement represents the best available method of resolving regional tensions. We applaud Mexican patience and persistence in pursuing settlement.

ii) Have demonstrated our support by actively working with our European partners. Declarations by the European Council most recently on 14 December 1984; Secretary of State attended San José meeting; another Ministerial level meeting this year planned.

iii) Want to see democracy strengthened and stability established. That is why we support Duarte. Concerned at direction of Nicaraguan policies. Agree with US that pressure





CONFIDENTIAL

on Nicaragua needed to persuade them to make concessions necessary to secure a Contadora agreement.

f) i) Have made continued efforts to improve relations with Argentina. Hope you can encourage Argentine Government to take more pragmatic and constructive line. Still await reply to our latest message sent earlier this year. This again put forward practical steps to improve relations.

ii) In interests of both countries to restore more normal bilateral relations. Argentine insistence that there can be no progress unless we agree to discuss sovereignty is unrealistic.

iii) Not prepared to discuss sovereignty against clearly expressed wishes of Islanders and as if events of 1982 had never occurred.

iv) [If raised] Argentine allegations about Mount Pleasant Airport nonsense. Our military dispositions purely defensive. Completion of airport should permit further reductions in garrison. Expect developmental role to become increasingly important.

#### Tactical Arguments

c) i) Debt was given prominence at Bonn Summit, as shown by Chancellor Kohl's reply to President Sanguinetti's letter. The reply sets out very comprehensively and accurately the position of the United Kingdom and other Summit countries.

ii) Political dialogue not best way to achieve practical results. Could lead to unrealistic expectations and striking of unhelpful public postures.

e) Recent border incidents (Nicaragua/Costa Rica and Nicaragua/Honduras) demonstrate urgent need for tangible progress on Contadora and to avoid what has been achieved "unraveling".

CONFIDENTIAL

/Up



Up to Nicaragua to demonstrate good faith in terms of internal democracy and vis-a-vis her neighbours.

f) i) Wish to see Argentine democracy prosper. Lifting of commercial and economic restrictions would help by improving economy. But no service to democracy to encourage unrealistic Argentine hopes.

ii) Despite Argentine statements of peaceful intent Argentina continues to refuse to declare formal cessation of hostilities, or even to discuss non-controversial issues such as trade.

Their Objectives

- a) To secure endorsement of the Mexican Government's economic strategy.
- b) To promote greater understanding at the political level of the Latin American debt problem, and the need for a debtor/creditor political dialogue.
- c) To exchange views on the current state of the oil market and possibly to seek HMG's assistance in supporting prices through restraining UKCS production.
- d) To seek to persuade HMG to join a producer-consumer dialogue.
- e) To reconfirm support for the Contadora process and, possibly, to enlist European economic support for a settlement in Central America.
- f) To persuade HMG to use its influence with the US to take a more moderate line towards Nicaragua, eg on sanctions, and resumption of Manzanillo talks.
- g) Possibly to persuade the Prime Minister to agree to discuss sovereignty over the Falklands with the Argentine Government.
- h) To defend Mexican support for Argentina in terms of Latin



American solidarity.

Our Response

- a) Commend progress so far, stress importance of keeping to programme.
- b) Bonn Summit acknowledged that progress so far on debt issues gave no cause for complacency and stressed need for sustained non-inflationary growth, free of protectionism. But dialogue best continued through existing international institutions, in full awareness of political implications of debt problem.
- c) Oil company licensees, not HMG, control the level of production. They would be disinclined to invest in the high capital cost North Sea if they thought production controls would be introduced. This is especially important for the UK when UKCS production is peaking and expected to begin to decline in the next year or so.
- d) Suggestions from some quarters (eg Sweden) that a meeting between oil producers and consumers might be arranged seem unwise. The risks of misunderstandings, frustrated hopes and unrealised expectations would be very high. Better to foster informal, bilateral contacts as we do already.
- e) Best way for Europe to help the region is through support for Contadora and for additional European aid to be directed to encouraging economic cooperation between Central American states. The Ten announced after San José their intention to contribute to the development of the region. Hope that date of further Ministerial level meeting can be announced soon and that Community will soon be in a position to discuss with Central American states their proposals for improved economic cooperation. But expectations should not be exaggerated.
- f) i) Regularly exchange views with US. Consider there is no point pressing them at present to resume the Manzanillo talks. Believe Nicaragua will be less willing to take Contadora





seriously if they think they can get a bilateral deal with the US.

ii) Mexico is well placed to encourage Nicaragua to modify its policies and persuade them to turn their tactical public position into reality. Their Constitution and their willingness ~~to take account of views of non-Government groups in drafting it,~~ will be an important test.

g) i) Principle of self-determination enshrined in UN Charter. Islanders themselves wish to remain British. Argentines have made it clear that they regard negotiations as having a pre-determined outcome: the transfer of sovereignty to them irrespective of wishes of Islanders. Cannot ignore events of 1982.

ii) Progress in normalising relations in best interests of Argentina and region as a whole. Argentine insistence on linking mechanism for discussing sovereignty and normalisation blocks progress.





## BACKGROUND

Mexican Debt and Economic Position

- a) Total external debt at end 1984: \$96bn. Second largest debtor behind Brazil. At end March 1985 ECGD had \$1221 mn at risk. At end December 1984, British owned banks exposure to Mexico was \$6242mn.
- b) Since debt servicing problems encountered in August 1982 good progress made in managing debt. IMF Extended Financing Facility programme has run successfully for 2½ years and in line to continue to end-1985. Inflation down from over 100% to about 60%. Public sector deficit cut by well over half. Debt restructured. First phase of commercial bank Multi Year Rescheduling Arrangement (MYRA) signed on 29 March covering \$23.6bn and agreements to be signed for further \$20bn later this year. Indication of increased confidence. Mexico has not asked for official MYRA, as this would reduce its prospects of new export credits cover. But substantial drop in living standards resulted from adjustment.
- c) Recent signs causing some concern: no chance of keeping to Government's original 35% inflation target for 1985: now likely to be over 50%; first quarter trade surplus down 40% on 1984. Sharper devaluation and further public expenditure cuts may be needed. However, recent minimum wage settlement shows government determination to stick to its policies. Mid-term elections for State Governors and Federal deputies scheduled for July, may make Government reluctant to take further tough economic measures before then. Some signs of opposition within government to further adjustment.

Trade and Investment

- d) Although Mexico is our second largest market in Latin America, the level of our trade is historically low. Our exports (£150m





in 1984) account for only 2% of Mexico's imports. There is considerable scope for expansion. Our exports mainly comprise scientific and educational equipment, power generation equipment, machine tools, chemicals and pharmaceuticals. Mexico now has a trade surplus with us. Their exports were worth £175.5m in 1984 and mostly comprise oil and minerals (mainly silver). For some years prior to the economic crisis, the balance of trade was in our favour.

- e) Mexicans are anxious to dilute US economic domination by attracting other foreign investment and alternative trading partners. But British companies find market difficult to penetrate (language, distance and Mexican protectionism all deter).
- f) Missions led by Mr Channon and Lord Jellicoe within last year (both received by President de la Madrid) identified opportunities in several sectors. Since then a number of investments and export projects have been under negotiation. Some have come to fruition and are being signed during the visit (see Annex). But there are several potentially profitable areas in which the Mexicans are not yet fully committed - eg educational equipment (Darwin Instruments); rail transport (British Rail Engineering); and aerospace (British Aerospace and possibly Shorts).
- g) The new investment agreements being signed are worth in total about £20 million. At present we have about 3% of foreign investment in Mexico. The new investment is welcome as in most cases it will result in the export of UK equipment and components for incorporation in the finished Mexican product.
- h) The exports are worth about £50 million in all. With a view to influencing Mexican management to "think British" and to encourage them to go firm on projects on which they are already half committed (eg the British Rail "International" coach), Ministers have agreed a £1 million aid (ATP) facility for the training of Mexican personnel associated with the projects concerned. The facility will be available for disbursement over



the next 3 years. The Prime Minister will wish to inform the President of this decision.

- i) During his visit the President will address British companies at a CBI conference at Centre Point; and will meet the businessmen who have signed contracts or investment agreements.
- j) Sicartsa

The Prime Minister and President Lopez Portillo signed a Memorandum of Understanding in October 1981 for the award of a £230 million contract to Davy McKee for the construction of a plate mill for the state-owned steel company, Sicartsa. The problems of the Mexican economy caused the project to be slowed down from the start. It is still less than half finished and the Mexicans have been unable to raise the money necessary for completion. At their request, we presented an aide memoire to the Mexican Government in May, which included some offers of assistance but we are not in a position to meet the major financing gap which lies mainly on the local work. Silva Herzog, Minister for Finance, informed our Embassy on 4 June that the project would be effectively cancelled but that all commitments to foreign equipment suppliers would be met. Davy have been told by Sicartsa to expect a letter saying the project has been cancelled, but no public announcement is expected until after the President's return.

The contract was supported by a £35 million ODA grant under the Aid and Trade Provision. Under the terms of the inter-governmental agreement there are provisions in the event of the project not being completed for HMG to recover part of the grant. Subject to the final value of the UK supply of goods and services, this could be between £0 and £12.9 million. It is therefore not yet possible to ascertain final UK content. No useful purpose would be served by mentioning HMG's potential right to recover at this stage.



Latin American Debt

- k) Recent progress has been mixed. On the negative side IMF programmes for Brazil and Argentina have been suspended after financial targets were missed, but both are talking again to the IMF. Recent balance of payments figures suggest that Brazil and Mexico will not repeat their excellent returns for 1984 in 1985. On the positive side, US interest rates and the dollar have declined recently which will help most debtors.

Cartagena Group and Political Dialogue

- l) Cartagena Group comprises 11 Latin American debtor countries, including Mexico, who wish to coordinate their views on debt problems but not (so far) form a debtors cartel. Its last meeting was in Santo Domingo in February 1985. On behalf of the Group President Sanguinetti of Uruguay wrote to Bonn Summit leaders to express disappointment at the outcome of the IC/DC meetings in Washington, 17-19 April, and calling for a political dialogue, although without making specific proposals. Chancellor Kohl replied on 21 May on behalf of the Summit leaders. (We are consulting others before deciding whether to recommend a separate reply.) Chancellor Kohl's reply reaffirms that dialogue should be kept to existing institutions, which will disappoint Cartagena. However, it is uncertain how forcefully Cartagena Group will press for a dialogue, given the divergence of interest amongst its members: Ecuador and Mexico have their debt problems reasonably under control, and Brazil and Argentina are currently negotiating with the IMF. However apparently radical approach to debt of incoming APRA Government in Peru may encourage some other members of the group to take harder line.

- m) Oil

Mexico, not an OPEC member although an observer at OPEC meetings, introduced production cuts of 100,000 bd from October 1984, following persuasion from the Saudis that such a move





would help support prices during a period of temporary market weakness. The Mexicans did not bargain for a prolonged period of restraint and there are signs that production has been increasing once again.

- n) Mexico announced on 29 April that it would maintain its prices through May, the price of Mexican heavy crude remaining at \$25.50, a level which has not changed for over a year. Mexican light crude, which was reduced by \$1.25 in February, following the OPEC realignment of differentials, will continue to be sold at \$27.75. There are, however, indications that the Mexicans are finding it increasingly difficult to sell at these prices and are coming under increasing customer pressure to introduce discounts.

#### Contadora

- o) After a break in negotiations since September 1984, the Contadora group met in April and May to discuss modified versions of a Contadora agreement. Mexico is a leading member of the group.
- p) Señor Sepúlveda gave HM Ambassador several interesting insights into Mexico's thinking on Contadora on 30 May.
- i) If the political will was not there on the part of the Central Americans, particularly El Salvador and Honduras who were subject to American pressures, Mexico could not go on indefinitely drafting revisions to the Agreement.
- ii) The crux of the problem was that an Agreement would require the suspension of US military aid to El Salvador as well as the withdrawal of foreign military advisers from Nicaragua.
- iii) In addition to Contadora, Mexico was taking some soundings to see if there was a chance of restarting the bilateral US/Nicaragua talks and wanted to establish the basic conditions of both sides.



- iv) A major preoccupation was to make it difficult for the US to resort to action which would increase the risk of war in the area. Thus to some extent Contadora was a device to play for time and prevent war.
- q) Sepulveda said the Mexicans were trying to persuade Nicaragua to produce rapidly their new constitution and to live up to their protestations about wanting a mixed economy, non-alignment, certain basic freedoms and to permit the activities of opposition groups. He considered it was important to try to turn Nicaragua's tactical flexibility into substance and Mexico had not given up hope of being able to do this.

EC/Central America

- r) San José meeting of Foreign Ministers of Europe and the Contadora/Central American states in September 1984 agreed to establish political and economic cooperation between Europe and Central America. Increased Community aid was also promised to underline European support and promote cooperation in the region. A further Ministerial level meeting is envisaged towards the end of 1985 by which time it is hoped that an economic framework agreement between the two regions (on ASEAN lines) can be approved. No date has yet been set for the meeting. Nor has the amount of additional EC aid to Central America been fixed.

US/Nicaragua

- s) President Reagan has renewed his efforts to obtain Congressional approval for aid to the Contras. US sanctions introduced on 1 May will hurt Nicaragua but neither sanctions nor the Contras are likely to lead to a collapse of the Sandinistas.

Falklands

- t) The Mexicans have indicated at official level that they do not regard the Falklands as a high priority topic for discussion during the visit.



CONFIDENTIAL



u) Mexico (together with all Latin American countries) voted in favour of an Argentine resolution approved by the Organisation of American States on 30 May; the USA and nine Caribbean Commonwealth countries abstained. The resolution repeated allegations the Argentine Foreign Minister had made in an earlier speech to the OAS and in a letter to the UN Secretary General suggesting that Mount Pleasant Airport represented a military threat to Latin America. Embassies in OAS posts lobbied host governments, and HM Permanent Representative to the UN wrote to the UN Secretary General on 29 May rebutting the Argentine allegations.

FOREIGN AND COMMONWEALTH OFFICE

7 June 1985

CONFIDENTIAL



COMMERCIAL CONTRACTS OR AGREEMENTS BEING SIGNED AT ADMIRALTY  
HOUSE 11 JUNE 1985

- 1 Acorn Computers. Transfer of technology and marketing rights.
- 2 ICI.
  - a Study on manufacture of synthetic protein
  - b Investment in pharmaceutical products.
  - c Investment in manufacture of explosives.
- 3 GKN. Investment. Joint venture for manufacture of automotive parts
- 4 RACAL. Export of military communications equipment. (Mexicans do not want this advertised. Signature will be on the financial agreement and will not feature in the ceremony on 11 June.)
- 5 Davy. Export of coal washing plant.
- 6 British Rail Engineering. Export and Transfer of Technology. BR's new "International" coach.
- 7 Morgan Crucible. Investment. Ceramic fibres.
- 8 Unilever. Investment. Fragrances. (Signature of this agreement has already been completed and will not feature in the ceremony on 11 June).

AGREEMENTS ON WHICH PROGRESS REMAINS TO BE MADE

- 1 British Aerospace. Joint venture to establish basic aerospace capability in Mexico.
- \* 2 Glaxo. Investment. Pharmaceutical products.
- 3 Darwin Instruments. Export of educational equipment. (Darwin won £37 million order in 1982; good chance of further orders).
- 4 Shorts. Investment/export. Manufacture of Skyvan.
- 5 Crown Agents. Consultancy in fisheries. This could lead to exports.
- 6 Sinclair Computers. Transfer of technology and marketing rights.
- 7 Serck Baker. Export of water treatment plant for oil industry.
- 8 Seifert. Investment. Joint venture in hotel/marina complex for tourism.



CONFIDENTIAL

The Racal contract is worth £52m; Davy's contract £4m; Serck Baker's contract, yet to be finalised, £2.5m; and BREL is now in a position to tender for an initial contract worth £10 million with further exports over time worth £80m.

The value of UK investment is more difficult to assess but we believe it will be worth around £20m.

\* Glaxo have just confirmed their intention to proceed

CONFIDENTIAL





DE LA MADRID HURTADO, LIC. MIGUEL

President of Mexico. Assumed office 1 December 1982.

Born State of Colima, 12 December 1934. His father died when he was two years old and his mother brought him to Mexico City. Graduate of the National School of Law, National Autonomous University of Mexico (UNAM), 1957 with the thesis "The Economic Philosophy of the 1857 Constitution". Master's Degree in Public Administration, Harvard University, 1965. Member of the Institutional Revolutionary Party (PRI) since 1963.

De la Madrid has risen to the top of the Mexican political structure through a succession of executive posts, almost all of them in the financial field. Until he became President he had never held any elective post but his performance in the executive earned him the reputation of an exceptionally able technocrat - sound, orthodox, right-of-centre and rather dull.

/He





He has a capacious memory and an unusual grasp of the longer term implications of day-to-day problems. When first nominated as presidential candidate, many thought he lacked the toughness and decisiveness needed to run such a country as Mexico. Stronger on management than political sensitivity. Now almost half way through his six year non renewable term of office, he has earned the respect of most Mexicans following the excesses of his two immediate predecessors. He made "moral renovation" one of his administration's main priorities.

He is an avid reader and enjoys classical music. He speaks good English.

His wife, Paloma, is a staunch Catholic. He has five children - four boys and a girl.

Has visited Britain several times, most recently in July 1980. He met and entertained The Queen and the Duke of Edinburgh during their visit to Mexico in 1983.





SEPULVEDA AMOR, LIC. BERNARDO

Minister of Foreign Relations since 1 December 1982.

Born Mexico City, 14 December 1941.

Masters degree in international law from Cambridge University in 1966.

Has long been politically active in the Institutional Revolutionary Party (PRI). In 1976 he was a member of the group of advisers in the Party's Institute of Political, Economic and Social Studies which was responsible for formulating the government programme for 1976-82. He has also belonged to PRI committees concerned with political action, ideology and publishing. In 1981 he was dismissed from the Finance Ministry because he would not support the candidacy of the then Finance Minister for the Presidency. Shortly thereafter he became special adviser on international affairs to Lic. Miguel de la Madrid, then Minister for Planning. In October 1981 he was appointed Secretary for International Affairs of the National Executive Committee of the PRI.

/In





In March 1982 appointed Mexican Ambassador to the USA, in a move which was generally seen as a preparation for his appointment as Foreign Minister when President de la Madrid assumed office on 1 December 1982.

His main activity has been to provide the impulse for the Contadora Group, and create a more positive policy towards Central America, including a gradual move away from excessive commitment to the Nicaraguan revolution.

Married with several children. Speaks excellent English.





CUEVAS CANCINO, LIC. FRANCISCO

Mexican Ambassador to Britain since January 1983.

Born 7 May 1921 in Mexico City.

Graduated in Law from the National Autonomous University of Mexico (UNAM) in 1943. In 1946 he obtained a master's degree in civil law from McGill University Montreal. He has also studied at Ottawa University, the University of London and Columbia University.

Joined the Mexican Diplomatic Service in 1946. Ambassador to Brazil (1979-80), Ambassador to Belgium (1980-83).

Has written a number of books on law, international affairs and history, and a biography of Bolivar.

An experienced career diplomat, widely respected in the Foreign Ministry. Able, pleasant and distinguished.

Speaks excellent English.



## MEETING WITH PRESIDENT OF MEXICO

### Mexican Economy

1. Congratulate him on progress so far in managing Mexico's debt problem, dealing with inflation and reducing public sector deficit. Recognise that adjustment has been painful. Ask how he sees prospects for meeting targets next year? Is there scope for increasing growth by reducing state ownership? (George Shultz' point).

### International Debt

2. Strong support for continuing case by case approach: Mexico a good example of what can be achieved. Almost best to stick to existing channels - IMF, Paris Club, etc. - rather than try to deal with debt by political dialogue.

3. Britain will continue to play its part in

efforts to assist official debtors, e.g. through Paris Club.

### Trade and Investment

4. Pleased to see number of trade and investment agreements signed yesterday.

5. UK making available £1 million technical co-operation package for training of Mexican personnel in connection with projects announced during visit.

6. Also able to increase official credit cover.

7. Want to see trade expand. Particular prospects in education, fisheries, aerospace and tourism.

8. CBI looking forward to his speech tomorrow.



Sicartsa (if raised)

9. Understand that foreign supply contracts will be honoured. Hope Davy and Sicartsa will reach a fair settlement as quickly as possible.

Oil

10. Explain Government's policy on BNOG.

11. Don't like idea of formal producer/consumer dialogue: better stick to informal contacts.

Central America

12. Acknowledge Mexican efforts to achieve a settlement.

13. Essential need is for Sandinistas to stop support for subversion in the area and introduce real democracy in Nicaragua.

14. Our support for Duarte. Our role in Belize.

Falklands

15. Explain our efforts to improve relations with Argentina and sad lack of response.

16. Hope Mexico will encourage Argentina to more pragmatic and constructive line.

17. Argentine allegations about Mount Pleasant airport absurd.



SUBJECT  
ops  
master

To be  
PELAEZ MINISTERS  
PERSONAL MESSAGE  
SERIAL No. T95 B/86

3 AMY LEAK /  
1 FILE

CEPC

2/15  
✓  
FCO  
CDP  
2975

27582 CABOFF G  
1763475 SREME

MEXICO D.F. A 20 DE MAYO DE 1986.

EXCELENTISIMA SEÑORA  
MARGARET THATCHER,  
PRIMER MINISTRO DEL REINO UNIDO  
DE LA GRAN BRETAÑA E IRLANDA DEL NORTE,  
LONDRES.

AO 261 A NOMBRE DEL PUEBLO Y DEL GOBIERNO DE MEXICO EXPRESO  
A VUESTRA EXCELENCIA MI PROFUNDO AGRADECIMIENTO POR LAS  
MUESTRAS DE SOLIDARIDAD Y PESAR TRANSMITIDAS CON MOTIVO DEL  
LAMENTABLE ACCIDENTE AEREO OCURRIDO EN MI PAIS EL PASADO 31  
DE MARZO.

DESEO HACER PROPICIA LA OPORTUNIDAD PARA REITERAR A VUESTRA  
EXCELENCIA LAS SEGURIDADES DE MI MAS ALTA Y DISTINGUIDA CON-  
SIDERACION.

MIGUEL DE LA MADRID H.  
PRESIDENTE DE LOS ESTADOS UNIDOS MEXICANOS

IHA  
1763475 SREME  
27582 CABOFF G  
IHA T



00.

cepc



EMBAJADA DE MEXICO  
8 Halkin Street  
London SW1

1408

London, 25th of april, 1986.

Mr. C.D. Powell  
Private Secretary to the  
Prime Minister,  
Overseas Affairs,  
No. 10 Downing Street  
London SW1

CDP  
26/4

Dear Mr. Powell,

I should be most grateful if  
you could kindly convey the contents of the  
enclosed letter addressed to Her Excellency  
The Prime Minister The Rt. Hon. Margaret  
Thatcher, MP., by President of Mexico Miguel  
de la Madrid Hurtado.

Yours Sincerely,

*R. D. G. Navarrete*  
Jorge Eduardo Navarrete  
Ambassador





SUBJECT  
cc ops  
master

PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T79/86

UNOFFICIAL TRANSLATION

EMBAJADA DE MEXICO  
LONDRES

Mexico D.F., 24th of April, 1986.


Her Excellency  
Mrs. Margaret Thatcher,  
Prime Minister of the United Kingdom.

I am extremely grateful to your  
Excellency for your kind message of condolence after  
the unfortunate aerial disaster of the Mexican airliner  
last march.

I avail myself of this opportunity  
to renew to your Excellency the assurances of my highest  
and most distinguish consideration.

Miguel de la Madrid Hurtado  
President of Mexico





EMBAJADA DE MEXICO  
LONDRES

México, D.F., a 24 de abril de 1986.

Excelentísima Señora  
Margaret Thatcher,  
Primer Ministro del Reino Unido  
de la Gran Bretaña e Irlanda del Norte.

Mucho agradezco a Vuestra Excelencia  
la sensible muestra de condolencias que tuvo a bien trans  
mitirme, en ocasión del lamentable accidente aéreo ocurrido  
en México en marzo pasado.

Aprovecho la oportunidad para reiterar  
a Vuestra Excelencia las seguridades de mi más alta y dis  
tinguida consideración.

Miguel de la Madrid Hurtado  
Presidente de los Estados Unidos  
Mexicanos.



ACM 182/1

RECEIVED IN REGISTRY NO. 3		
02 APR 1986		
ADEN OFFICER	REGISTRY	
BY AIR	PA	ADDITIONAL
	fr	fr

Subject

TOP COPY

4

cc ops  
master

PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T62A1886

UNCLASSIFIED

26446 - 1

ZCZC  
MILNAN 6446 OCMIAN 6446  
UNCLASSIFIED  
OO MEXIC  
FM FCOLN TO MEXIC  
011955Z APR  
GRS 70

UNCLASSIFIED  
FM FCO  
TO IMMEDIATE MEXICO CITY  
TELNO 108  
OF 011955Z APR  
AND TO IMMEDIATE NEW DELHI FOR INFO

MEXICANA AIR CRASH

1. PLEASE DELIVER FOLLOWING MESSAGE OF SYMPATHY FROM PRIME MINISTER TO PRESIDENT DE LA MADRID. BEGINS:  
IT WAS WITH GREAT DISTRESS THAT I HEARD OF THE TERRIBLE CRASH OF THE MEXICANA AIRLINER ON 31 MARCH. MY COLLEAGUES AND I SEND YOU AND THE FAMILIES OF THE VICTIMS OUR DEEPEST SYMPATHIES.  
ENDS

HOWE

LIMITED  
READ  
MAED  
CONS D  
B  
RELABYX0000  
SIR W. HARDING  
MR DAVID THOMAS





10 DOWNING STREET

*From the Private Secretary*

1 April 1986

Thank you for your letter of 1 April about the Mexican air crash. The Prime Minister, as I have already informed you by phone, has agreed to send a message of condolence to President de la Madrid in the following terms:

"It was with great distress that I heard of the terrible crash of the Mexicana airliner on 31 March. My colleagues and I send you and the families of the victims our deepest sympathies."

(Timothy Flesher)

Colin Budd, Esq.,  
Foreign and Commonwealth Office.

dg





cc PG

Foreign and Commonwealth Office

London SW1A 2AH

1 April 1986

Dear Tim,

Mexico: Air Crash

We have not been able to consult the Foreign Secretary, but suggest that in the circumstances - following the crash on 31 March of a Mexican airliner in which all 166 passengers and crew were killed - it would be appropriate for the Prime Minister to send a message of condolence to President de la Madrid.

/ I attach a draft telegram to Mexico City.

Yours Sincerely,  
Colin Budd

(C R Budd)  
Private Secretary

T Flesher Esq  
PS/10 Downing Street



# OUT TELEGRAM

	Classification <b>UNCLASSIFIED</b>	Caveat	Precedence <b>IMMEDIATE</b>
ZCZC TC CAVEAT FM TO TELNO OF AND TO	1 ZCZC 2 UNCLASSIFIED 3 4 FM FCO 5 TO IMMEDIATE MEXICO CITY 6 TELNO 7 OF 8 9 10 MEXICANA AIR CRASH 11 12 1. Please deliver following message of sympathy from Prime 13 Minister to President de la Madrid. Begins: 14 It was with great distress that I heard of the terrible crash of 15 the Mexicana airliner on 31 March. <sup>my colleagues and I</sup> I send you and the families 16 of the victims <sup>our</sup> <del>my</del> deepest sympathies. <del>Ends.</del> <u>no time</u> 17 <u>as to British people. Ends</u> 18 HOWE 19 YYYY 20 21 MAIN 22 LIMITED 23 MCAD 24 MAED 25 Consular Dept /// 26 PS // 27 PS/Lady Young / 28 Sir W Harding 29 Mr David Thomas	12 1. Please deliver following message of sympathy from Prime 13 Minister to President de la Madrid. Begins: 14 It was with great distress that I heard of the terrible crash of 15 the Mexicana airliner on 31 March. <sup>my colleagues and I</sup> I send you and the families 16 of the victims <sup>our</sup> <del>my</del> deepest sympathies. <del>Ends.</del> <u>no time</u> 17 <u>as to British people. Ends</u>	
	NNNN		
YYYY MAIN ADDITIONAL NNNN	Catchword:		
	File number	Dept PS	Drafted by (Block capitals) BUDD
	Telephone no 4831		
	Authorised for Initials Date/time despatch by:		
	For COD use only	Comcen reference	Telegram number
	Processed by		





1





10 DOWNING STREET

*From the Private Secretary*

13 February 1986

**MEXICAN PRESS ARTICLE ON ALLEGED INVESTMENT BY THE  
PRIME MINISTER IN MEXICO**

Thank you for your letter of 13 February. There are some stories so absurd as not to be worth dignifying with comment. And I find it hard to believe a denial of this one three weeks after publication of the article is likely to carry much weight. I do not wish to seem unkind: but I would have thought a little nous would have pointed to an on-the-spot rubbishing of the story when it appeared.

(CHARLES POWELL)

R. N. Culshaw, Esq.,  
Foreign and Commonwealth Office.

SB



007 MKK

Robert Colson

for  
COP

Mexican Born Article on  
Alleged to be written by  
Ric Amick - Mexico.

Thank you for your letter of  
13 February. There are some stories  
so absurd as not to be  
worth dignifying with comment. And I  
find it hard to believe a  
~~story~~ clinical <sup>of this one</sup> ~~of three~~ weeks after  
publication of the article in they to  
~~can~~ carry much weight. I do  
not wish to seem unkind: but I  
would have thought a little ~~hard~~  
news would have ~~the~~ pointed to an  
on-the-spot on-the-spot rubbishing of the  
~~story~~ story when it ~~was~~ appeared. CR





Foreign and Commonwealth Office

London SW1A 2AH

13 February 1986

*Star Charts,*

Mexican Press Article on Alleged Investment  
by the Prime Minister in Mexico

We have received from the Embassy in Mexico City the attached translation of an article from a Mexican daily newspaper (circulation 75,000). It alleges that the Prime Minister is investing approximately £24m in a hotel development project in Acapulco, Mexico, which will require the relocation of 2,500 families from the area against their will.

We believe it important to set the record straight before the story spreads and creates anti-British sentiment in the period running up to the World Cup, in which three British teams will compete.

I should be grateful for your approval to instruct the Embassy on the lines of the attached telegram to inform the newspaper editor, and the spokesman of the residents who appears to have started the story, that it is false. We do not recommend that a retraction be requested as this could lead to further publicity for the story in a country where denials are usually disbelieved.

*Yours ever,*

*Robert Culshaw*

(R N Culshaw)  
Private Secretary

C D Powell Esq  
No.10 Downing Street



# OUTWARD TELEGRAM

Classification	Caveat	Precedence
RESTRICTED		PRIORITY
TC	SECURITY CLASSIFICATION . . . RESTRICTED . . . . .	
CAVEAT	PRIVACY MARKING/RESTRICTIVE PREFIX . . . . .	
FM	FM (post) . . . . . FM FCO . . . . .	
TO	TO (precedence/post) . . . . . TO PRIORITY MEXICO CITY . . . . .	
TELNO	TELNO/TELELETTER . . . . . TELNO . . . . .	
OF	OF (Time of origin) . . . . . Z (Month) . . . . . (Year) . . . . .	
AND TO	AND TO (precedence/post) . . . . .	
	. . . . .	
	AND TO SAVING . . . . .	
INFO	INFO (precedence/post) . . . . .	
	. . . . .	
	INFO SAVING . . . . .	

**Distribution:-**

PS  
 PS/Lady Young  
 Sir W Harding  
 Mr David Thomas  
 MCAD  
 News Dept

MILTON'S LETTER TO JOY OF 31 JANUARY: PRIME MINISTER  
 AND ACAPULCO

1. We have consulted No 10 about the article in EL Dia of 23 January alleging that the Prime Minister was investing money in a tourist development near Acapulco. They agree that you should inform the editor of EL Dia and the spokesman for the residents (Lopez Guzman) that the story is without foundation. We do not favour a public retraction in a country where denials tend to be disbelieved

2. You should take similar action if the story is carried in other newspapers. Please keep us informed of any further interest shown in the story.

		Catchword:	
File number	Department	Drafted by: (block capitals)	Telephone no
	MCAD	S D R BROWN	233-5102





NOTHING TO BE WRITTEN IN THIS MARGIN



020  
cefc  
TRANSLATION

'EL DIA', Acapulco, Gro - 23 January 1986

MARGARET THATCHER INVESTS IN ACAPULCO

The Prime Minister of Great Britain, Margaret Thatcher, with an investment of \$MN15,000m will construct a luxury hotel in the new tourist complex Puerto Marquez, for which reason the Government has set up a programme for the relocation of 2,500 families who have lived in the area for twenty years.

In bringing this to notice, the political adviser of the dwellers affected, Enrique Lopez Guzman, condemned unscrupulous persons who had endeavoured to deceive the local residents with the story that they will not benefit from the transaction, notwithstanding the existence of an agreement between the town residents and the Federal authorities.

The spokesman reported that the British Premier, Margaret Thatcher, had signed an agreement with the relevant authorities for carrying out an investment in Mexico and that, despite the fact that the residents did not agree to move, they had decided to do so because foreign investment in the country would enable the economy to develop.

Likewise, Lopez Guzman pointed out that unless the commitments undertaken by the relevant authorities whereby the existing population was to be resettled three kilometers from the site below the Santissimo Hill are being kept, as well as an urban infrastructure to improve living conditions developed, the residents would not abandon the area even if it had been earmarked for the British Prime Minister.

Finally, the residents' adviser charged Germán Salinas, Antonio Sánchez and Emilio Zamora Olmedo with obstructing the work of the Federal authorities to prepare the ground to be used for the construction of a modern tourist complex open to all social sectors of the population.

BRITISH EMBASSY

MEXICO CITY

20 January 1986



**Poor quality  
text due to the  
nature of the  
material.**

**Image quality is  
best available.**



PREMIER THATCHER

NEWSPAPER/PERIODICAL

EL DIA

MEXICO CITY

ISSUE DATE

En hotel de lujo

## Margaret Thatcher invierte en Acapulco

ACAPULCO, Guerrero, 23 de enero. — Con una inversión de 15 mil millones de pesos, la primera ministra de la Gran Bretaña, Margaret Thatcher, construirá un lujoso hotel en el nuevo complejo turístico Puerto Marqués, motivo por el cual el gobierno ha instrumentado un programa para reubicar a las dos mil 500 familias a vecinadas desde hace más de 20 años en dicho lugar.

Al señalar lo anterior, el asesor político de los afectados, Enrique López Guzmán, denunció que personas sin escrúpulos han pretendido engañar a los pobladores con el cuento de que no serán favorecidos por el cambio, a pesar que existe un convenio entre los pobladores y las autoridades federales.

El interlocutor reseñó que la premier inglesa, Margaret Thatcher, signó un convenio con las autoridades respectivas para realizar una inversión de nuestro país y que, a pesar de no estar los pobladores de acuerdo en el desplazamiento, han decidido hacerlo para que la inversión extranjera en nuestro país permita desarrollar la economía.

Asimismo, López Guzmán expresó que de no cumplirse los compromisos contraídos con las autoridades respectivas para que el viejo poblado sea ubicado a tres kilómetros del lugar bajo el cerro conocido como el Santísimo, como es la construcción de una infraestructura urbanística para elevar sus condiciones de vida, no a abandonar el sitio, así sea destinado a la premier de la Gran Bretaña, Margaret Thatcher.

Por último, el asesor de los a vecinados de la población de Puerto Marqués, acusó a Germán Salinas, Antonio Sánchez, y Emilio Zamora Olmedo de obstaculizar la labor de las autoridades federales para permitir el uso del suelo en la construcción de un complejo turístico moderno y accesible a todos los estratos sociales de la población. Mario GARCIA RODRIGUEZ, corresponsal.









**MIGUEL DE LA MADRID H.**  
 PRESIDENTE CONSTITUCIONAL  
 DE LOS ESTADOS UNIDOS MEXICANOS

SUBJECT  
 cc Master  
 ops

R2/w

CDN  
 2/k.

Los Pinos, D.F., 23 de septiembre de 1985

SEÑORA  
 MARGARET THATCHER  
 Primer Ministro de la  
 Gran Bretaña

**PRIME MINISTER'S**

**PERSONAL MESSAGE**

**SERIAL No. T 167 A(i) / 85**

Excelentísima Primera Ministro:

En nombre del pueblo y gobierno de México, extiendo a usted el más cumplido agradecimiento por las muestras de apoyo que nos ha hecho llegar con motivo del movimiento telúrico que afectó a algunas zonas de nuestro país.

Agradezco, asimismo, el ofrecimiento de ayuda manifestada en su mensaje.

Le envío un cordial saludo.



(6)

PRIME MINISTER'S  
PERSONAL MESSAGE  
UNCLASSIFIED

TOP COPY

SERIAL No. T 1166 D/85

10514-2

OCMIAN 0514  
UNCLASSIFIED  
FFFF BY COMMERCIAL TELEX TO IMMEDIATE BRITISH CHAMBER OF COMMERCE  
FFFF MEXICO CITY (TLX 1771036 A/B BRITME)  
ZZ MEXIC  
FM FCOLN TO MEXIC  
201434Z SEP  
GRS 161

ACM 232/2	
RECEIVED BY PROPERTY 3	
23 SEP 1985	
DESK OFFICER	
INDEX	PA
	lu

UNCLASSIFIED  
FM FCO  
TO FLASH MEXICO CITY  
TELNO 1057  
OF 201434Z SEPTEMBER 85  
INFO FLASH PANAMA CITY

(5)

THIS OVERTAKES TEXT IN MY TELNO 1056.  
MESSAGE FROM THE PRIME MINISTER TO PRESIDENT DE LA MADRID  
1. PLEASE PASS THE FOLLOWING MESSAGE TO THE PRESIDENT AS SOON  
AS POSSIBLE.

BEGINS  
DEAR MR PRESIDENT

I WAS DISTRESSED BEYOND MEASURE TO HEAR OF THE DEVASTATING  
EARTHQUAKE WHICH HIT MEXICO YESTERDAY. ALTHOUGH THE FULL  
DIMENSIONS OF THE DISASTER ARE NOT CLEAR AS I WRITE, THE  
SUFFERING AND DAMAGE ARE CLEARLY ON A TERRIBLE SCALE. MAY I  
EXTEND THROUGH YOU MY DEEPEST SYMPATHIES TO THE FAMILIES OF THE  
DEAD AND INJURED. WE ARE READY TO HELP IN WHATEVER WAY WE CAN AT  
THIS TIME OF TRAGEDY FOR YOUR COUNTRY.

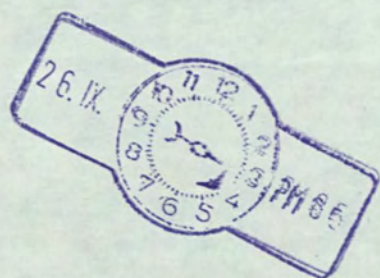
PLEASE LET ME KNOW HOW WE CAN MEET YOUR MOST PRESSING NEEDS.  
YOURS SINCERELY, MARGARET THATCHER.  
ENDS

HOWE

MAIN  
LIMITED  
MCAD  
PS  
PS/LADY YOUNG  
PS/PUS  
MR DAVID THOMAS

COPIES TO:  
DISASTER UNIT ODA









10 DOWNING STREET

*From the Private Secretary*

20 September 1985

**Mexican Earthquake**

I attach an amended message for the Mexican President, which has been approved by the Prime Minister.

I should be grateful if you would ensure this is despatched as soon as possible.

(Mark Addison)

Peter Ricketts, Esq.,  
Foreign and Commonwealth Office

MR



File No. \_\_\_\_\_  
Department \_\_\_\_\_  
Drafted by \_\_\_\_\_  
(Block Capitals) \_\_\_\_\_  
Tel. Extn. \_\_\_\_\_

OUTWARD  
TELEGRAM

Security Classification
Precedence
DESKBY _____ Z

FOR  
COMMS. DEPT.  
USE

Despatched

(Date) \_\_\_\_\_  
(Time) \_\_\_\_\_ Z

POSTBY \_\_\_\_\_ Z

PREAMBLE

(Time of Origin) \_\_\_\_\_ Z (G.M.T.) (Restrictive Prefix) \_\_\_\_\_  
(Security Class.) \_\_\_\_\_ (Caveat/Privacy Marking) \_\_\_\_\_  
(Codeword) \_\_\_\_\_ (Deskby) \_\_\_\_\_ Z

TO \_\_\_\_\_ (precedence) \_\_\_\_\_ (post) \_\_\_\_\_ Tel. No. \_\_\_\_\_ of \_\_\_\_\_

AND TO (precedence/post) \_\_\_\_\_

AND SAVING TO \_\_\_\_\_

REPEATED TO (for info) \_\_\_\_\_

SAVING TO (for info) \_\_\_\_\_

Distribution:-

[TEXT]

Dear Mr. President,

I was distressed beyond measure to hear of the devastating earthquake which hit Mexico yesterday. Although the full dimensions of the disaster are not clear as I write, the suffering and damage are clearly on a terrible scale. May I extend through you my deepest sympathies to the families of the dead and injured. We are ready to help in whatever way we can at this time of tragedy for your country.

Please let me know how we can meet your most pressing needs.

Yours sincerely,

Margaret Thatcher

Copies to:-



Final version - to be despatched.

MESSAGE FROM THE PRIME MINISTER TO PRESIDENT DE LA MADRID

Dear Mr. President

I was distressed beyond measure to hear of the devastating earthquake which hit Mexico yesterday. Although the full dimensions of the disaster are not clear as I write, the suffering and damage are clearly on a terrible scale. May I extend through you my deepest sympathies to the families of the dead and injured. We are ready to help in whatever way we can at this time of ~~appalling~~ tragedy for your country. Please let me know how we can meet your most pressing needs.

Yours sincerely

Margaret Thatcher



Draft . 20/9 .

MESSAGE FROM THE PRIME MINISTER TO PRESIDENT DE LA MADRID

I was appalled to hear of the terrible earthquake which hit Mexico yesterday. May I extend through you my deepest sympathies to the bereaved. We are ready to help in whatever way we can at this time of tragedy for your country. Please let me know if you have any urgent needs.



GRS 500

~~CONFIDENTIAL~~

CONFIDENTIAL

*Releas  
your meeting  
to  
de la Madrid.*

FM MEXICO CITY 072250Z 1985

TO IMMEDIATE FCO

TELEGRAM NUMBER 675 OF 7 JUNE

AND TO IMMEDIATE DTI (OWEN OT4/2), ECGD (MISS HARDING), HMT (MRS CASE),

BANK OF ENGLAND (PORTER)

MEXICAN ECONOMY

1. I CALLED ON FRANCISCO SUAREZ, ACTING FINANCE MINISTER, ON 6 JUNE TO SEEK CLARIFICATION OF THE MEXICAN GOVERNMENT'S DECISION ON THE FUTURE OF THE SICARTSA PROJECT, ON WHICH PLEASE SEE OUR OTTER 240. AT THE SAME TIME, SUAREZ GAVE ME AN UPBEAT ASSESSMENT OF THE MEXICAN ECONOMY, BASED ON CERTAIN CURRENT FAVOURABLE INDICATORS, WHICH YOU MAY LIKE TO TAKE INTO ACCOUNT ON THE EVE OF THE STATE VISIT.

2. SUAREZ HAD JUST COME FROM A MEETING WITH KEY REPRESENTATIVES OF MEXICAN COMMERCE AND INDUSTRY AT WHICH HE AND THE ACTING MINISTER FOR TRADE AND INDUSTRIAL DEVELOPMENT HAD BEEN EXPLAINING THE GOVERNMENT'S REVISED EXPORT PROGRAMME (DIMEX) WHICH ALLOWS EXPORTERS CERTAIN IMPORTANT CONCESSIONS ON IMPORTS. THIS MEASURE, WHICH DOMESTIC PRODUCERS HAD SUCCESSFULLY RESISTED IN ITS ORIGINAL FORM, MAY GIVE A BADLY NEEDED BOOST TO NON-OIL EXPORTS AS WELL AS OPENING UP THE DOMESTIC MARKET TO MORE COMPETITION.

3. THE JUST AVAILABLE INFLATION FIGURE FOR MAY, SUAREZ TOLD ME, WAS 2.4 PER CENT (THIS HAS SINCE BEEN OFFICIALLY ANNOUNCED). SUAREZ SAID THAT THIS WAS THE LOWEST FIGURE FOR ONE MONTH SINCE THE PRESENT ADMINISTRATION TOOK OFFICE IN DECEMBER 1982 (IN FACT IT IS THE LOWEST SINCE NOVEMBER 1981). THE ACCUMULATED RATE OF INFLATION FOR JANUARY-MAY 1985 IS NOW 22.6 PER CENT. SUAREZ THOUGHT THAT THERE WAS STILL A CHANCE OF THE GOVERNMENT'S ACHIEVING A WORTHWHILE REDUCTION IN THE YEAR END INFLATION RATE. THIS WAS THE MORE LIKELY NOW THAT A NON INFLATIONARY MINIMUM WAGE SETTLEMENT HAD BEEN AGREED (OUR TELEGRAM NO 639). ALSO A FURTHER ROUND OF PUBLIC EXPENDITURE CUTS TOTALLING ONE BILLION US DOLLARS WHICH WOULD HELP. EMPLOYMENT WAS ALSO PICKING UP SATISFACTORILY.

4 I ASKED SUAREZ ABOUT THE OVER-VALUATION OF THE PESO WHICH WAS HAVING AN ADVERSE EFFECT ON MEXICO'S EXPORTS. THE UNOFFICIAL PARALLEL RATE FOR THE PESO WENT UP TO AROUND 300 PESOS TO THE DOLLAR AT THE END OF LAST WEEK. IT HAS NOW DROPPED BACK TO 270. SUAREZ SAID HE HAD NO EASY EXPLANATION FOR THE MOVEMENT IN THE VALUE OF THE PESO, BUT HE DREW MY ATTENTION, TO SILVA HERZOG'S STATEMENT ON 4 JUNE PRIOR TO HIS DEPARTURE WITH THE PRESIDENT, TO THE EFFECT THAT THERE WOULD BE NO ABRUPT CHANGE IN THE EXCHANGE RATE. THIS HAS BEEN INTERPRETED AS RULING OUT BOTH A FURTHER ADJUSTMENT FOR THE TIME BEING IN THE SLIPPAGE RATE OF THE PESO AND A STRAIGHT DEVALUATION. HOWEVER, SUAREZ ACCEPTED THAT THE SLIPPAGE RATE WOULD HAVE TO BE WATCHED CLOSELY, PARTICULARLY IN THE LIGHT OF WHAT HAPPENS ON OIL PRICES. (ON WHICH LABASTIDA, MINISTER FOR ENERGY, HAS BEEN CONSULTING WITH THE PRESIDENT IN MADRID).

CONFIDENTIAL

/s. there



CONFIDENTIAL

5. THERE ARE OTHER LESS FAVOURABLE FEATURES OF THE ECONOMY, PARTICULARLY THE BALANCE OF PAYMENTS PROSPECTS FOR 1985, WHICH I DID NOT TOUCH ON WITH SUAREZ. HIS OPTIMISM ABOUT SOME OF THE CURRENT ECONOMIC INDICATORS IS IMPORTANT BUT THE JIC'S RECENT ASSESSMENT OF THE ECONOMY IS STILL VALID (OUR TELEGRAM NO 607).

6. PLEASE PASS COPY TO SIR KENNETH JAMES, C/O HEADS OF MISSION SECTION.

MILTON

FINANCIAL  
MCAD.

COPIES TO .  
MR. OWEN - OT4/2 DTI  
MISS HARDING - ECGD.  
MRS CASE - H.M.T.  
MR. PORTER B/E.  
SIR. K JAMES - C/O HOM  
SEC.

-2-  
CONFIDENTIAL



GRS 800

# CONFIDENTIAL

CONFIDENTIAL

FM MEXICO CITY 181630Z SEPTEMBER 1984

TO PRIORITY FCO

TELEGRAM NUMBER 925 OF 18 SEPTEMBER

INFO PRIORITY WASHINGTON, SAN JOSE, TEGUCIGALPA, CARACAS,  
PANAMA, PARIS.

MR HEATH'S CALL ON FOREIGN MINISTER SEPULVEDA

## SUMMARY

1. MR HEATH HAD A LONG TALK WITH SEPULVEDA ON 17 SEPTEMBER ABOUT THE CONTADORA PROCESS AND THE MEETING AT MAR DEL PLATA. SEPULVEDA WAS OPTIMISTIC ABOUT THE FIRST AND PESSIMISTIC ABOUT THE LATIN AMERICAN DEBT PROBLEM.

## CENTRAL AMERICA AND CONTADORA

2. SEPULVEDA SAID THAT MEXICO HAD PLAYED A PART IN BRINGING THE NICARAGUANS AND AMERICANS TOGETHER ON A BILATERAL BASIS. THERE HAD BEEN FIVE MEETINGS AT MANZANILLO AND THE TWO SIDES HAD GOT DOWN TO SOME REAL HARD TALKING. HE HOPED THAT THERE MIGHT BE SOME GROUNDS FOR BASIC AGREEMENTS BY NOVEMBER. HIS IMPRESSION WAS THAT THE UNITED STATES WERE SERIOUSLY PREPARED TO GET DOWN TO NEGOTIATING DIFFICULT POINTS AND THAT THERE WAS NO MOOD IN THE UNITED STATES AT PRESENT FOR MILITARY ADVENTURES IN NICARAGUA.

3. AS FOR CONTADORA, MEXICO THOUGHT THAT IT WOULD BE POSSIBLE TO GENERATE ENOUGH SUPPORT IN THE INTERNATIONAL (UN, OAS, LATIN AMERICA AND OTHER) FORA TO HAVE A HIGH LEVEL MEETING BEFORE NOVEMBER TO ENDORSE THE SIGNATURE BY THE CENTRAL AMERICAN GOVERNMENTS CONCERNED OF THE CONTADORA ACT. MR HEATH ASKED WHETHER THE MEXICANS THOUGHT THE UNITED STATES WOULD ENDORSE IT. SEPULVEDA SAID THAT THERE WAS AN ADDITIONAL PROTOCOL BY WHICH OUTSIDE POWERS COULD PROMISE TO FULFIL SUCH OBLIGATIONS AS LAY WITHIN THEIR POWERS AND TO AVOID ACTIONS WHICH WOULD VIOLATE THE ACT. HE HOPED THAT THE UNITED STATES, CUBA AND ALL THE LATIN AMERICAN COUNTRIES AND AS MANY EUROPEAN COUNTRIES AS POSSIBLE WOULD SIGN THE ACT.

## VERIFICATION

4. THE TOUGHEST QUESTION IN CONTADORA WOULD BE THE VERIFICATION MECHANISM. THE CONTADORA GOVERNMENTS THEMSELVES DID NOT WANT TO GET INVOLVED IN THE SECURITY ARRANGEMENTS. HE SAID THAT THEY WERE LOOKING TO CANADA AND FRANCE FOR HELP. MR HEATH SAID THAT HE THOUGHT IT WAS A VERY GOOD IDEA TO GET CANADA INVOLVED. THEY HAD MUCH EXPERIENCE OF PEACE-KEEPING AND WERE PLAYING AN INCREASED ROLE IN THE CARIBBEAN.

CONFIDENTIAL

/CUBA



CUBA AND CENTRAL AMERICA

5. MR HEATH ASKED ABOUT THE ATTITUDE OF CUBA. SEPULVEDA SAID THAT CASTRO HAD BEEN POSITIVE IN HIS APPROACH TO CONTADOR. THE MEXICANS BELIEVED THAT CUBA NOW WANTED TO REMAIN IN CLOSE TOUCH WITH THE NEGOTIATING PROCESS. IN REPLY TO A QUESTION ON HOW DEEPLY CUBA WAS INVOLVED IN NICARAGUA, HE SAID IT WAS MAINLY THROUGH THE SUPPLY OF TEACHERS: THE NUMBER OF MILITARY ADVISERS WAS NOT LARGE.

6. MR HEATH ASKED WHETHER CUBA WAS LOOKING FOR INDUSTRIAL ECONOMIC HELP. SEPULVEDA SAID THAT HE HAD BEEN STRUCK AT THE QUITO CONFERENCE HOW MUCH THE CUBAN REPRESENTATIVE HAD STRESSED THAT CUBA BELONGED TO LATIN AMERICA. MR HEATH SAID THAT HE THOUGHT IT WAS IMPORTANT TO TRY AND ENCOURAGE CASTRO TO GET HIS TROOPS OUT OF ANGOLA. IT WAS IMPORTANT NOT TO GO FOR SOLEMN UNDERTAKINGS IN DIPLOMACY. PEOPLE LIKE HARTIMAN AND DEAN ACHESON ALWAYS ATTACHED MORE IMPORTANCE TO THE ACTUAL PROCESS THAN TO SOLEMN UNDERTAKINGS. THESE MATTERS WERE PART OF A DIPLOMATIC OPERATION. SEPULVEDA SAID THAT HE AGREED AND HE THOUGHT THAT POLITICAL NEGOTIATIONS WERE THE BEST ANSWER TO CENTRAL AMERICAN PROBLEMS. US MILITARY INTERVENTION WOULD BE A NIGHTMARE FOR LATIN AMERICA. ANY COMPARISON WITH GRENADA WAS QUITE UNREAL.

MAR DEL PLATA

7. MR HEATH ASKED WHETHER A SUMMIT MEETING HAD BEEN PROPOSED. SEPULVEDA SAID THAT IT HAD. IT WAS FELT THAT CERTAIN FINANCE AND TRADE PROBLEMS COULD NOT BE SOLVED ONLY BY THE BANKS. A POLITICAL SPECTRUM WAS NECESSARY. THERE WAS A LINK BETWEEN THE FINANCIAL, TRADE AND DEBT PROBLEMS. MR HEATH SAID THAT MEXICO WAS A GOOD EXAMPLE OF HOW TO DEAL WITH THE DEBT PROBLEMS. BUT IT WAS MUCH MORE DIFFICULT FOR SMALL COUNTRIES LIKE TANZANIA AND OTHERS LIKE YUGOSLAVIA. BUT HE DOUBTED WHETHER AGREEMENTS AT LARGE SUMMITS AMOUNTED TO ANYTHING USEFUL. THE BRANDT COMMISSION HAD PROPOSED A MEETING OF LIKE MINDED COUNTRIES ON TRADE RATHER THAN A NORTH/SOUTH SUMMIT LIKE CANCUN WHICH HAD BEEN A FAILURE.

8. SEPULVEDA SAID HE HAD BEEN VERY MUCH AFFECTED BY THE MEETING AT MAR DEL PLATA. THERE WAS A DEEP SENSE OF FRUSTRATION AND DESPERATION. THE LACK OF ECONOMIC INFRASTRUCTURE IN CERTAIN COUNTRIES WAS A TERRIBLE PROBLEM. SOME EXAMPLES WERE QUITE DRAMATIC. BOLIVIA WAS ONE. HE DID NOT SEE HOW THEY COULD MANAGE TO PAY THEIR DEBTS. AND IT WOULD BE A VERY SERIOUS MATTER IF THEY WERE TO FALL IN DEFAULT. ALL OF US WOULD FEEL THE CONSEQUENCES OF THIS, BUT IT MIGHT HAPPEN.

<sup>2</sup>  
CONFIDENTIAL

/FRANKLAND



# CONFIDENTIAL

## FALKLANDS

9. MR HEATH ASKED IF THERE HAD BEEN ANY MENTION OF THE FALKLANDS BY THE ARGENTINES. SEPULVEDA SAID THAT THERE HAD BEEN NONE.

## SAN JOSE MEETING

10. REVERTING FINALLY TO THE MEETING AT SAN JOSE, MR HEATH ASKED HIM WHAT THE MEXICANS WOULD HOPE TO GET OUT OF THIS. SEPULVEDA SAID THEY WANTED CLEAR SUPPORT FOR CONTADORA, FOR THE ACT OF CONATADORA AND FOR THE SIGNING PROCESS. ON THE ECONOMIC SIDE THEY WERE LOOKING FOR SOMETHING SIMILAR TO THE AGREEMENT BETWEEN THE COMMUNITY AND LOME. IT WOULD ALSO BE IMPORTANT FOR THERE TO BE SOME FOLLOW UP MECHANISM.

JAMES

[COPIES SENT TO NO 10 DOWNING ST.]

CENTRAL AMERICA  
STANDARD (PALACE)  
MCAD  
NAD  
S AM D  
FID  
WIAD  
SOVIET D  
EED  
UND — ERD  
SEC D  
ECD(E)  
MAED

COPIES TO:-  
ASSESSMENTS STAFF CABINET OFFICE  
MOD D14  
MR ARBUTHNOTT ODA

3

# CONFIDENTIAL



Subject a master  
epi



MJ  
PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T161/84  
(Paul Channon)

10 DOWNING STREET

THE PRIME MINISTER

18 September 1984

Dear Mr. President,

I am taking advantage of Paul Channon's visit to Mexico to let you know how pleased I am that you have accepted The Queen's invitation to pay a State Visit here next year. I very much look forward to meeting you then and to what I am sure will be a useful and happy occasion.

Paul Channon's visit coincides with the first meeting for several years of the Mexican-British Joint Commission. I hope that this will help to further economic and industrial co-operation between us and that we shall be able to take full advantage of the improved climate which has been created by your government's courageous and successful economic policies. I remember well the signing of the Memorandum of Understanding on the establishment of the SICARTSA II steel plant programme during my visit in 1981. I look forward to the successful completion of this project and hope that it will pave the way for further British participation in Mexico's development.

I would also like to assure you of the British Government's support for the efforts which you and others are making to reach peaceful solutions to the political



problems of Central America. We shall do what we can to help, both at the meet of Foreign Ministers in San Jose and thereafter.

Yours sincerely  
Margaret Thatcher

---

His Excellency Mr. Miguel de la Madrid Hurtado



COVERING CONFIDENTIAL

*PC*



Foreign and Commonwealth Office

London SW1A 2AH

18 September, 1984

*Dear Charles,*

Mexico: Possible Message from the Prime Minister

In your letter of 18 September you asked for a redraft of the message from the Prime Minister to President de la Madrid. This I now enclose.

I am copying this letter to the Private Secretaries to the Secretary of State for Trade and Industry and the Minister for Trade.

*Yours ever,*

*Peter Ricketts*

(P F Ricketts)  
Private Secretary

C D Powell Esq  
10 Downing Street

COVERING CONFIDENTIAL



DSR 11 (Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM: Prime Minister

Reference

*2nd week June  
11-14?*

DEPARTMENT: TEL. NO:

SECURITY CLASSIFICATION

TO: His Excellency  
Lic. Miguel de la Madrid  
Hurtado  
President of the United  
Mexican States

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

Dear Mr President

CAVEAT.....

*am taking*  
I ~~wanted to take~~ advantage of Paul Channon's visit to Mexico to let you know how pleased I am that you have accepted The Queen's invitation to pay a State Visit here next year. I very much look forward to meeting you then and to what I am sure will be a useful and happy occasion.

Paul Channon's visit coincides with the first meeting for several years of the Mexican-British Joint Commission. I hope that this will help to further economic and industrial cooperation between us and that we shall be able to take full advantage of the improved climate which has been created by your government's courageous and successful economic policies. I remember well the signing of the Memorandum of Understanding on the establishment of the SICARTSA II steel plant programme during my visit in 1981. I look forward to the successful completion of this project and hope that it

/will

Enclosures—flag(s).....



will pave the way for further British participation in Mexico's development.

I would also like to assure you of the British Government's support for the efforts which you and others are making to reach peaceful solutions to the political problems of Central America. We shall do what we can to help, both at the meeting of Foreign Ministers in San José and thereafter.

cen



MEXICO: MT LA: May 81



CONFIDENTIAL

FILE

SH



10 DOWNING STREET

*From the Private Secretary*

18 September, 1984

Mexico: Possible Message from the Prime Minister  
to President de la Madrid

You wrote to me on 17 September enclosing a draft message from the Prime Minister to President de la Madrid which Mr. Channon might deliver during his forthcoming visit to Mexico.

*BA*  
The Prime Minister finds the draft stilted and patronising. She is ready to send a message but only if a better one can be drafted. I should be grateful if you could let me have an improved version as soon as possible.

I am sending a copy of this letter to the Private Secretaries to the Secretary of State for Trade and Industry and the Minister for Trade.

P. F. Ricketts, Esq., C. D. POWELL  
Foreign and Commonwealth Office

*mg*

CONFIDENTIAL



①



It is a  
rather  
informal

10 DOWNING STREET

Prime Minister

letter - will  
send a message if  
a letter one can

You don't normally like  
sending Ministers with <sup>indefinite</sup> <sub>me</sub>  
messages. since it suggests  
that they are just  
messengers.

It is also  
declaratory rather than  
persuasive; and ages to  
French.

But perhaps Latins  
attach more importance to  
this ~~at~~ <sup>some</sup> degree of  
formality.

Agree:

(a) to send message?

(b) Mr. Channon to speak with your <sup>or</sup> authority?



CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

17 September 1984

Dear Charles,

Mexico: Possible Message from the Prime Minister to  
President de la Madrid

Mr Paul Channon's visit to Mexico from 19-25 September on the occasion of the Anglo-Mexican Joint Commission will provide an opportunity to strengthen our relations with Mexico particularly in the trade promotion field. A most effective way of doing this would be for Mr Channon to deliver a personal message from the Prime Minister.

Competition for trade with Mexico is intense. The French Minister for Trade recently delivered a message from President Mitterrand which in the judgement of our Embassy will have given substantial backing for French efforts to improve their share of the market. A message of our own would give valuable support to our trading interests in Mexico, ranging from the SICARTSA Steel Mill project to the possibility of substantial future orders for educational equipment. On the political side it would reinforce our efforts to influence Mexican policies in the right direction in regional affairs and the Contadora process, and in the handling of international debt problems. And it would be timely to send a message which looks forward to President de la Madrid's State Visit to this country next year.

I enclose a draft message for the Prime Minister's approval. It is not intended for publication, but we would propose if necessary to make it clear to the press that one had been delivered. The draft deliberately includes one or two rhetorical flourishes of the kind appreciated by Latin American politicians - even one as relatively austere as President de la Madrid.

I am sending a copy of this letter and its enclosure to the Private Secretaries to the Secretary of State for Trade & Industry, and the Minister for Trade.

Yr ever,

(P F Ricketts)  
Private Secretary

*P F Ricketts*

C D Powell Esq  
10 Downing Street

CONFIDENTIAL



DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM

Prime Minister

Reference

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

~~Top Secret~~

~~Secret~~

Confidential

~~Restricted~~

~~Unclassified~~

TO:

His Excellency  
Lic. Miguel de la Madrid Hurtado  
President of the United Mexican States

Your Reference

Copies to:

PRIVACY MARKING

.....In Confidence

SUBJECT:

Mr President

CAVEAT.....

I very much welcome Paul Channon's visit to Mexico accompanied by a group of leading British businessmen, which coincides with the first meeting for several years of the Mexican-British Joint Commission. I hope that these events will serve to give fresh impetus to the growing economic and industrial cooperation between our two countries.

I know that Mexico has been through a period of serious economic difficulty and that many problems still exist. But I and my colleagues have admired the strength of purpose with which you and your Government have pursued the difficult but necessary adjustment programme and the fortitude with which the Mexican people have borne the sacrifices which this involved. We have noted particularly your success in reducing the budget deficit; in strengthening the external account; in reducing the rate of inflation; and in improving the prospects for economic growth.

/I

Enclosures—flag(s).....



CONFIDENTIAL

I have also been encouraged to hear of the recent agreement on a multi year rescheduling of public sector debt following negotiations with the banks involved.

I hope that Britain can continue to play an important part in Mexico's future economic development. I remember well the signing of the Memorandum of Understanding on the establishment of the Sicartsa II steel plant programme during my visit in 1981. I look forward to the successful completion of this project, the largest British aid-sponsored venture in Latin America, and the most important joint undertaking between our two countries. I hope it will pave the way for further British participation in Mexico's development.

This is a critical time in the affairs of the Central American region. The British Government have made it clear that we support the efforts being made to promote a peaceful solution to its problems, in which Mexico is playing a key role. The meeting of EC and Contadora Foreign Ministers in San Jose on 28 and 29 September will I hope strengthen the constructive relations between the countries of the region and the European Community.

I very much look forward to your State Visit to Britain next year. This will present an excellent opportunity to discuss these and other important matters of mutual interest.

17 SEP 1984  
11 12 1 2 3 4 5 6 7 8 9 10





10 DOWNING STREET

ATC -

Fco just rang to say that the proposed visit of the Mexican Minister of Finance (he was due to see the AM on 16/5/84) has been cancelled. I have amended the diary

CST  
16/4/84.



CONFIDENTIAL



bc PC [signature]

10 DOWNING STREET

*From the Private Secretary*

28 March 1984

MEXICAN MINISTER OF FINANCE

Thank you for your letter of 26 March.

I am afraid that it will not be possible for the Prime Minister to have lunch with Sr. Silva Herzog but she would be glad to receive him at 4 o'clock p.m. on 16 May for 45 minutes.

A. J. COLES

Peter Ricketts, Esq.,  
Foreign and Commonwealth Office.



010

①

CONFIDENTIAL



Prime Minister.

You could not do lunch  
but could see him at  
4.00 p.m. on 16 May for  
45 minutes. Agree?

Foreign and Commonwealth Office

London SW1A 2AH

26 March 1984

Dear John,

A.F.C. 27/3.

Yes

Mexico

You should know that the Mexican Minister of Finance, Sr Silva Herzog, is probably coming to London for a few days to attend an Anglo-Mexican seminar on 14 May and to make other contacts. Mr Tiny Rowland of Lonrho mentioned to Sir John Leahy recently that Sr Silva Herzog had asked him whether he could possibly arrange for him to see Mrs Thatcher any time on 16 May. Silva Herzog had wondered whether, if Mrs Thatcher were free, they could have lunch together that day. Sr Herzog did not wish to put his suggestion through the Mexican Ambassador in London. Rowland said that he would strongly recommend that Mrs Thatcher should see him.

Sir Geoffrey would wish to see Silva Herzog if time permits, and we shall also be looking into the possibility of a call on the Chancellor. This should provide sufficient opportunity for discussions. In view of the pressure on the Prime Minister's timetable we would not want to press the Prime Minister to receive him, although if she wished to do so, this would of course be a very welcome addition to Sr Silva Herzog's programme.

Yours ever,  
Peter Ricketts

(P F Ricketts)  
Private Secretary

A J Coles Esq  
10 Downing Street

CONFIDENTIAL



26 MAR 1994





for enquiries shown in your dialling instructions

British TELECOM

number instructions

SUBJECT  
RM

NNNN

PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T 150 A/83

Jhm  
②

13 OCT 1983/2001

ZCZC DLM5186 MEA671

GRLX CO NEME 039

PALACIO NACIONAL MEXICOCITY 39/37 ORD 13 OCT 83 0900

Prime Minister.

A.S.C. 1/2

MS. MARGARET THATCHER  
PRIME MINISTER OF ENGLAND

PLEASE RECEIVE MY SINCERE CONGRATULATIONS FOR YOUR BIRTHDAY  
WISHING YOU ALL KIND OF SUCCESS AND ACHIEVEMENT THROUGHOUT  
THE YEAR. YOURS SINCERELY

MIGUEL DE LA MADRID HURTADO  
CONSTITUTIONAL PRESIDENT OF MEXICO

*[Handwritten signature]*

21

for enquiries shown in your dialling instructions

Telegram

for enquiries dial the number shown in your dialling instructions

British

TELECOM

for enquiries shown in your dialling instructions



TELEGRAM J. L. ETCOV. for enquiries dial the number shown in your dialling instructions

*2*

CONSTITUTIONAL PRESIDENT OF MEXICO

MINISTER OF THE INTERIOR

THE LENS' HOUSES SINCE 1878

WISHING YOU WILL KIND BE SUCCESS AND REVERENTLY ANTICIPATE

YOUR RECEPTION IN SINCE CONSTITUTIONS FOR YOUR BIRTHDAY

PRIME MINISTER OF ENGLAND

AS MINISTER INTERIOR

QLMB 5614

*4-2-54*

*Deputy*

0000 08 130 07 090 0000

URG CO MEME 030

SCSC 030788 0000

13 001 1003000

SERIAL NO. 1120 ✓/R3  
PERSONAL MESSAGE  
PRIME MINISTER'S

MIN

*418*  
*REPLY*

TELEGRAM J. L. ETCOV. for enquiries dial the number shown in your dialling instructions



JR

CC MASTER  
OPS



CC FCO  
DTI

10 DOWNING STREET

THE PRIME MINISTER

**PRIME MINISTER'S  
PERSONAL MESSAGE**  
SERIAL No. T 142/83

4 October 1983

*Dear Mr. President,*

Thank you for your letter of 18 August which awaited my return from my recent visit to Canada and the USA. I am most grateful to you for sending me a copy of your Development Plan for 1983 to 1988.

I have been following closely the courageous steps of your Government since you took office to tackle Mexico's financial difficulties and to set the country on the right road for the future. I am glad to see that the same determination and breadth of vision is reflected in the statement of objectives set out in your letter and wish you and your colleagues every success in your efforts to achieve them.

You may be sure that these efforts will be followed closely by all those in this country who have an interest in the future of Mexico. You know well the part which Britain has played in the development of your country over the years. I was privileged to take part in furthering this co-operation when I signed the Memorandum of Understanding between our countries during my visit to Mexico in 1981 and to see for myself an outstanding example of it in the work being done towards the Sicartsa steel project. In that context, I am sure you are aware of our concern that proper provision will be made for the Sicartsa project as your National Plan is implemented.

With all best wishes,

*Yours sincerely  
Raymond Whelan*

His Excellency Mr. Miguel de la Madrid Hurtado

*Hu*





Foreign and Commonwealth Office

London SW1A 2AH

30 September 1983

*Type letter p.*

*WJG  
10.*

*Dear Edm,*

Mexico

I attach a letter from the President of Mexico which was delivered to the FCO by the Mexican Ambassador on 28 September. With it I also attach the Mexican Embassy's unofficial translation of the letter, together with copies of the Mexican National Development Plan for 1983/88 and an English summary of the plan.

As you will see, the Mexican President's letter merely sets out the objectives of the plan and concludes with warm wishes to the Prime Minister. It makes no requests of us. Nevertheless, we think the Prime Minister may wish to consider taking the opportunity in her reply of mentioning our concern to ensure that adequate provision is made for the funding of Sicartsa steel project. This is the major element of co-operation so far agreed under the Anglo/Mexican Memorandum of Understanding signed during the Prime Minister's visit to Mexico in 1981. The Prime Minister visited the site of the project while she was in Mexico at that time. Subsequently Davy won a contract worth £320 million, of which £200 million is UK content, as part of the project. This is partly financed by a grant of £35 million from the aid and trade provision and the balance of the UK cost has been financed under an ECGD supported loan agreement. Budgetary cut-backs caused by the Mexican financial crisis have already delayed work on the project and, until the detailed implementation of the National Plan has been made clear, there is some doubt whether the necessary Mexican funds will be forthcoming on time and whether the UK content of the contract will be preserved. We have therefore inserted suitable references in the attached draft reply.

/I am





I am copying this letter to Jonathan Spencer  
(Department of Trade and Industry).

*Yours ever*

*Jan Holmes*

(J E Holmes)  
Private Secretary

A J Coles Esq  
10 Downing Street



DRAFT: ~~minute~~/letter/teleletter/despatch/notes

TYPE: Draft/Final 1+

FROM:  
Prime Minister

Reference

DEPARTMENT: TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

His Excellency  
President Miguel de la Madrid  
Hurtado  
Constitutional President of the  
United States of Mexico

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

Thank you for your letter of 18 August which awaited my return from my recent visit to Canada and the USA. I am most grateful to you for sending me a copy of your Development Plan for 1983 <sup>b</sup> <sub>A</sub> 1988.

CAVEAT.....

I have been following closely the courageous steps which <sup>1</sup> your Government ~~has been taking~~ since you took office to tackle Mexico's financial difficulties and to set the country on the right road for the future. I am glad to see that the same determination and breadth of vision is reflected in the statement of objectives set out in your letter and wish you and your colleagues every success in your efforts to achieve them.

You may be sure that <sup>the</sup> your efforts will be followed closely by all those in this country who have an interest in the future of Mexico. You know well the part which Britain has played in the development of your country over the years. I was privileged to take part in furthering this co-operation when I signed the Memorandum of Understanding between our countries during

Enclosures—flag(s).....



my visit to Mexico in 1981 and to see for myself an  
outstanding example of it in the work being done  
towards the Sicartsa steel project. In that  
context, I am sure you are aware of our concern that  
proper provision will be made for the Sicartsa  
project as your National Plan is implemented.

With all best wishes.

NOV 3 1981



**MIGUEL DE LA MADRID H.**

PRESIDENTE CONSTITUCIONAL  
DE LOS ESTADOS UNIDOS MEXICANOS

CC MASTER  
OPS

Palacio Nacional, a 18 de agosto de 1983.

**PRIME MINISTER'S**

Muy distinguida señora Primera Ministro **PERSONAL MESSAGE**

**SERIAL No.** T 118<sup>AB</sup> / 83

Me es muy grato acompañar el texto del Plan Nacional de Desarrollo 1983-1988, que contiene los objetivos y lineamientos de política que ha definido el Gobierno de México para impulsar y fortalecer el desarrollo integral del país.

El Plan se funda en los postulados de nuestro proyecto nacional, contenidos en la Constitución Política que nos rige desde 1917 y que recogió las aspiraciones del movimiento revolucionario mexicano. Al mismo tiempo, es producto de un amplio proceso de consulta popular que se inició con la campaña electoral para la Presidencia de la República y que durante los primeros meses del actual Gobierno hemos procurado convertir en un instrumento permanente de comunicación nacional y de planeación democrática.

El Plan Nacional de Desarrollo persigue el robustecimiento de la vida institucional del país, de su pluralismo político y cultural y de su economía mixta. La independencia y la identidad de nuestra nación constituyen un caro patrimonio para los mexicanos. Sabemos que conservarlo y enriquecerlo significa desarrollar una capacidad de renovación constante de las estructuras políticas, económicas y sociales, que cuente con el apoyo y la participación popular.

En este sentido, el Plan Nacional de Desarrollo impulsa tanto una reordenación económica como cambios estructurales para enfrentar las severas restricciones internas y externas a nuestro desarrollo. Se proponen medidas para abatir la inflación y la inestabilidad cambiaria y para proteger el empleo, el consumo básico y la planta productiva. Al propio tiempo, se formula una estrategia para superar las insuficiencias y los desequilibrios de la estructura económica, de manera que se logre un crecimiento consistente del mercado interno, la modernización y eficacia de los mecanismos de producción y distribución y el aprovechamiento del rico potencial de desarrollo autosostenido que posee México.

Excelentísima Señora  
Margaret Thatcher,  
Primera Ministro de la Gran Bretaña,  
Londres.





**MIGUEL DE LA MADRID H.**

PRESIDENTE CONSTITUCIONAL  
DE LOS ESTADOS UNIDOS MEXICANOS

En el campo político y social, el Plan se propone mejorar la distribución del ingreso y de los beneficios de la producción y la cultura, entre los individuos y las regiones del país. Ello corre paralelo a las medidas para fortalecer el Estado de Derecho y el régimen de libertades individuales y sociales que refleje la aspiración de democracia con justicia, tan propia de nuestra nación.

Notará usted, señora Primera Ministro, que en la definición de sus objetivos y acciones el Plan Nacional de Desarrollo concede especial atención a los vínculos con el quehacer internacional. La política exterior de México es parte integral del proyecto nacional: instrumento y reflejo de los anhelos históricos de nuestro pueblo y de su vocación de desarrollo y de solidaridad internacional.

Es por ello que la política exterior buscará fortalecer la soberanía del país y su independencia política y económica, y apoyará los esfuerzos internos de desarrollo mediante el aprovechamiento de las oportunidades que brinda la comunidad de naciones. Al unísono la acción internacional de México habrá de perseverar en su empeño activo por la paz regional y mundial, por el desarme universal y completo, por la cooperación internacional para el desarrollo y por el establecimiento de un nuevo orden económico y político mundial que se funde en la solidaridad, el respeto y la justicia. Dentro de este espíritu, el Plan Nacional de Desarrollo determina la necesidad de ensanchar el entendimiento político, la cooperación económica y el intercambio cultural con aquellos países, como el de Vuestra Excelencia, con los que México mantiene las mayores afinidades.

Reciba usted, señora Primera Ministro, el testimonio de mi más alta y distinguida consideración y los mejores votos que formulo por el bienestar de su país y el suyo personal.





EMBAJADA DE MEXICO

UNOFFICIAL TRANSLATION

A draft copy has been  
submitted.  
AD 3/10.

Palacio Nacional, 18th August, 1983

Dear Prime Minister,

I have great pleasure in enclosing the text of the National Development Plan for 1983-1984, which contains the political objectives and outlines which the Mexican Government has determined in order to boost and to strengthen the complete development of the country.

The Plan is based on the postulates of our project as a nation, contained in the Political Constitution which has ruled us since 1917 and which brought together the aspirations of the Mexican revolutionary movement. At the same time, the Plan is the product of a process of popular consultation which began with the electoral campaign for the Presidency of the Republic and which we have tried, during the first months of the present government, to convert into a permanent instrument of national communication and of democratic planning.

The National Development Plan seeks to fortify the institutional life of the country, its political and cultural pluralism and its mixed economy. The independence and the identity of our nation represent a cherished patrimony for Mexicans. We realise that its preservation and enrichment will demand a capacity for constant renewal of political economic and social structures, backed by popular participation and support.

The Rt. Hon. Margaret Thatcher, MP  
Prime Minister of Great Britain,  
London

...





In this sense, the National Development Plan urges both an economic reordering and structural changes enabling us to meet the severe internal and external restrictions on our development. Measures are proposed to defeat inflation and the instability of the currency, and to protect employment, basic consumption and the machinery of productivity. At the same time, a strategy is defined which will overcome the insufficiencies and imbalances of the economic structure, and achieve a consistent growth of the internal market, the modernisation and efficacy of production mechanisms and the distribution and utilization of self-sustaining development which Mexico possesses.

In the political and social field, the Plan proposes to improve the distribution of income, and of the benefits of production and culture, among individuals and regions of the country. This runs parallel to the measures taken to strengthen the State of Law and the recognition of individual and social freedoms which reflects the aspiration to democracy with justice, which is a characteristic of our nation.

You will note, Prime Minister, that in the definition of its objectives and actions, the National Plan pays special attention to links with the activities of the international community. The foreign policy of Mexico is an integral part of our project as a nation: both an instrument and a reflection of the historic longings of our people and of their vocation for development within international solidarity.

It is for this reason that our foreign policy will seek to strengthen the sovereignty of the country and its political and economic independence, and will support internal efforts





towards development by accepting the opportunities offered by the community of nations. The international action of Mexico will continue vigorously to promote regional and worldwide peace, universal and complete disarmament, international cooperation in development, and the establishment of a new order in the world which will be based on solidarity, respect and justice. In accordance with this ideal, the National Development Plan foresees the need to broaden political understanding, economic cooperation and cultural interchange with those countries which, like your own, have the greatest affinities with Mexico.

May I offer, Prime Minister, the expression of my profoundest respects and my best wishes for your personal well-being and that of your country.

Miguel de la Madrid H.  
Presidente Constitucional  
de los Estados Unidos Mexicanos



30 SEP 1983



COMISION

ESTADOS UNIDOS MEXICANOS





SUBJECT ce MASTER  
ofs

file

JR



c fco

10 DOWNING STREET

THE PRIME MINISTER

4 July 1983

**PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T99/83**

Excellency.

I thank you for your kind message of 17 June, delivered to me on 28 June by your Secretary for External Relations, Lic Bernardo Sepulveda, during his visit to London.

I was glad to have the opportunity to exchange views with him on the many problems which face us. It is a heartening reflection of the close links between the United Kingdom and Mexico, symbolised by the recent visit of Her Majesty The Queen to your country, that we can talk frankly about so many matters of common interest. I am confident that we can continue to expect positive results from co-operation in our approach to major international issues.

It is of the greatest importance that those issues should be dealt with in accordance with the principles inscribed in the Charter of the United Nations, and that aggression, subversion and terrorism should be firmly resisted. The burden of this is bound to fall on those countries, not least Mexico and the United Kingdom, with long democratic traditions and a deep sense of responsibility. We must indeed continue to co-operate in our pursuit of common goals.

Please accept the assurances of my highest consideration, and my best wishes for Mexico's progress and prosperity under your charge.

Yours sincerely  
Margaret Thatcher

His Excellency Lic Miguel de la Madrid Hurtado

da





10 DOWNING STREET

*From the Private Secretary*

4 July 1983

Mexico

Thank you for your letter of 1 July about the message to the Prime Minister from the President of Mexico which was delivered by the Mexican Foreign Minister during his recent visit.

I enclose a reply signed by the Prime Minister and should be grateful if you would arrange for its delivery.

A. J. COLES

John Holmes, Esq.,  
Foreign and Commonwealth Office.

56





Foreign and Commonwealth Office

London SW1A 2AH

1 July, 1983

Dear Sam,

*Pl. type letter  
AM 1/2.*

Call by the Mexican Foreign Minister on the Prime Minister

I enclose a draft reply from the Prime Minister to the message enclosed with your letter of 28 June, with a translation of the message. We will forward the reply.

*Yours ever*

*J E Holmes*

(J E Holmes)  
Private Secretary

A J Coles Esq  
Private Secretary  
10 Downing Street



DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:

Reference

THE PRIME MINISTER

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

His Excellency  
Lic Miguel de la Madrid Hurtado  
President of Mexico

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

~~Your Excellency [or Mr President]~~

CAVEAT.....

I thank you for your kind message of the 17th of June, delivered to me on ~~the~~ 28<sup>th</sup> of June, by your Secretary for External Relations, Lic. Bernardo Sepúlveda, during his visit to London.

I was glad to have the opportunity to exchange views with him on the many problems which face us. It is a heartening reflection of the close links between the United Kingdom and Mexico, symbolised by the recent ~~happy~~ visit of Her Majesty The Queen to your country, that we can talk frankly about so many matters of common interest. I am confident that we can continue to ~~look towards~~ <sup>expect</sup> positive results from cooperation in our approach to major international issues.

Enclosures—flag(s).....

It is of the greatest importance that those issues should be dealt with in accordance with the principles inscribed in the Charter of the United Nations, and that aggression, subversion and terrorism should be firmly resisted. The burden

/of



of this is bound to fall on those countries,  
not least Mexico and the United Kingdom, with  
long democratic traditions and a deep sense  
of responsibility. We must indeed continue  
to cooperate in our pursuit of common goals.

Please accept the assurances of my  
highest consideration,  
and my best wishes for Mexico's progress  
and prosperity under your charge.



CF  
/



File 10

10 DOWNING STREET

*From the Private Secretary*

28 June 1983

CALL BY THE MEXICAN FOREIGN  
MINISTER ON THE PRIME MINISTER

During his call here today (see my separate letter) the Foreign Minister of Mexico handed to the Prime Minister the enclosed message from President de la Madrid. I should be grateful if you could let me have a draft reply soon for the Prime Minister's signature.

A. J. COLES

John Holmes Esq  
Foreign and Commonwealth Office.

Lo



File

DSG

10 DOWNING STREET

*From the Private Secretary*

28 June 1983

*Dear John,*CALL BY MEXICAN FOREIGN MINISTER

I enclose a record of a conversation between the Prime Minister and the Mexican Foreign Minister who called at No. 10 Downing Street this morning.

I am sending a copy of this letter and its enclosure to John Kerr (HM Treasury).

*Yours ever**John Holmes.*

John Holmes, Esq.,  
Foreign and Commonwealth Office.

CONFIDENTIAL



SUBJECT

CONFIDENTIAL

ew-master

RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE MEXICAN FOREIGN MINISTER AT 10 DOWNING STREET ON TUESDAY, 28 JUNE, 1983 AT 1000 HOURS

---

PRESENT

The Prime Minister  
Mr. Ure  
Mr. Coles

Lic Bernardo Sepulveda Amor  
Lic Francisco Cuevas-Cancino

Mr. Sepulveda said he brought warm greetings from President de la Madrid. He handed over a letter from the President congratulating the Prime Minister on the election result. The recent visit of Her Majesty The Queen to Mexico was remembered with great pleasure.

In response to a question from the Prime Minister, Mr. Sepulveda said that Mexico had faced a big economic crises but, as a result of tough measures, it was now emerging. The measures taken would provide surer ground for economic development. The IMF, among others, had recognised the firmness with which Mexico had applied the necessary economic medicine.

The Prime Minister said that a year ago there had been little appreciation of the depth and scale of the debt problems of developing countries. On the first day of her holiday last August she had been briefed by Mr. Leutweiler on the Mexican situation. Later, the seriousness of the debt problems in other South American countries had become apparent.

Earlier this year we had all had to take steps to stabilise the price of oil. A sharp and sudden fall would have exacerbated the problems of economic recession and debt. The stabilisation measures had been reasonably successful. The combination of IMF action, the efforts of commercial banks and the measures taken by the countries concerned had enabled us to avert what had threatened to be a major economic crisis. But problems remained. Brazil had not been able to meet its

/repayment



repayment obligations. Argentina would soon be in difficulty again. It was fortunate that President de la Madrid had given a lead in accepting IMF disciplines. We knew that had not been easy.

Mr. Sepulveda commented that Mexico had taken the right measures at the right time. But it was now concerned about the failure of other South American governments to take the necessary decisions. In particular, the current election campaign in Venezuela would last until December - this could mean too long a delay in government action on economic problems.

The effect on the Mexican population of the economic crisis had still to be fully felt. So far there had not been much unemployment. But Mexico realised that unemployment would grow as medium and small sized enterprises failed to survive. Mexico would see a more austere society. But, rather as in the United Kingdom recently, there was an inner strength deriving from concepts of patriotism and nationalism which were very important in coping with the economic situation.

Mr. Sepulveda said that Mexico was worried by the Central American situation. The Prime Minister said that she had discussed the problems last week with Vice President Bush. She believed that the United States had not been given sufficient credit for its help to the area. Two-thirds of its aid was economic. The problems of Central America were enormously difficult, particularly because of the extent of Cuban interference.

Mr. Sepulveda agreed that the situation was difficult. Mexico wished to see a sustained effort to create peaceful conditions. The possibility of armed conflict, especially between Honduras and Nicaragua, was imminent. If measures were not taken to prevent it, an extremely serious situation could arise. A war between Honduras and Nicaragua could extend to El Salvador and perhaps Guatemala. Cuba could become involved. There was also a possibility of involvement of the great powers.

/ Mexico



Mexico wished to convince the parties concerned of the possibility of settling the various disputes peacefully. It had tried hard to convince its American friends that they should not pursue a military path. Some progress had been made. President Reagan had appointed a special ambassador to the area who had had very fruitful discussions in Mexico two weeks ago. Ambassador Stone was convinced that he should pursue a diplomatic, not a military course. But the difficulties were enormous. There was inbred conflict, not only within, but between the countries of Central America. This was difficult to contain but the effort had to be made in order to prevent something like the Middle East situation developing in Latin America. Mexico wanted the advice and assistance of Britain to provide a political perspective for a solution. This would serve the best interests, not only of Mexico, but of the United States. Mexico was acting entirely in good faith within the Contadora group to bring about a mediation between the parties. All parties, including Cuba, had to be convinced of the soundness of this approach.

The Prime Minister said that it was easier to influence democratic countries than countries with other systems. She recalled the basic US objectives set out in President Reagan's Congressional Address of 27 April. We had sent observers to the last elections in El Salvador because we thought it important to encourage steps towards democracy. Despite intimidation, 80% of the people had voted.

She agreed that dialogue was vital, but it was difficult to have genuine dialogue with a country motivated as Cuba was. The reception of the Pope in Nicaragua had shocked people in Britain. A few minutes' television film had displayed the nature of the regime more clearly than any amount of paper could have done. We could not ignore the fact that there were forces at work which wished to extend their political creed to other countries. Mexico and Britain believed in democracy and in the right of nations to work out their own destiny. Mexico would be aware of Cuban activity, for example in Grenada where it was trying to upset the stability of the Caribbean. We welcomed the

/ Contadora



Contadora initiative but we could not close our eyes to the activities of hostile powers.

Mr. Sepulveda said that the arms race in Central America gave rise to concern. There were already more arms in the area than were required for defence purposes - and armouries were growing. This problem would be very serious within a short time.

As regards Cuba, he agreed that it was difficult to conduct a dialogue with non-democratic countries. But he believed that the Cubans were in the process of becoming convinced that their interests were better served by not intervening. Mexico knew for a fact that Cuba was restraining the guerrillas in El Salvador from attempts to overthrow the government by military force. For Cuba knew very well that if the guerrillas won, the United States would intervene and that would be contrary to Cuban interests.

The Prime Minister commented that the guerrillas had failed to take the opportunity of putting up candidates in the last elections. Mr. Sepulveda said that they would not take such opportunities. In El Salvador elections were unfortunately not a solution because, in themselves, they could not result in a government with the power to rule. The Prime Minister said that those who had turned to violence should not be allowed to get their way. We had a similar problem with the IRA. They had contested elections and had won seats, but had then refused to take up their seats and made it clear that violence would continue.

Mr. Sepulveda said that Mexico fully agreed with these sentiments but believed that there had to be a combination of negotiations and elections. For example, the opposition forces in El Salvador needed guarantees for their safety were they to take part in the electoral process. That required negotiation. Otherwise, Duarte would win the next election but would still not be able to govern.

/ The



The Prime Minister said that the problem was familiar. If negotiations were opened with guerrillas, they secured part of their aims. There was then a temporary peace, followed by fresh guerrilla activity, and then more negotiations. The fact that guerrillas had won seats in Northern Ireland did not stop them from using violence. She doubted whether it was possible to persuade such people, who were determined to seize power for their own ends, to give up violence. They were interested in power, not democracy. But perhaps the situation was different in Central America.

Mr. Sepulveda said that Mexico wanted to isolate the far left in El Salvador. The mainstream of the opposition forces was not necessarily violent. If they could be brought into the democratic system perhaps progress would be possible. The Prime Minister asked whether he was equating the far left with the guerrillas. Mr. Sepulveda replied that there were several different factions. But the opposition included a political front which would not be regarded in Europe as left-wing. This body of opinion wanted to participate in the political process. But the activities of an extreme and very violent right-wing regime had forced into the opposition even the Christian Democrats. If the extreme left could be isolated, some guerrillas would remain, but they would be few and would have little support - so violence could in the end be eliminated. The difficulty was to persuade all parties to accept this. He believed that President Reagan was beginning to be convinced that this was the right course. The authority given to Ambassador Stone to have discussions with the opposition forces was very important.

Nicaragua was also a big problem. Following its revolution, it was in the process of social change. But it had no political institutions. Dictatorship over a long period had prevented an electoral system and political parties from developing. It badly needed help to begin to build such institutions. Mexico was trying to ensure that the militarist tendency of the Nicaraguan regime was restrained and political institutions were created so that there could be a national process of social and economic

/ change



change without foreign intervention. Mexico was opposed to any Soviet or Cuban presence in Central America. The objectives of Mexico, the United States, the United Kingdom and many others were identical, but Mexico needed help.

The Prime Minister repeated her concern about Nicaragua. If it had had a dictatorship in the past, it certainly had one now. Nicaragua was clearly a channel for aid to the guerrillas in El Salvador.

On another matter, there was still a problem between Belize and Guatemala. It ought to be soluble by dialogue, but we were not making progress. Mr. Ure commented that there would be another round of talks in early July, but it was too early to say whether they would make progress.

In response to a remark by the Prime Minister, Mr. Sepulveda agreed that the present regime in Guatemala might not last long. With regard to Belize, the sooner there was a settlement with Guatemala, the better. It appeared that President Rios Montt was more open than his predecessors to a suitable settlement. The Prime Minister commented that it was difficult to be sure that any arrangement would be accepted by a successor Guatemalan government.

Reverting to Central America, she was sure that Communist subversion was the basic problem. The extreme left and the extreme right both amounted to dictatorship. The language of revolution was always the same. The revolutionaries claimed to be working for the interests of the people, but in power always became a centrally-controlled dictatorship. The Mexican approach, which put on the countries of the region the onus of sorting out their problems, seemed excellent provided it was not blocked by those whose sole purpose was to extend their own power through subversion. She believed in absolute opposition to violence.

Mr. Sepulveda said that early results were not to be expected from the Mexican approach. But he believed that

/Nicaragua



Nicaragua could be influenced. The regime would have to choose whether its nationalist revolution was to survive or whether it was to be eliminated altogether from the political scene. If the regime was wise enough to opt for political compromise, it might survive. If it did not, violence could spread beyond its borders.

Mr. Ure asked whether those opposed to the regime were dominated by the Somicistas. Mr. Sepulveda replied that there were undoubtedly Somicistas operating from Honduras. Recently there had appeared in Costa Rica a group which had wished to be totally independent, but it had collapsed because it lacked the necessary financial and military resources. In Nicaragua itself there were other sources of opposition - the Church, the press and the private sector - and these were not influenced by the Somicistas. The regime ought to be able to establish a political dialogue with these sectors. But because of the armed conflict the regime was becoming more radical. Mexico did not favour that trend and was trying to influence the regime. A compromise, based on the holding of elections in 1985, was possible. A number of Latin American countries were helping Nicaragua to draft laws on the electoral process and on political parties.

The Prime Minister observed that a true democratic process required an impartial and independent legal system. In Britain, the development of common law and equity had been essential to freedom long before we had established a truly democratic system.

Mr. Sepulveda said that he was a great admirer of sound political and legal institutions. But they were a feature of developed societies. In Central America, under-development prevailed. This was more a political than an economic concept. Political under-development in the area was very striking indeed. Costa Rica apart, the other four Central American countries had no political institutions. Mexico itself had developed such institutions only in the last fifty years or so.

The Prime Minister reiterated her support for the efforts of the Contadora group. But she was wary of those who resorted

/ to



to violence and wary of the undertakings they gave. Any agreements reached had to be truly verifiable and subject to sanctions if they were broken. Mr. Sepulveda said that he was cautiously optimistic about the prospects. But if armed conflict developed, there would be no possibility of bringing about peace and stability.

The Prime Minister asked how the Sicartsa steel mill was progressing. Mr. Sepulveda replied that, despite the economic difficulties, the government had decided that the project should continue though perhaps at a slightly lower level.

In conclusion, the Prime Minister asked that her warm regards should be conveyed to President de la Madrid.

The discussion ended at 1110 hours.

A.J.C.

28 June 1983



CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

27 June, 1983

*Dear John,*

Call by Mexican Foreign Minister, 28 June

I enclose <sup>attached folder</sup> briefing for the Prime Minister's meeting with the Mexican Foreign Minister, Lic. Sepulveda, at 1000 on 28 June. This covers Central America, South America, international economic issues and oil, as well as some background on Mexico itself.

Lic. Sepulveda will be in London mainly to hold a conference of Mexican Ambassadors in Western Europe (24-27 June). Before coming to London he met with the UN Secretary General in New York to discuss the situation in Central America. After his visit to Britain he will pay an official visit to Sweden.

We understand that Lic. Sepulveda hopes to discuss the situation in Central America and the Mexican economic crisis, which may lead into a discussion of such wider issues as the international economic situation and the relationship between developed and developing countries. We expect these subjects to be covered also at the meeting with Sir Geoffrey Howe at 1200 the same day.

On Central America (Brief A) the Prime Minister may wish to assure Lic Sepulveda of our continuing support for the Contadora Group's efforts to set up a regional peace conference, and of our desire to be kept informed of its progress. Although we want to follow events in the region closely we do not at this stage see what more European countries could usefully do to help. Lic Sepulveda is likely to plead for retention of the UK garrison in Belize. This would also be a useful opportunity to thank Lic Sepulveda for Mexican support for Belize.

On international economic issues (Briefs C and D) Lic Sepulveda may call for a show of flexibility by OECD countries in the closing stages of UNCTAD VI.

Sepulveda will be accompanied by Lic Daniel de la Pedraja, Director General for Western Europe in the Mexican Ministry of Foreign Affairs, Lic Manual Rodriguez Arriaga, Principal Private Secretary to the Mexican Foreign Minister, and the Mexican Ambassador, His Excellency Lic. Francisco Cuevas-Cancino. (I attach personality notes on the Mexican Foreign Minister and the Mexican Ambassador).

CONFIDENTIAL

/Mr Ure



CONFIDENTIAL



Mr Ure will attend from here.

*Yours ever*  
*John Holmes*

(J E Holmes)  
Private Secretary

A J Coles Esq  
10 Downing Street

CONFIDENTIAL



070

PS/NO 10



AM 24/6

*with compliments*

Christine Ferguson

MEXICO AND CENTRAL AMERICA DEPT.

Foreign and Commonwealth Office  
S.W.1. 21/6/1983



LEADING PERSONALITY REPORTS

SEPULVEDA AMOR, LIC BERNARDO

Minister of Foreign Relations since 1 December 1982.

Born Mexico City, 14 December 1941.

Graduated with honours in law at the National Autonomous University of Mexico (UNAM) in 1964. Obtained a masters degree in international law from Cambridge University in 1966. Shortly afterwards he wrote a much-praised paper justifying Mexico's decision not to follow other Latin American countries in breaking diplomatic relations with Cuba. His first government job from 1968-1971 was as Deputy Director-General of Legal Matters in the Presidency, in which capacity he acted as a legal adviser to various government institutions. Adviser to the Minister of Finance from 1971-1975 specialising in foreign investment in Mexico. Director-General of International Financial Affairs in the Ministry of Finance 1976-1981, initially working directly to Lic. de la Madrid, then Deputy Minister of Finance. In this period he was Mexican delegate on the United Nations Committee on Transnationals. He was rapporteur of this Committee from 1978-80 and Chairman from 1980-81. He also served on Mexican delegations to various United Nation's conferences, including the Law of the Sea Conference from 1974-75, and at various meetings of bilateral Mixed Commissions.

From 1977-80 he was a member of the Mexican delegations to the Annual Assemblies of the IMF and World Bank, and of the Interamerican Development Bank, and to the meetings of the Council of the Latin American Economic System.

CONFIDENTIAL



Has long been politically active in the Institutional Revolutionary Party (PRI). In 1976 he was a member of the group of advisers in the party's Institute of Political, Economic and Social Studies which was responsible for formulating the government programme for 1976-82. He has also belonged to PRI committees concerned with political action, ideology and publishing. In 1981 he was dismissed from the Finance Ministry because he would not support the candidacy of the then Finance Minister for the Presidency. Shortly thereafter he became special adviser on international affairs to Lic. Miguel de la Madrid, then Minister for Planning. In October 1981 he was appointed Secretary for International Affairs of the National Executive Committee of the PRI.

In March 1982 appointed Mexican Ambassador to the USA, in a move which was generally seen as a preparation for his appointment as Foreign Minister when President de la Madrid assumed office on 1 December 1982.

He is a Professor of Law in the Colegio de México. Helped to found the Centre of Studies on the United States. Has written many books on a variety of subjects including GATT, Law of the Sea, the United Nations, and foreign investment in Mexico.

Tall and elegant, he looks the image of a traditional European diplomat, with courteous old-world manners. He speaks slowly and judiciously.

Married with several children. Speaks good English.



27 JUN 1983

11 27  
1983 JUN 27  
11 27

11 27



MINISTERIO  
PERSONAL MESSAGE

Presidente de México

SERIAL No. T90A183

SUBJECT

cc Master  
Ops

PALACIO NACIONAL,  
17 DE JUNIO DE 1983.

SEÑORA PRIMERA MINISTRA:

EN OCASIÓN DE LA VISITA A LONDRES DEL SECRETARIO DE RELACIONES EXTERIORES, BERNARDO SEPÚLVEDA, TENGO EL AGRADO DE MANIFESTARLE UNA VEZ MÁS, POR ESTE CONDUCTO, MIS FELICITACIONES POR SU RECIENTE ÉXITO ELECTORAL QUE, ESTOY SEGURO, REAFIRMA EL CAMINO DEL DESARROLLO Y LA VOCACIÓN DEMOCRÁTICA DEL PUEBLO BRITÁNICO.

EL VIAJE DEL SECRETARIO SEPÚLVEDA TIENE POR OBJETO EXPRESAR A USTED EL INTERÉS DE MI GOBIERNO POR ESTRECHAR LOS LAZOS DE COOPERACIÓN ENTRE NUESTROS GOBIERNOS, LOS CUALES DEBERÍAN PERMITIRNOS MULTIPLICAR LOS INTERCAMBIOS MUTUAMENTE PROVECHOSOS QUE YA EXISTEN ENTRE MÉXICO Y LA GRAN BRETAÑA.

TANTO LA GRAN BRETAÑA COMO MÉXICO HAN TENIDO OCASIÓN EN FECHAS RECIENTES, DE REAFIRMAR EN EL CONSEJO DE SEGURIDAD SU RESPALDO A LOS PRINCIPIOS SUPERIORES DE CONVIVENCIA INTERNACIONAL, ESPECIALMENTE AQUELLOS QUE SE CONSIGNAN EN LA CARTA DE LAS NACIONES UNIDAS; EN UNA CIRCUNSTANCIA INTERNACIONAL ADVERSA, COMO LA ACTUAL, RESULTA ALENTADOR ENCONTRAR APOYOS FAVORABLES A LAS TESIS QUE POSTULAN LA SOLUCIÓN PACÍFICA, JUSTA Y NEGOCIADA DE LOS DIFERENTES PROBLEMAS INTERNACIONALES.

ESA COINCIDENCIA EN LAS METAS QUE NOS PROPONEMOS ME HACE PENSAR QUE TENDRÁN RESULTADOS ALTAMENTE FAVORABLES LAS CONVERSACIONES QUE EL SECRETARIO SEPÚLVEDA SOSTENGA CON SUS MINISTROS.

EXCMA. SEÑORA MARGARET THATCHER,  
PRIMERA MINISTRA DEL REINO UNIDO DE  
LA GRAN BRETAÑA E IRLANDA DEL NORTE,  
LONDRES, GRAN BRETAÑA.





Presidente de México

...2

AL ROGARLE QUE ACEPTÉ LOS VOTOS QUE FORMU-  
LO POR EL ÉXITO DE SU GESTIÓN, LE RENUEVO EL TES-  
TIMONIO DE MI MÁS ALTA Y DISTINGUIDA CONSIDERA-  
CIÓN.

MIGUEL DE LA MADRID H.





Señora Prime Minister,

On the occasion of the visit to London of Foreign Minister Bernardo Sepulveda, I have the pleasure to express to you again, by this means, my congratulations on your recent electoral success which, I am sure, reaffirms the path for development and the democratic vocation of the British people.

The object of Minister Sepulveda's journey is to express to you the interest of my Government in drawing closer the links of cooperation between our governments, which should allow us to multiply the mutually advantageous exchanges which already exist between Mexico and Great Britain,

Both Britain and Mexico have recently had occasion to reaffirm in the Security Council their support for the highest principles of international co-existence, especially those which are inscribed in the Charter of the United Nations; in adverse international circumstances, like the present, it is encouraging to find favourable support for the view that peaceful, fair and negotiated solutions must be found for the various international problems.

This coincidence of our objectives leads me to believe that the conversations which Minister Sepulveda is to hold with your Ministers will have highly favourable results.

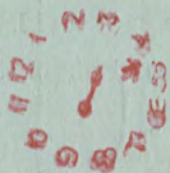
Please accept my best wishes for success in your task and renewed assurances of my highest and most distinguished consideration.



Mexico  
May 21, Relations



1961 JUN 14





16 June 1983

Mexican Foreign Minister

Thank you for your letter of 15 June.  
The Prime Minister would be glad to receive  
Mr. Sepulveda and could do this for 30 minutes  
at 10 o'clock on Tuesday 28 June.

AJC

J.E. Holmes, Esq.,  
Foreign and Commonwealth Office.





Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister

Agree to receive Mexican

Foreign Minister?

15 June 1983

A. J. C. - 15.6

Yes not

Dear Idun,

Visit to UK of Mexican Foreign Minister

The Mexican Foreign Minister, Lic Sepúlveda, plans to hold a conference of Mexican Ambassadors in Western Europe in London on 24-27 June, and wishes to spend 28 and 29 June on official calls in the United Kingdom. The Foreign and Commonwealth Secretary has agreed to receive him for talks, followed by lunch, on 28 June.

Anglo-Mexican relations reached a high point with the Prime Minister's visit in 1981 and have been further strengthened both by Mexican appreciation of the British response to the financial crisis last year and by the Royal Visit in February. During the Royal Visit both Lic Sepúlveda and President de la Madrid made clear that they wanted to establish a closer relationship between the Mexican and British Governments.

When the Mexicans last held a Heads of Mission Conference in London in 1981 the then Foreign Minister, Jorge Castaneda, called on the Prime Minister as well as having talks with the then Foreign and Commonwealth Secretary. It would greatly enhance the value of this visit if Lic Sepúlveda could be received by the Prime Minister on this occasion for a short meeting. This would demonstrate the importance we attach to our bilateral relations and would reciprocate the meeting which Mr Pym had with the Mexican President when he was in Mexico in February as Minister-in-Attendance upon The Queen.

Yours ever

for Holmes

(J E Holmes)  
Private SecretaryA J Coles Esq  
10 Downing Street



Mexico.  
SUBJECT  
cc MASTER  
OPS.



cc FCO

LPO

10 DOWNING STREET

THE PRIME MINISTER

9 May 1983

PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. TS9A/83

Dear Mr. President:

I was grateful for your letter which was delivered by Senor Dip Lic Humberto Lugo Gil, leader of the Mexican Delegation to the Inter-Parliamentary Union meeting.

I agree with you about the value of such meetings which can do much to enable us all to gain a clearer understanding of international problems.

Yours sincerely  
Margaret Thatcher

His Excellency Senor Miguel de la Madrid Hurtado.

tel



RESTRICTED



Foreign and Commonwealth Office

London SW1A 2AH

6 May 1983

Type letter pl.

Dear John,

AR 5.

Letter from Mexican President to Prime Minister

Thank you for your letter of 25 April.

Although the President's letter is innocuous enough, the draft Mexican resolution which was in fact adopted at the IPU meeting related to the need for peaceful solutions to the problems of Central America. This is a rapidly changing and complex issue, and it would be inappropriate to comment on the substance of it. The letter does not particularly call for a reply, and we would certainly not press for one to be sent. On the other hand, strict observance of the courtesies with the new Mexican President, with whom we want to stay on good terms, would do no harm and he might like a signed letter. I therefore attach a very short draft reply

Yours ever

(J E Holmes)  
Private Secretary

A J Coles Esq  
10 Downing Street

RESTRICTED



DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM: Prime Minister

Reference

DEPARTMENT: TEL. NO:

SECURITY CLASSIFICATION

TO: His Excellency Sr Miguel de la Madrid Hurtado  
Constitutional President of the United Mexican States

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

CAVEAT.....

*I was grateful for your letter which was delivered to me*  
~~It was most thoughtful of you to send me~~  
~~a letter with~~ Senor Dip Lic Humberto Lugo Gil,  
*leader of*  
~~who was heading~~ the Mexican delegation to the  
 Inter-Parliamentary Union meeting.

Such meetings, where representatives from different nations can discuss frankly and openly the difficult problems facing the world today are indeed most useful.

*I agree with you about the value of such meetings which can do much to enable us all to gain a clearer understanding of international problems.*

*MM*  
 7/5.

Enclosures—flag(s).....



Mexico May 81

UK / Mex. Relns.



6 MAY 1983



file

Bre

25 April 1983

MEXICO

I enclose a copy of a letter, together with a translation, which the Prime Minister has received from the President of Mexico. This was delivered by Mr. Geoffrey Rippon, MP.

~~BLA~~ You will no doubt let me know whether you think that a reply is necessary.

ATC

John Holmes, Esq.,  
Foreign and Commonwealth Office





10 DOWNING STREET

30/14

FROM THE PRESIDENT  
OF MEXICO, BY HAND  
OF MR GEOFFREY RIPPON  
Q.C., M.P.

*[Signature]*

21/4/1914

Inty Qeal to FCO 21/4.

For translation pl.

attached  
Mark  
22/4

A.S.C. 21/4.





10 DOWNING STREET

To  
Private Office

Could I please have a  
translation of the  
attached, please. g.s.c.p.

Thanks Attached

Yours

Sally Clerk

21/4



MASTER  
ACTION

MIGUEL DE LA MADRID H.  
CONSTITUTIONAL PRESIDENT  
OF THE UNITED MEXICAN STATES

PRIME MINISTER'S  
PRIME MINISTER'S  
PERSONAL MESSAGE  
PERSONAL MESSAGE  
SERIAL No. T47AA/83  
SERIAL No.

Presidential Palace, 14 April 1983

Dear Prime Minister

I have taken the liberty of asking Señor Dip.Lic. Humberto Lugo Gil, Chairman of the Grand Committee of the Chamber of Deputies of the United Mexican States, to deliver this letter to you, taking advantage of the fact that he is heading the Mexican delegation to the World Inter-parliamentary Meeting<sup>\*</sup>.

I should like to say that I have every confidence that this meeting will help to strengthen the bonds of friendship and cooperation among the nations taking part and that the subjects to be debated there, in frank and open discussion, will contribute to a solution of the problems facing mankind.

(complimentary close)

(signature)

---

\* Translator's note: official title not known.



MIGUEL DE LA MADRID H.  
PRESIDENTE CONSTITUCIONAL  
DE LOS ESTADOS UNIDOS MEXICANOS

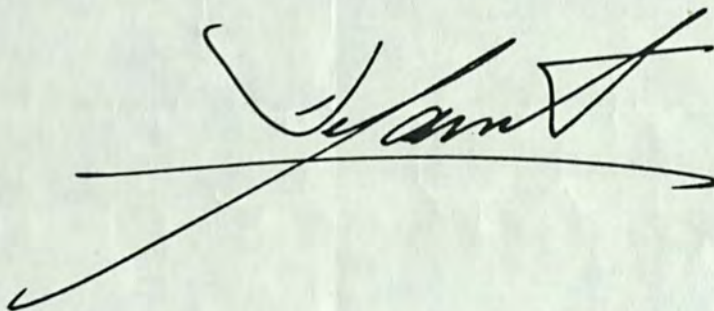
Palacio Nacional, 14 de abril de 1983.

Señora Primera Ministra:

Me he permitido solicitar al señor Dip. Lic. Humberto Lugo Gil, Presidente de la Gran Comisión de la H. Cámara de Diputados de los Estados Unidos Mexicanos, que entregue a usted esta misiva aprovechando que concurre al frente de la Misión mexicana a la Reunión Interparlamentaria Mundial.

Deseo manifestarle que confío plenamente en que esta reunión coadyuvará a estrechar los lazos de amistad y colaboración de las naciones que concurren y que los temas que ahí se ventilen por medio del diálogo abierto y franco, contribuyan a solucionar los problemas por los que atraviesa la humanidad.

Hago propicia la ocasión para ofrecer a usted el testimonio de mi más alta y distinguida consideración.



Señora  
Margaret Thatcher,  
Primera Ministra de la  
Gran Bretaña.





Prime Minister

A.J.C.  $\frac{23}{2}$

✓ c. Sir A. Parsons.

FCS/83/38

SECRETARY OF STATE FOR ENERGY

Visit to Mexico: Oil Prices

1. You will have seen from the telegrams that both the President and the Foreign Minister raised the question of oil prices with me during my time in Mexico. The President said that he thought there should be a dialogue between OPEC and non-OPEC producers, to allow the evolution of world energy policies which balanced the interests of consumers and producers, and said he would like to see continuing, but not institutionalised, cooperation between non-OPEC producers like Britain and Mexico. The Foreign Minister said that the Venezuelans had asked him to suggest to me that it might be useful if OPEC and at least some non-OPEC producers held a high level meeting to discuss ways of achieving a more orderly oil market. He indicated that Mexico would find it difficult to participate in such a move unless other important oil producers like Britain did so as well.
2. I said that I would discuss these points with you on my return. I see that similar points have been made by others. The Nigerian statement on 19 February, announcing their own oil price reduction, called for a dialogue on pricing within OPEC and between OPEC and non-OPEC producers.
3. I understand the difficulties over entering into a formal dialogue with other producers on oil matters, and particularly with OPEC as a group. However, it seems to me that we should do everything possible to encourage less formal bilateral contacts and

/to





to exchange views on the oil market whenever practicable. It was clear in Mexico that the reception that we gave to their team who were here in January had made a very favourable impact. I know that Hamish Gray is seeing the emissary of the Venezuelan Oil Minister this week. I hope we will be able to respond positively to suggestions of similar bilateral meetings with others. Quite apart from the benefit to our general bilateral relations with the various countries concerned, we have nothing to hide. We have much to explain and as much to find out. All sorts of mischievous motives would be imputed to us if we were to seem unenthusiastic.

4. If the Arab OPEC countries now follow the Nigerians with a significant price cut, I imagine that the pressures for meetings between OPEC and non-OPEC producers might grow. I wonder if we are fully prepared to respond to this, and whether an early meeting of senior officials to consider our reaction might not be useful.

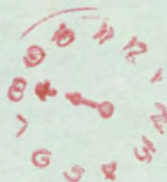
5. I am copying this minute to the Prime Minister, OD colleagues and Sir R Armstrong.

(FRANCIS PYM)

Foreign and Commonwealth Office  
22 February 1983



22 FEB 1983





P 181930Z FEB 83  
FM HMY BRITANNIA  
TO RBDW DFA/FCO  
INFO RBDW DFA/WASHINGTON  
RBDW DFA/MEXICO CITY  
RBDW DFA/CARACAS

CONFIDENTIAL

BT

CONFIDENTIAL UK COMMS ONLY  
SAVINGS TO BONN PARIS UKREP BRUSSELS UK MIS NEW YORK  
FOLLOWING FROM SECRETARY OF STATE

1. I HAD AN HOURS MEETING WITH THE PRESIDENT DE LA MADRID YESTERDAY. HE WAS WARM, RELAXED AND FORTHCOMING, AND EMPHASISED HIS HOPES THAT THE QUEENS VISIT WOULD LEAD TO A MUCH CLOSER ANGLO-MEXICAN RELATIONSHIP THAN HAD BEEN POSSIBLE IN THE PAST. WORLD ECONOMY.
2. I SAID THAT WE MUCH ADMIRE THE EFFORTS WHICH THE PRESIDENT HAD BEEN MAKING TO PUT MEXICOS ECONOMY AND FINANCES BACK INTO ORDER. WE WERE GLAD TO HAVE BEEN OF HELP. DE LA MADRID EXPRESSED HIS APPRECIATION. IT WAS NECESSARY TO PURSUE THE RIGHT ECONOMIC POLICIES AT HOME, BUT NO COUNTRY COULD ACHIEVE RECOVERY BY ITSELF. THE RIGHT INTERNATIONAL ATMOSPHERE HAD TO BE CREATED. HERE HE EXPRESSED INTEREST IN THE PROSPECTS FOR THE WILLIAMSBURG SUMMIT. BUT THE INDUSTRIAL COUNTRIES THERE ASSEMBLED COULD NOT THEMSELVES TAKE THE WORLD OUT OF THE RECESSION. THEY HAD TO TAKE MORE ACCOUNT OF THE SITUATION OF OTHER COUNTRIES AT DIFFERENT LEVELS OF ECONOMIC DEVELOPMENT. ONLY BY GIVING SUCH COUNTRIES THE OPPORTUNITY TO EXPORT THEIR PRODUCTS COULD THEY GENERATE SUFFICIENT FOREIGN EXCHANGE TO PROVIDE THE MARKET FOR THE INDUSTRIAL COUNTRIES WHICH COULD HELP PULL THE WORLD OUT OF RECESSION.
3. I SAID IT WAS IMPORTANT THAT WILLIAMSBURG SHOULD NOT AROUSE EXCESSIVE EXPECTATIONS. DE LA MADRID AGREED. BUT THE WORLD LEADERS MUST AT LEAST SHOW THAT THEY WERE GOING IN THE RIGHT DIRECTION AND THAT THINGS WOULD COME RIGHT IN THE END. HE COULD NOT BE OPTIMISTIC IN THE SHORT TERM. THERE WAS A DANGER THAT UNCONSIDERED EFFORTS TO STIMULATE THE WORLD ECONOMY AND INCREASE EMPLOYMENT MIGHT GENERATE NEW INFLATIONARY PRESSURES AND RE-START THE CURRENT CYCLE. THE PROBLEMS OF THE WORLD ECONOMY WERE STRUCTURAL. THIS TIME WE MUST GO FOR PERMANENT SOLUTIONS IN THE MIDDLE AND LONG TERM WHICH WOULD PERMIT A SUSTAINED RECOVERY.
4. ON PROSPECTS FOR THE INTERNATIONAL MONETARY SYSTEM, I ARGUED AGAINST THE ATTEMPTS IN PRESENT CIRCUMSTANCES TO TRY TO INVENT SOMETHING NEW. IT WAS BETTER TO INCREASE THE RESOURCES AVAILABLE TO EXISTING INSTITUTIONS AND IMPROVE THEIR FUNCTIONING. DE LA MADRID WARMLY AGREED THAT IT WOULD BE WRONG TO WASTE TIME AND ENERGY ON THEORETICAL PROBLEMS. IT WAS BETTER TO RESOLVE ONE PRACTICAL PROBLEM THAN TO BRING A DOZEN UNDER CONSIDERATION. MEXICAN ECONOMY.

CONFIDENTIAL

/ 5 .



5. DE LA MADRID SAID THAT HE HOPED MEXICO WOULD EMERGE FROM ITS PRESENT DIFFICULTIES WITHIN THE NEXT 2 OR 3 YEARS. INDEED, HE HOPED THAT BY THEN A GROWTH RATE OF AROUND 6% COULD BE ACHIEVED. HIS PREDECESSORS HAD BEEN TOO AMBITIOUS AND HAD RAISED GROWTH RATE TO OVER 8% WITH RESULTS WHICH COULD NOW BE SEEN. HE REMARKED THAT 6% WAS A HIGH RATE IN ITSELF. COULD MEXICO HOPE TO ACHIEVE ANYTHING LIKE THIS IF INTERNATIONAL CIRCUMSTANCES WERE NOT RIGHT? DE LA MADRID REPLIED THAT MEXICO WAS OBVIOUSLY DEPENDENT ON OTHERS AS THE PRESENT CRISIS HAD SHOWN, BUT IT HAD ENORMOUS RESOURCES AND THESE SHOULD NOW BE DEVELOPED IN MORE RATIONAL FASHION. OBVIOUSLY MEXICO COULD NOT BORROW, AS IN THE PAST, AND MUST GENERATE THE NECESSARY FOREIGN EXCHANGE THROUGH EXPORTS. HERE HE MEANT MANUFACTURED GOODS AS WELL AS OIL, MINERALS AND COMMODITIES. A SUCCESSFUL EXPORT POLICY WOULD PERMIT MEXICO TO MODIFY CURRENT POLICIES OF IMPORT SUBSTITUTION WHICH HAD NOT HAD THE RESULTS EXPECTED OF THEM. MEXICAN PROBLEMS IN THE PAST HAD BEEN AGGRAVATED BY AN ARTIFICIAL EXCHANGE RATE POLICY; WITH THE PESO OVER-VALUED, IMPORTS HAD POURED INTO THE COUNTRY AND EXPORTS OF MANUFACTURED GOODS HAD DWINDLED AWAY TO ALMOST NOTHING.

6. DE LA MADRID SAID THAT EMPLOYMENT WAS ONE OF HIS BIGGEST PRACTICAL PROBLEMS. THERE WERE ALMOST A MILLION NEW MEXICANS COMING ONTO THE LABOUR MARKET EVERY YEAR. BUT OPPORTUNITIES WERE DECLINING IN BOTH TOWN AND COUNTRY. AT TIMES OF CRISIS THE POOR ALWAYS SUFFERED THE MOST. HE THUS HAD MAJOR POLITICAL PROBLEMS. BUT HE WAS DETERMINED TO GO FOR STRUCTURAL RATHER THAN SHORT-TERM SOLUTIONS AND WOULD TRY TO PROVIDE MORE JOBS, WHILE INTRODUCING MODERN TECHNOLOGY WHERE POSSIBLE. THE MEXICAN ECONOMY WAS INEVITABLY CLOSELY ASSOCIATED WITH THE US ECONOMY. LIKE US HE WAS THEREFORE WATCHING WITH ANXIETY PROTECTIONIST PRESSURES IN WASHINGTON, THE SIZE OF THE CURRENT US BUDGET DEFICIT, AND THE SHADOW OF THE FORTHCOMING US PRESIDENTIAL ELECTIONS.

OIL.

7. DE LA MADRID SAID THAT HE HOPED THAT THERE COULD BE MUCH CLOSER CONSULTATION BETWEEN BRITAIN AND MEXICO OVER OIL POLICY IN THE FUTURE. THERE SHOULD BE A DIALOGUE BETWEEN OPEC AND NON-OPEC OIL PRODUCERS TO ALLOW THE EVOLUTION OF WORLD ENERGY POLICIES WHICH BALANCED THE INTERESTS OF CONSUMERS AS WELL AS PRODUCERS. BUT MEXICO COULD NOT ENTER INTO SUCH A DIALOGUE ALONE. HE WOULD LIKE TO SEE A FORM OF CONTINUING (PREFERABLY UNINSTITUTIONALISED) CO-OPERATION BETWEEN SUCH COUNTRIES AS BRITAIN, MEXICO AND EGYPT. ALTHOUGH THIS WOULD NOT BE A COUNTER - OPEC, IT WOULD HELP THE NON-OPEC PRODUCERS BETTER TO LOOK AFTER THEIR OWN INTERESTS.

8. HE REFERRED TO MEXICAN OIL RELATIONS WITH SUCH LATIN AMERICAN OIL PRODUCERS AS VENEZUELA AND ECUADOR. DE LA MADRID REPLIED THAT MEXICO HAD GOOD CO-OPERATION WITH SUCH COUNTRIES IN THE LATIN AMERICAN FRAMEWORK, BUT THEY WERE MEMBERS OF OPEC AND MEXICO WAS NOT. HE SAID THAT HE WOULD DISCUSS THE PRESIDENTS IDEAS WITH MY COLLEAGUES ON MY RETURN TO LONDON.

BELIZE/FALKLANDS.

2

CONFIDENTIAL

/9.



# CONFIDENTIAL

9. DE LA MADRID SAID THAT MEXICO DEVOUTLY HOPED THAT PEACEFUL SOLUTIONS TO THE PROBLEMS OF CENTRAL AND LATIN AMERICA COULD BE FOUND. TO THIS END HE HAD BEEN DEVELOPING CO-OPERATION WITH VENEZUELA AND COLOMBIA. HE THOUGHT THAT THE UNITED NATIONS SHOULD PROVIDE THE NECESSARY MEANS FOR DEALING WITH SUCH SPECIFIC PROBLEMS AS BELIZE AND THE FALKLANDS.

10. ON BELIZE, DE LA MADRID THOUGHT THAT HELP SHOULD BE MOBILISED FROM AS MANY OTHER COUNTRIES AS POSSIBLE. HE HAD CANADA AND THE CARIBBEAN COUNTRIES PARTICULARLY IN MIND. HE SAID THAT WE SHOULD MUCH WELCOME HELP FROM THESE SOURCES. WE WANTED TO WITHDRAW OUR GARRISON AS SOON AS WE COULD. DE LA MADRID THOUGHT THAT LATIN AMERICAN COUNTRIES MIGHT BE BROUGHT IN AS WELL. VENEZUELA AND COLOMBIA WERE MUCH CONCERNED. MEXICO FULLY SUPPORTED THE INDEPENDENCE AND TERRITORIAL INTEGRITY OF BELIZE AND WAS GIVING ALL THE HELP IT REASONABLY COULD.

11. TURNING TO THE FALKLANDS, DE LA MADRID RECALLED THAT HIS PREDECESSOR HAD CONDEMNED THE <sup>ARGENTINE USE OF FORCE</sup> ~~ARGENTINE USE OF FORCE~~ BUT MEXICO WAS A LATIN AMERICAN COUNTRY, AND SUPPORTED THE GENERAL LATIN AMERICAN CASE FOR DECOLONISATION. HE SAID THAT THE BRITISH WERE WORLD EXPERTS IN DECOLONISATION, AS OUR RECORD FULLY SHOWED. THE DIRECT BRITISH INTEREST IN THE FALKLANDS WAS SMALL BUT, LIKE MEXICO, WE ADHERED TO THE PRINCIPLE OF SELF DETERMINATION AND HAD TO RESPECT THE VIEWS AND FEELINGS OF THE ISLANDERS, NOW ALL THE STRONGER AFTER THE UNPROVOKED AGGRESSION AGAINST THEM. BUT WE NATURALLY WANTED TO RETURN TO A MORE NORMAL RELATIONSHIP WITH ARGENTINA AS SOON AS WE COULD. DE LA MADRID SAID THAT MEXICO HAD BEEN CRITICISED BY MANY LATIN AMERICAN COUNTRIES FOR THE POSITION HIS PREDECESSOR HAD TAKEN DURING THE CONFLICT LAST YEAR. BUT CURIOUSLY ENOUGH, THAT POSITION SEEMED TO HAVE WON THE RESPECT OF THE ARGENTINES, AND MEXICO WAS NOW CLOSER TO ARGENTINA THAN IT HAD BEEN IN THE VKST., IF THERE WAS ANYTHING HE COULD DO TO HELP, WE SHOULD LET HIM KNOW. MEANWHILE, HE HOPED THAT THE UNITED NATIONS MIGHT PROVIDE MEANS FOR AN EVENTUAL SOLUTION OF THE PROBLEM.

CONCLUSION.

12. DE LA MADRID SAID HE WAS DELIGHTED BY THE QUEENS VISIT AND LOOKED FORWARD TO A CLOSER WORKING RELATIONSHIP BETWEEN THE TWO COUNTRIES AS A RESULT. HE WOULD WELCOME A MORE POSITIVE BRITISH INTEREST IN THE AFFAIRS OF THE REGION. HE HOPED WE WOULD REMAIN IN CONSTANT TOUCH.

13. FCO PLEASE REPEAT TO SAVING ADDRESSEES.

(REPEATED AS REQUESTED)

STANDARD ECD (E)  
MCAD MR THOMAS  
ERD MR HAYES  
FID CABINET OFFICE  
SAMD  
NAD  
UND

COPIES SENT TO  
No. 10 DOWNING STREET



RESTRICTED

Mexico

RESTRICTED

FM MEXICO CITY 001945Z DEC 82

TO PRIORITY FCO

TELEGRAM NUMBER 1021 OF 3 DECEMBER 82

INFO PRIORITY TREASURY, DOT, ECGD, BANK OF ENGLAND, UKDEL IMF/  
WORLD BANK, WASHINGTON

NY TELNO 1007: NEW MEXICAN GOVERNMENT MEASURES.

## SUMMARY

1. THE NEW MEXICAN ADMINISTRATION HAS MOVED QUICKLY IN ITS EFFORTS TO RESTORE CONFIDENCE IN THE MANAGEMENT OF THE ECONOMY, IN PARTICULAR THROUGH PUBLIC SECTOR PRICE RISES, A MORE POSITIVE ATTITUDE TO FOREIGN INVESTMENT, AND NEW MEASURES TO COMBAT CORRUPTION.

THE STATE OF THE ECONOMY.

2. IN A SPEECH YESTERDAY THE MINISTER OF PLANNING GAVE A GRIM PICTURE OF THE STATE OF THE ECONOMY. HE SAID THAT INFLATION WAS NOW RUNNING AT 100%. THE UNEMPLOYED, EXCLUDING UNDER-EMPLOYED, WERE 2 MILLION. IN DECEMBER BOTH INFLATION AND UNEMPLOYMENT WOULD REACH THE HIGHEST LEVELS IN THE HISTORY OF MEXICO. DUE TO FINANCIAL POPULARISM, THE NATIONALISED BANKS HAD LOST IN THE PAST THREE MONTHS MORE THAN THE TOTAL OF THEIR EQUITY. THE VALUE OF NEW SAVINGS BEING ATTRACTED WAS VERY LOW AND OF DOLLARS NIL. MOST PUBLIC SECTOR CORPORATIONS WERE OPERATING AT A LOSS. MORE THAN ONE WAS ON THE EDGE OF COLLAPSE. URGENT AND RADICAL MEASURES WOULD BE TAKEN.

PRICES.

3. THE MINISTER OF TRADE ANNOUNCED YESTERDAY THE DOUBLING OF THE PRICE OF PETROL AND STEEP INCREASES FOR OTHER ITEMS INCLUDING GAS AND PETROCHEMICALS. HE SAID THE PREVIOUS POLICY OF MAINTAINING PRICE CONTROLS ON MORE THAN 3,000 ITEMS WAS IMPRACTICAL AND UNWORKABLE: IN FUTURE THE GOVERNMENT WOULD CONTROL THE PRICE OF ONLY SOME 300 KEY ITEMS.

FOREIGN INVESTMENT

4. THE MINISTER OF TRADE ALSO ANNOUNCED A CHANGE OF POLICY TOWARDS FOREIGN INVESTMENT. MEXICO WOULD MOVE FROM A PASSIVE POLICY OF ACCEPTING OR REJECTING PROPOSALS FOR FOREIGN INVESTMENT, TO ONE OF ACTIVELY PROMOTING FOREIGN INVESTMENT ON A SELECTIVE BASIS, ESPECIALLY WHERE IT WOULD BRING NEW TECHNOLOGY OR IMPROVE THE COUNTRY'S EXPORT POTENTIAL. IT WAS TIME TO END SIMPLISTIC DEFENSIVE ATTITUDES TOWARDS FOREIGN COMPANIES AND TO ADOPT A PRAGMATIC POLICY OF SEEKING MUTUAL BENEFITS.

CORRUPTION.

5. THE PRESIDENT'S SPECIAL ADVISER HAS GIVEN DETAILS OF LEGISLATION WHICH IS BEING PREPARED TO COMBAT CORRUPTION. HE SAID THAT GOVERNMENT OFFICIALS WOULD LOSE THE PRIVILEGES AND IMMUNITIES WHICH

RESTRICTED

/THEY



## RESTRICTED

THEY HAD HITHERTO ENJOYED AND WHICH HAD MADE IT DIFFICULT IN MANY CASES TO PURSUE INVESTIGATIONS INTO CORRUPT PRACTICES.

### FOREIGN REACTIONS

6. THE MEXICAN PRESS AND TELEVISION HAVE QUOTED EXTENSIVELY COMMENTS ON THE PRESIDENT'S INAUGURAL ADDRESS BY THE SPECIAL FOREIGN GUESTS INVITED FOR THE OCCASION, INCLUDING A NUMBER OF PROMINENT AMERICAN BANKERS AND INDUSTRIALISTS. THE COMMENTS WERE ALMOST ENTIRELY FAVOURABLE: MANY SAID THAT IT WAS TOO EARLY TO ASSESS THE EFFECTIVENESS OF THE GOVERNMENT'S PROGRAMME, BUT THAT THE POLICIES WERE PRECISELY THE ONE'S REQUIRED TO RESTORE INTERNATIONAL CONFIDENCE. PROMINENCE HAS ALSO BEEN GIVEN TO THE INITIAL REACTIONS OF FOREIGN GOVERNMENTS, INCLUDING SPOKESMEN OF THE WHITE HOUSE AND OF THE STATE DEPARTMENT.

### ATTITUDE OF THE IMF

7. THE DEPUTY MANAGING DIRECTOR OF THE IMF, WHO ATTENDED THE INAUGURATION AS A SPECIAL GUEST, HAS NOT COMMENTED PUBLICLY ON THE PRESIDENT'S ECONOMIC PROGRAMME, BUT HE TOLD ENRIQUES SAVIGNAC (THE FORMER DEPUTY MINISTER OF FINANCE) AND ME AT A RECEPTION YESTERDAY THAT HE WAS IMPRESSED AND ENCOURAGED BY THE PRESIDENT'S SPEECH AND BY THE POLICIES BEING INTRODUCED BY HIS GOVERNMENT.

TICKELL

FCO|WH  
MCAI)

THIS TELEGRAM  
WAS NOT  
ADVANCED

2  
RESTRICTED



RESTRICTED [cull]

FM MEXICO CITY 252345Z NOV 82

TO PRIORITY FCO

TELEGRAM NUMBER 992 OF 25 NOVEMBER

INFO PRIORITY TREASURY, DOT, ECGD, BANK OF ENGLAND, UKDEL IMF/IBRD  
WASHINGTON

MY TELNO 988: MEXICAN ECONOMIC CRISIS.

1. WHEN MY MINISTER-COUNCELLOR CALLED TODAY ON THE DEPUTY FINANCE MINISTER TO DISCUSS OTHER MATTERS, HE ASKED HOW MEXICO'S NEGOTIATIONS WITH THE COMMERCIAL BANKS WERE GOING. ENRIQUEZ SAVIGNAC SAID THAT HIS TALKS WITH THE MEXICAN ADVISORY GROUP IN NEW YORK A FORT-NIGHT AGO HAD GONE WELL. THE SIGNATURE OF THE LETTER OF INTENT TO THE IMF HAD REASSURED THE BANKERS WHO HAD BEEN MOST UNDERSTANDING AND HELPFUL. THE EARLIER ATMOSPHERE OF RECRIMINATION - QUOTE HOW DID YOU GET US IN TO THIS FIX UNQUOTE - HAD DISAPPEARED ENTIRELY.

2. HE HAD GIVEN THE ADVISORY GROUP UP TO DATE FIGURES ON THE MEXICAN FINANCIAL POSITION AND HAD PROPOSED A 120 DAY MORATORIUM ON PUBLIC SECTOR DEBT PRINCIPAL PAYMENTS FROM 23 NOVEMBER TO ALLOW TIME FOR RESTRUCTURING PROPOSALS TO BE WORKED OUT. THE GROUP HAD AGREED. HE HAD THEN PRESENTED THEM WITH FOUR ALTERNATIVE SCENARIOS FOR RESTRUCTURING. THE GROUP WERE NOW STUDYING THESE AND WOULD LET ME HIM KNOW WHICH THEY PREFERRED. THE MEXICANS WOULD THEN PROPOSE ONE FORMALLY. THEY WISHED TO AVOID PRESENTING THE GROUP WITH A SCHEME WHICH THERE WAS ANY RISK OF THEIR HAVING TO REFUSE.

3. IT HAD BEEN AGREED THAT A JOINT MEXICAN FINANCE MINISTRY/ ADVISORY GROUP WORKING PARTY SHOULD BE ESTABLISHED TO RESOLVE THE PROBLEM OF THE ARREARS OF INTEREST ON THE PRIVATE SECTOR DEBT. THE WORKING PARTY WAS NOW WELL ADVANCED IN ITS TASK AND SHOULD HAVE A PROPOSAL READY FOR THE FINANCE MINISTER IN THE NEW ADMINISTRATION NEXT WEEK. THE AIM WAS TO HAVE THE ARREARS OF INTEREST SETTLED IN THE FIRST FIVE OR TEN DAYS OF DECEMBER WHICH WOULD MAKE IT POSSIBLE FOR THE US BANKS TO RECORD THE LOANS AS PERFORMING IN THEIR YEAR END ACCOUNTS. THIS WOULD REMOVE THE MAIN OBSTACLE TO THE ADVISORY GROUP MAKING A COMMITMENT ON NEW MONEY FOR MEXICO FOR 1983 BY 15 DECEMBER, THE DEADLINE SET BY THE MANAGING DIRECTOR OF THE IMF IN HIS MEETING WITH THE ADVISORY GROUP IN NEW YORK ON 16 NOVEMBER.

4. MORRIS ASKED WHETHER THE ADVISORY GROUP HAD BEEN AS ANNOYED ABOUT DE LAROSIERE'S PROPOSALS AT THE NEW YORK MEETING AS THE FINANCIAL TIMES HAD SUGGESTED. ENRIQUEZ SAVIGNAC SAID THAT THE BANKS HAD BEEN SOMEWHAT PUT OUT BECAUSE THEY HAD WISHED TO TAKE THE INITIATIVE THEMSELVES. BUT THEY RECOGNISED THAT DE LAROSIERE WAS ONLY ASKING WHAT WAS NECESSARY. THE MEXICAN GOVERNMENT HAD BEEN MOST GRATEFUL FOR DE LAROSIERE'S UNPRECEDENTED INITIATIVE.



## RESTRICTED

5. ENRIQUEZ SAVIGNAC SAID THAT THE FINANCE MINISTRY HAD BEEN DISCUSSING WITH THE ADVISORY GROUP HOW THE US DOLLARS 6 BILLION OR SO NEW MONEY NEEDED FROM NOW UNTIL THE END OF 1983 COULD BE RAISED. THE BANKS THOUGHT THAT MOST OF IT WOULD HAVE TO COME FROM THE BIG MONEY CENTRE BANKS. BUT THE LATTER COULD NOT RAISE IT ALL WITHOUT EXCEEDING THEIR CREDIT LIMITS. THEY HAD THEREFORE DISCUSSED WAYS IN WHICH THE DIFFERENCE COULD BE MADE UP. ONE WAS BY A GREATER USE OF EXPORT CREDITS WHICH MEXICO HAD NEGLECTED IN THE PAST. STATE COMPANIES LIKE PEMEX HAD OFTEN BORROWED SHORT TERM FUNDS IN ORDER TO PAY CASH FOR LARGE CAPITAL PURCHASES. THIS MADE LITTLE SENSE. THE BANKERS IN THE ADVISORY GROUP WERE THEREFORE DISCUSSING WITH THE EXPORT CREDIT AGENCIES OF THEIR RESPECTIVE COUNTRIES HOW MORE EXPORT CREDIT FINANCE COULD BE MADE AVAILABLE IN THE FUTURE. THEY WOULD ALSO BE TRYING TO PERSUADE THEIR OWN CENTRAL BANKS TO LENGTHEN THE TERM OF THE BLS LOAN. SIMILAR EFFORTS WERE BEING MADE WITH THE US TREASURY AND THE FED ON THE BRIDGING LOANS THEY HAD PROVIDED. IN THIS WAY THE MEXICANS AND THE ADVISORY GROUP HOPED THAT THE SHORTFALL IN MEXICO'S EXTERNAL FINANCING FOR 1983 COULD BE MET.

6. FINALLY ENRIQUEZ SAVIGNAC SAID HOW PLEASED HE WAS WITH THE WAY THINGS WERE NOW GOING. IT SHOWED THAT THE INTERNATIONAL MONEY SYSTEM DID WORK PROVIDED ONE PLAYED BY THE RULES. IT WOULD HAVE BEEN A DISASTER IF MEXICO HAD FOLLOWED THE ADVICE OF QUOTE PEOPLE OUTSIDE UNQUOTE AND HAD TRIED TO FORM A DEBTORS CLUB WITH BRAZIL AND ARGENTINA.

TICKELL

FINANCIAL  
ESID  
MCAD  
NAD

COPIES TO:

MR BALFOUR }  
MR JAGGERS } BANK OF ENGLAND

MR ATKINSON }  
MR BOTTRELL } TREASURY  
MR PERETZ }





no. 15  
Mexico

10 DOWNING STREET

*From the Private Secretary*

21 October 1982

Letter to the President of Mexico

The Prime Minister has approved a revised version of the draft enclosed with your letter of 19 October. I enclose the letter which the Prime Minister has signed and would be grateful if you would arrange for its delivery.

I am copying this letter and the enclosure to John Kerr (HM Treasury) and Tim Allen at the Bank of England.

A. J. COLES

J.E. Holmes, Esq.,  
Foreign and Commonwealth Office.

57.



Subject

de Martor  
Ops

for Mr J,



10 DOWNING STREET

c. FCO.  
HM Treasury  
Bank of England

THE PRIME MINISTER

21 October 1982

PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T.197/82

Dear Mr President,

Thank you for your letter of 23 September, addressed to the Heads of State and Government who attended the Cancun Summit meeting last year.

I well understand your concern at the serious problems which have beset the world economy during the last twelve months. Your country has been faced with exceptional difficulties since we met in Cancun.

Although the problems your country faces are grave, I have every confidence that they will be overcome. Mexico has great economic potential, thanks to its natural resources and the abundant energy and skills of your people. It is this productive potential which has ensured extensive access to the international financial markets. Mexico has taken measures which should help in the short-term to restore balance to the economy. Adjustment can be painful, but there is, I am sure, no alternative for any country to carrying through policies which will strengthen the economy in the longer term.

/Clearly,



Clearly, agreement on an IMF programme is the key step forward, which will enable the international community to contribute in the most effective way to a more durable solution. I realise that such an agreement will mean many difficult decisions, and require understanding on all sides. I very much hope that your negotiations with the IMF will soon be crowned with success. Britain is willing to play its part in providing the IMF with the resources it needs to deal effectively with the problems of member states, in particular through a substantial increase in quotas. This, as you know, is now under discussion.

Britain has joined in the efforts by the international community to produce an immediate response to Mexico's needs. In August my country supported the BIS loan, to the extent of US\$140 million. We have encouraged British and other banks to maintain their existing relationship with Mexico as a means of providing additional support. I have been greatly encouraged by the growth in the economic relationship between our two countries over recent years. Mexico is a valued and important economic partner for Britain, as well as a friend of long standing. I am sure that this excellent relationship will be maintained in the years ahead.

Yours sincerely  
Rajant Dehla

---

His Excellency Licenciado Jose Lopez Portillo.



GR 550

CONFIDENTIAL

CONFIDENTIAL

DESKBY 210900Z [coll]

FM UKDEL IMF/IBRD WASHINGTON 202106Z OCT 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 221 OF 20 OCTOBER 1982

INFO MEXICO CITY

IMF: MEXICO

1. I ASKED THE MANAGING DIRECTOR TODAY WHETHER HE COULD ARRANGE A FURTHER INFORMAL MEETING TO BRING EXECUTIVE DIRECTORS UP TO DATE ON THE DISCUSSIONS WITH MEXICO. HE SAID THAT HE HAD INTENDED TO DO THIS, BUT THAT IT HAD BEEN DIFFICULT BECAUSE THE SITUATION HAD BEEN CHANGING ALL THE TIME.

2. THE MANAGING DIRECTOR TOLD ME THAT BEZA (HEAD OF STAFF MISSION) HAD RETURNED TO WASHINGTON YESTERDAY AND HAD REPORTED THAT THE TALKS HAD BEEN VERY DIFFICULT AND SLOW, BUT THERE HAD BEEN SOME CHANGE IN THE CLIMATE DURING THE LAST THREE WEEKS. THERE WERE THREE MAIN ACTORS ON THE MEXICAN SIDE: SILVA HERZOG, TELLO, AND SALINAS (THE REPRESENTATIVE OF THE PRESIDENT-ELECT). SILVA HERZOG WAS ORTHODOX, BUT HIS CREDIBILITY HAD BEEN UNDERMINED BY THE MEASURES TAKEN BY TELLO IN HIS ABSENCE DURING THE TORONTO MEETING. TELLO WAS UNORTHODOX AND WANTED TO PURSUE MEASURES SUCH AS REDUCTIONS IN INTEREST RATES, ETC. SALINAS APPEARED BASICALLY ORTHODOX, BUT DID NOT WANT TOO MUCH OF THE ADJUSTMENT TO TAKE PLACE IN THE FIRST YEAR OF THE PROGRAM, SINCE THIS MIGHT UNDERMINE THE CREDIBILITY OF DE LA MADRID. DURING THE COURSE OF DISCUSSIONS WITH THE STAFF MISSION, TELLO'S POSITION HAD WEAKENED BECAUSE HIS MEASURES WERE CLEARLY NOT HAVING THE DESIRED EFFECT. THE REDUCED INTEREST RATES WERE NOT BRINGING IN ANY SAVINGS, AND EXPORTERS WERE NOT SURRENDERING ANY FOREIGN EXCHANGE.

2. THE LETTER OF INTENT HAD STARTED WITH A DRAFT BY TELLO WHICH WAS REGARDED BY BEZA AS TOTALLY UNACCEPTABLE. IT HAD TAKEN SEVERAL ALL-NIGHT SESSIONS BETWEEN BEZA AND THE 3 MEXICANS TO GET IT INTO A GENERAL SHAPE WHICH THE FUND MIGHT ACCEPT. IT SEEMED LIKELY THAT THERE WOULD NEED TO BE TWO LETTERS: ONE PUBLIC LETTER AND A SEPARATE CONFIDENTIAL MEMORANDUM. BUT THERE WAS STILL NO AGREEMENT ON THE KEY FIGURES FOR THE AMOUNT OF THE ADJUSTMENT AND ON THE MAIN SUPPORTING MEASURES. THIS WAS PARTLY BECAUSE OF THE POWER GAME GOING ON BETWEEN DE LA MADRID AND LOPEZ PORTILLO. DE LA MADRID WANTED THE LETTER SIGNED BEFORE DECEMBER 1 SO AS TO GET LOPEZ PORTILLO TO SHARE RESPONSIBILITY FOR IT. ONCE THE DISCUSSION TURNED TO SPECIFIC MEASURES LOPEZ PORTILLO WAS, HOWEVER, UNWILLING TO PUT HIS NAME TO MEASURES WHICH WOULD NEED TO BE INCLUDED IN DE LA MADRID'S BUDGET ON DECEMBER 15. THE MEXICANS WOULD THEREFORE LIKE AN ARRANGEMENT UNDER WHICH THEY COULD DRAW THE FIRST INSTALMENT ON THE BASIS OF A BROAD STATEMENT OF OBJECTIVES, FOLLOWED BY A REVIEW IN JANUARY. THE MANAGING DIRECTOR

CONFIDENTIAL

/DID



## CONFIDENTIAL

DID NOT THINK THAT THIS WOULD HELP CONFIDENCE AND RESTORE CAPITAL INFLOWS. THE FIRST INSTALMENT WOULD ALSO BE A CONSIDERABLE SUM. HE WAS THEREFORE INSISTING ON PRIOR AGREEMENT ON THE MAIN MEASURES AND ON THE AMOUNT OF THE ADJUSTMENT IN THE FIRST YEAR. HE ASKED IF I AGREED. I SAID THAT I DID: THE MEXICAN PROPOSAL WOULD REPRESENT AN UNFORTUNATE PRECEDENT WHICH COULD BE PRAYED IN AID BY MANY OTHER COUNTRIES.

3. THE MANAGING DIRECTOR SAID THAT THE 3 MEXICANS WOULD BE COMING TO WASHINGTON FOR FURTHER TALKS ON FRIDAY OF THIS WEEK. HE WOULD TRY TO ARRANGE AN INFORMAL MEETING OF DIRECTORS AFTER THAT.

4. FCO PLEASE ADVANCE TO LAVELLE (TREASURY), GILCHRIST (BANK OF ENGLAND), APPEYARD (ERD).

ANSON

ADVANCED AS REQUESTED

FINANCIAL

ERD  
MCAD  
NAD



Mexico



Foreign and Commonwealth Office

London SW1A 2AH

19 October 1982

Type letter pl.

M 19.  
10.

Dear John,

Letter to the Prime Minister from the President of Mexico

Thank you for your letter of 7 October with which you sent President Portillo's letter to the Prime Minister of 23 September and the Mexican Embassy's translation of 4 October.

I enclose a draft reply from the Prime Minister which has been cleared with the Treasury and the Bank of England.

I am copying this letter to John Kerr (HM Treasury) and to the Private Secretary to the Governor of the Bank of England.

Yours ever

for Holmes

(J E Holmes)  
Private Secretary

A J Coles Esq  
10 Downing Street



DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM: The Prime Minister

Reference

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO: Sr José Lopez Portillo  
President of the  
United Mexican States

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

Thank you for your letter of 23 September, addressed to the Heads of State and Government who attended the Cancun Summit meeting last year.

CAVEAT.....

I well understand your concern at the serious problems which have beset the world economy during the last twelve months. Your country has been faced with exceptional difficulties since we met in Cancun.

Although the problems your country faces are grave, I have every confidence that they will be overcome. Mexico has great economic potential, thanks to its natural resources and the abundant energy and skills of <sup>you</sup> its people. ~~As you point out in your letter,~~ <sup>it</sup> it is Mexico's productive potential which has ~~enabled it to~~ <sup>enabled</sup> ~~command~~ extensive access to the international financial markets. Mexico has taken measures which should help in the short-term to restore balance to the ~~Mexican~~ economy. Adjustment can be painful, but <sup>I am sure,</sup> there is <sup>no</sup> alternative, for any country, to carrying through policies which will strengthen the economy in the longer term.

Enclosures—flag(s).....

/Clearly



Clearly, agreement on an IMF programme is the key step forward, which will enable the international community to contribute in the most effective way to a more durable solution. I realise that such an agreement will mean many difficult decisions, and require understanding on all sides. I very much hope that your negotiations with the IMF will soon be crowned with success. Britain is willing to play its part in providing the IMF with the resources it needs to deal effectively with the problems of member States, in particular through a substantial increase in quotas, <sup>the</sup> which, as you know, is now under discussion.

Britain has joined in the efforts by the international community to produce an immediate response to Mexico's needs. In August my country supported the BIS loan, to the extent of US\$140 million. We have encouraged British and other banks to maintain their existing relationship with Mexico as a means of providing additional support. I have been greatly encouraged by the growth in the economic relationship between our two countries over recent years. Mexico is a valued and important economic partner for Britain, as well as a friend of long standing. I am sure that this excellent relationship will be maintained in the years ahead.

AO 1/2 -



Mexico:

UK relations

May 1981



GRS 1010

[CULL]

CONFIDENTIAL

*Dr. Butler*

*Dr. Scholar*

CONFIDENTIAL

FM MEXICO CITY 180200Z OCT 82

TO PRIORITY FCO

TELEGRAM NUMBER 879 OF 15 OCT 82

INFO DOT, ECGD, TREASURY, BANK OF ENGLAND, WASHINGTON

MY TELNO 852: MEXICAN ECONOMIC CRISIS.

*M*

1. MEXICO SEEMS NOW TO BE SLIPPING DEEPER INTO ECONOMIC CRISIS. AT THE TOP THE PRESIDENT CONTINUES TO MAKE LOFTILY VACUOUS STATEMENTS ON ALMOST EVERYTHING EXCEPT WHAT MATTERS. NEITHER MINISTERS NOR THE POLITICAL AND PARTY APPARATUS HAS SO FAR MADE MUCH EFFORT TO PREPARE PEOPLE FOR THE AUSTERITIES TO COME.
2. BUT THERE IS A GENERAL MOOD OF APPREHENSION, CYNICISM AND GLOOM. YESTERDAY'S WIDELY REPORTED NEWS THAT THE MINISTER OF FINANCE HAD AT LAST SIGNED A LETTER OF INTENT TO THE IMF PRODUCED RELIEF IN MOST QUARTERS (MY TELS NOS 872,873, AND 874). ITS SUBSEQUENT DENIAL RISKS PRODUCING CORRESPONDING FEELINGS OF WOE. NO-ONE KNOWS WHETHER THE STORY WAS JUST A MISTAKE, OR CONCEIVABLY SABOTAGE DESIGNED TO MOBILISE OPPOSITION TO AN IMF AGREEMENT. THE INCIDENT CANNOT HAVE HELPED EITHER THE AGREEMENT OR THE PRESENTATION OF ITS TERMS TO THE PUBLIC.
3. IN THE MEANTIME THE HEADY POLITICAL EFFECTS OF THE TWO MEASURES TAKEN BY THE GOVERNMENT ON 1 SEPTEMBER - THE NATIONALISATION OF THE BANKS, AND THE IMPOSITION OF FULL EXCHANGE CONTROL- HAVE BEGUN TO WEAR OFF. FEW NOW PRETEND THAT EITHER MEASURE CAN SOLVE ANYTHING. TO GENERAL SURPRISE THE PRIVATE BANKERS HAVE SECURED A PRELIMINARY SUCCESS IN THEIR ACTION CALLING FOR AN INJUNCTION AGAINST EXPROPRIATION: THE JUDGE OF THE DISTRICT COURT HAS AGREED THAT THEIR CASE SHOULD BE HEARD. THUS EVEN IF THE EXPROPRIATION HAS SINCE BECOME PART OF THE CONSTITUTION, THE GOVERNMENT WILL HAVE TO DEFEND ITS ACTIONS, THE CONSTITUTIONAL ISSUES WILL GET A HEARING, AND THE POT WILL BE KEPT ON THE BOIL. SO FAR THERE IS NO SIGN OF ANY MOVE BY THE GOVERNMENT TO FULFIL ITS UNDERTAKING TO RETURN THE PRIVATE BANKS' INVESTMENTS TO THE PRIVATE SECTOR.
4. THE EXCHANGE CONTROL SYSTEM IS IN GREAT DIFFICULTIES, AND CAN HARDLY CONTINUE MUCH LONGER IN ITS PRESENT FORM. THERE IS A DIRE SHORTAGE OF DOLLARS AT BOTH THE PREFERENTIAL AND THE OFFICIAL RATE, AND A CORRESPONDING RISE IN THE BLACK MARKET. ANYONE WHO REALLY NEEDS DOLLARS CAN GET THEM, ALBEIT AT HIGH RATES. IN THE FRONTIER AREAS THERE IS SCARCELY EVEN THE PRETENCE OF EXCHANGE CONTROL. ONE RESULT HAS BEEN A MASSIVE MOVEMENT OF PESOS INTO THE UNITED STATES, AND THE GOVERNMENT IS FINDING THAT MANY AMERICANS NOW PREFER TO MAKE PAYMENTS IN PESOS FOR MEXICAN EXPORTS, AND THAT AMERICAN TOURISTS ARRIVE IN MEXICO ALREADY LADEN WITH PESOS. THUS THE DOLLARS ON WHICH THE AUTHORITIES HAVE COUNTED HAVE NOT MATERIALISED. EFFORTS ARE NOW BEING MADE TO PERSUADE FOREIGN COMPANIES

CONFIDENTIAL

/WITH



WITH DOLLAR DEBTS IN MEXICO EITHER TO SET UP PESO ACCOUNTS FOR EVENTUAL TRANSFER INTO DOLLARS, OR TO PUT THE MONEY THEY ARE OWED INTO SHARES IN MEXICAN ENTERPRISES WITHIN THE LIMITS ALLOWED BY THE LAWS GOVERNING FOREIGN INVESTMENT.

5. FOREIGN TRADE IS AT A LOW EBB. THE NEW IMPORT LICENSING SYSTEM IS HEAVY AND SLOW, AND INCAPABLE OF MEETING THE DEMANDS MADE ON IT. ALREADY THE AUTHORITIES ARE ISSUING LICENCES WITHOUT ENQUIRING THE WHEREABOUTS OF THE NECESSARY FOREIGN EXCHANGE. THEY ARE PAINFULLY CONSCIOUS OF THE DANGER THAT MAJOR PARTS OF MEXICAN INDUSTRY MAY SOON HAVE TO CLOSE DOWN IF ESSENTIAL FOREIGN COMPONENTS ARE NOT BROUGHT IN. INCREASINGLY FOREIGN SUPPLIERS ARE REFUSING TO DESPATCH GOODS WITHOUT PROMPT PAYMENT IN DOLLARS.

6. ALTHOUGH THE AUTHORITIES HAVE AT LAST RECOGNISED THE IMPORTANCE OF EXPORTS, THEY HAVE NOT SO FAR REMOVED THE BUREAUCRATIC HANDICAPS TO EXPORTING, OR BROUGHT THE POINT HOME TO MANUFACTURERS MADE SLACK BY HIGH PROTECTIVE TARIFFS. THERE IS NEW INTEREST IN BARTER DEALS, AND OCCASSIONAL ATTEMPTS TO INSIST THAT ENTERPRISES LINK IMPORTS TO EXPORTS. BUT ALL RECOGNISE THAT FOR THE FORESEEABLE FUTURE THE COUNTRY'S PRINCIPAL EXPORT WILL REMAIN OIL, AND THAT THE ECONOMY WILL REMAIN DANGEROUSLY DEPENDENT ON ITS INTERNATIONAL PRICE.

7. IN GENERAL THE INERTIA WHICH HAS CARRIED THE ECONOMY FORWARD OVER THE LAST FEW MONTHS IS VISIBLY SLOWING DOWN. INDUSTRIAL PRODUCTION IS SAID TO HAVE DECLINED BY AROUND 20%, AND LAY-OFFS ARE INCREASING IN ALL INDUSTRIAL AREAS. SOME CLAIM THAT EVEN IF THEY COULD MAINTAIN PRODUCTION, DEMAND WOULD NOT JUSTIFY IT. THERE IS CONTINUING ARGUMENT AMONG THE UNIONS ABOUT HOW TO MAINTAIN WORKERS' PURCHASING POWER, AND THE MAIN USUALLY GOVERNMENT-INFLUENCED UNION HAS POSTED STRIKE NOTICES THROUGHOUT THE COUNTRY FOR A 50% WAGE INCREASE BACK-DATED TO AUGUST. THIS ACTION HAS CAUSED A BARRAGE OF CRITICISM FROM MANY GOVERNMENT SUPPORTERS AS WELL AS THE BUSINESS COMMUNITY, AND HAS NOT BEEN SUPPORTED BY TWO OF THE OTHER UNION FEDERATIONS. HOW THINGS WILL TURN OUT IS ANYONE'S GUESS, BUT FEW EXPECT CO-ORDINATED NATIONAL STRIKE ACTION. INDIVIDUAL ENTERPRISES WILL PROBABLY BE LEFT TO PAY WHAT THEY CAN.

8. AS IF MAN-MADE PROBLEMS WERE NOT ENOUGH, THE COUNTRY HAS HAD A POOR RAINY SEASON, AND MANY AREAS HAVE BEEN HIT BY DROUGHT. THE GOVERNMENT WILL PROBABLY HAVE TO IMPORT SUBSTANTIAL QUANTITIES OF MAIZE AND OTHER ESSENTIAL FOODSTUFFS NEXT YEAR. IN THE MEANTIME SOCIAL PROBLEMS ON THE LAND ARE COMPOUNDED BY THE RETURN OF MARGINAL WORKERS WHO HAVE BEEN UNABLE TO FIND WORK IN THE TOWNS.

9. AT PRESENT THERE ARE NO SIGN OF BREAKDOWN OF LAW AND ORDER. THE GOVERNMENT, THROUGH THE PARTY APPARATUS AND POLICE, HAS KEPT A STRONG HAND. BUT THERE HAVE BEEN SPORADIC DISTURBANCES, MANY NOT REPORTED IN THE PRESS, IN THE FORM OF LOCAL DEMONSTRATIONS BY STUDENTS AND OTHER FAMILIAR DISSIDENTS, AND THERE HAVE BEEN MANY CASES (HABITUAL AT THE END OF THE SIX YEAR PRESIDENTIAL CYCLE) OF PEASANTS INVADING PRIVATE OR PUBLIC LAND.

10. IN THIS ATMOSPHERE PEOPLE HAVE BEGUN AN ANXIOUS COUNTDOWN TO 1 DECEMBER WHEN PRESIDENT-ELECT DE LA MADRID ASSUMES OFFICE.

2  
CONFIDENTIAL

/MORE



# CONFIDENTIAL

MORE THAN EVER HE IS THE LIGHT AT THE END OF THE TUNNEL. IN HIS PUBLIC PRONOUNCEMENTS HE HAS INCREASINGLY DISTANCED HIMSELF FROM PRESIDENT LOPEZ PORTILLO, AND IN A RECENT SPEECH AT TIJUANA WAS READY IMPLICITLY TO ATTRIBUTE AT LEAST PART OF THE BLAME FOR MEXICO'S PRESENT MISFORTUNES TO THE PRESENT GOVERNMENT. CLEARLY HE MUST HOPE THAT SOME OF THE UNPOPULAR DECISIONS ON THE ECONOMY, IN PARTICULAR THE KEY IMF REQUIREMENTS, WILL BE TAKEN IN THE NEXT SIX WEEKS. HE MUST ALSO HOPE THAT PRESIDENT LOPEZ PORTILLO WILL NOT (AS IS SOMETIMES THE CASE WITH OUTGOING PRESIDENTS) TAKE SOME RASH AND IRRESPONSIBLE ACTION WHICH IT WOULD TAKE TIME AND EFFORT TO UNDO. ALL EXPECT THAT DE LA MADRID WILL MARK HIS ASSUMPTION OF OFFICE IN SIX WEEKS TIME BY A PROGRAMME OF NATIONAL RECOVERY WHICH WILL INCLUDE DECISIVE CHANGES IN ECONOMIC POLICY. THIS IS WHAT THE COUNTRY IS WAITING FOR.

TICKELL

FINANCIAL  
ERD  
MCAD  
NAD

COPIES TO  
MR BALFOUR B/ENGLAND  
MR ATKINSON } TREASURY  
MR BOTTRELL }  
ECGD  
DOT



GRS 110

[coll] UNCLASSIFIED

DESKBY 151700Z

FM MEXICO CITY 151638Z OCT 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 874 OF 15 OCTOBER

AND TO IMMEDIATE DOT ECGD TREASURY AND BANK OF ENGLAND  
INFO IMMEDIATE WASHINGTON

MY TELNO 872: IMF NEGOTIATIONS

1. THE MEXICAN MINISTRY OF FINANCE LAST NIGHT ISSUED A PRESS STATEMENT AMOUNTING TO A CORRECTION OF THE PRESS REPORTS DESCRIBED IN MY TUR. THE STATEMENT SAID THAT A LETTER OF INTENT WAS IN AN ADVANCED STAGE OF PREPARATION, THAT NEGOTIATIONS WITH THE IMF WERE CONTINUING AND THAT IT WAS HOPED THAT A FINAL AGREEMENT COULD BE REACHED AROUND THE MIDDLE OF NOVEMBER.
2. FCO PLEASE ADVANCE TO TREASURY(PERETZ,CAREY, LITTLER) AND BANK OF ENGLAND(LOEHNIS,BALFOUR,JAGGERS).

TICKELL

ADVANCED AS REQUESTED

FINANCIAL  
ERD  
MCAD  
NAD

COPIES TO:  
ADVANCE ADDRESSEES



Mexico

a mandated copy

6



Free

10 DOWNING STREET

From the Private Secretary

7 October 1982

Dear John,

I enclose a copy of a letter which the Prime Minister has received from the President of Mexico, together with an English translation which the Mexicans have provided. The letter urges that the spirit of Cancun be applied in approaching Mexico's present financial situation.

Bf |

I should be grateful if you could let me have a draft reply in due course for the Prime Minister's signature.

I am copying this letter and enclosures to John Kerr at the Treasury.

Yours ever

John Holmes

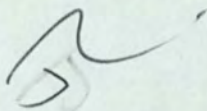
John Holmes Esq  
Foreign and Commonwealth Office.



MFJ

7 October 1982

I write to thank you for your letter of 4 October enclosing the original signed letter from the President of Mexico to the Prime Minister, together with an English translation.



Mr Moises Torres-Serrano.





EMBAJADA DE MEXICO

London, 4 October, 1982

Mr. J.A. Coles,  
Private Secretary  
10 Downing Street  
London SW1

*Dear Mr. Coles,*

*Will request  
of regid.*

Following my note to the Rt. Hon. Mr. Francis Pym, dated September 30, I have the pleasure of forwarding to you the original signed letter that Mr. José Lopez Portillo, President of Mexico is sending to the Prime Minister Mrs. Margaret Thatcher, as well as the provisional English translation of such letter.

I avail myself of this opportunity to renew to you the assurances of my highest consideration.

*Sincerely yours*

Moises Torres-Serrano  
Chargé d'Affaires a.i.



**CONFIDENTIAL**

Mexico

CONFIDENTIAL [unclear]

FM MEXICO CITY 290055Z SEPT 82

TO PRIORITY FCO

TELEGRAM NUMBER 822 OF 28 SEPTEMBER

INFO TREASURY, DOT, ECGD, BANK OF ENGLAND, WASHINGTON, UKDEL IMF/IBRD

MY TELNO 800: MEXICAN ECONOMY

1. THE EFFECTS OF THE DECISION TO NATIONALISE THE PRIVATE MEXICAN BANKS AND IMPOSE FULL EXCHANGE CONTROLS CONTINUE TO REVERBERATE.
2. THROUGH EVERY MEANS AT ITS DISPOSAL (PRESS, RADIO, TELEVISION, PUBLIC HOARDINGS AND DEMONSTRATIONS), THE GOVERNMENT HAS PRESENTED THE NATIONALISATION OF THE BANKS AS A NEW AND ESSENTIAL PART OF MEXICO'S REVOLUTIONARY HERITAGE. BANKER'S ARE DEPICTED AS RAPACIOUS AND UNPATRIOTIC, AND THERE ARE CONTINUING MENACES AGAINST THOSE WHO FAIL TO REPATRIATE THEIR DOLLARS BEFORE THE END OF THE MONTH. AMENDMENTS HAVE BEEN SUBMITTED TO THE CONSTITUTION BY THE RULING PARTY TO MAKE THE STATE THE SOLE LEGAL PROVIDER OF BANKING SERVICES. IN THESE CIRCUMSTANCES IT WAS COURAGEOUS OF THE 21 PRINCIPAL FORMER PRIVATE BANKS TO HAVE SOUGHT AN INJUNCTION FROM THE COURTS AGAINST EXPROPRIATION ON THE GROUNDS THAT IT WAS UNCONSTITUTIONAL AND REPRESENTED AN INFRINGEMENT OF FUNDAMENTAL RIGHTS. FEW EXPECT THIS LEGAL ACTION TO GET FAR.
3. IN FACT THE GOVERNMENT IS NOW SEEKING TO MAKE THE NATIONALISATION OF THE BANKS VIRTUALLY IRREVERSIBLE. PRESIDENT-ELECT MIGUEL DE LA MADRID, WHOSE INITIAL REACTION WAS AMBIGUOUS AND FELL WELL SHORT OF ENDORSEMENT, CAME OUT IN FAVOUR OF THE CONSTITUTIONAL AMENDMENT, ALBEIT WITH MINOR QUALIFICATIONS, ON 22 SEPTEMBER. HIS STATEMENT DAMPENED THE HOPES OF THOSE WHO HAD BELIEVED THAT HE WOULD WORK TO REVERSE THE PRESENT GOVERNMENT'S POLICIES WHEN HE TOOK OFFICE. BUT THIS WAS NEVER REALISTIC, AND THE CRUX OF THE PROBLEM REMAINS WHEN AND HOW THE SHAREHOLDINGS OF THE FORMER BANKS IN INDUSTRY AND COMMERCE ARE RETURNED TO THE PRIVATE SECTOR. SOME BELIEVE THAT DE LA MADRID'S STATEMENT COULD BE A QUID PRO QUO FOR PRESIDENT LOPEZ PORTILLO'S RENEWED COMMITMENT TO AN EARLY AGREEMENT WITH THE IMF.
4. IN THE MEANTIME THE DAILY FUNCTIONING OF THE BANKS SEEMS HARDLY TO HAVE CHANGED. STATE CONTROL WAS ALWAYS STRONG. ONLY THOSE AT THE TOP ARE NEW. IT IS TOO EARLY YET TO JUDGE WHAT THE PRACTICAL EFFECTS WILL BE, ALTHOUGH MOST MEXICANS USED TO NATIONALISED ENTERPRISES BELIEVE THAT EVEN THE FORMER LOW STANDARDS WILL NOT BE MAINTAINED.

**CONFIDENTIAL**

/s. BY



5. BY CONTRAST THE IMPOSITION OF EXCHANGE CONTROLS AND THE CONTINUING SHORTAGE OF FOREIGN EXCHANGE HAVE ALREADY HAD A SEVERE IMPACT ON THE ECONOMY. THE SLOWDOWN IN INDUSTRIAL PRODUCTION HAS BECOME ACCENTUATED. THERE ARE REPORTS OF INCREASING BANKRUPTCIES, ESPECIALLY AMONG SMALL COMPANIES. OTHER COMPANIES HAVE HAD TO REDUCE PRODUCTION DRASTICALLY IN RESPONSE TO FALLING DEMAND OR INABILITY TO OBTAIN DOLLARS FOR ESSENTIAL IMPORTS. THE GOVERNMENT HAS ESTABLISHED A FUND OF 25 BILLION PESOS TO HELP SMALL COMPANIES WHICH ARE IN DIFFICULTIES DUE TO THE FINANCIAL CRISIS.

6. INFLATION WAS 12% IN AUGUST (BRINGING THE RATE TO 54% SO FAR THIS YEAR), AND THE MONEY SUPPLY IS BELIEVED TO HAVE RISEN SHARPLY IN THE LAST TWO MONTHS. UNION LEADERS HAVE BEEN PRESSING FOR WAGE INCREASES TO MAINTAIN WORKERS' PURCHASING POWER, BUT THEIR STATEMENTS HAVE BEEN RELATIVELY MODERATE. DISSIDENT UNION PROTESTS HAVE BEEN MUCH STRONGER, AND YESTERDAY MEXICO CITY WAS DISRUPTED BY A PEACEFUL DEMONSTRATION OF AROUND 30,000. INCREASING ECONOMIC DIFFICULTIES HAVE PROBABLY CONTRIBUTED TO AN UPSURGE OF PETTY CRIME WHICH HAS BECOME EVIDENT IN THE LAST FEW WEEKS.

7. THE GOVERNMENT IS ANXIOUS TO CONVINCING THE WORLD THAT IT WANTS AN AGREEMENT WITH THE IMF, AND IS NEGOTIATING IN GOOD FAITH. THE GOVERNOR OF THE BANK OF MEXICO HAS SAID PUBLICLY THAT AN AGREEMENT WAS, HE SAID, NECESSARY TO ENABLE THE COUNTRY TO OBTAIN THE IMPORTS WHICH INDUSTRY NEEDED. BUT SOME SENIOR MEMBERS OF THE GOVERNMENT CONTINUE PRIVATELY TO EXPRESS DOUBTS ABOUT THE USEFULNESS OF AN IMF AGREEMENT. THERE ARE EVEN RUMOURS THAT IN HIS SPEECH TO THE UNITED NATIONS GENERAL ASSEMBLY ON 1 OCTOBER PRESIDENT LOPEZ PORTILLO MAY WISH TO CAP HIS ARGUMENTS FOR A NEW INTERNATIONAL ECONOMIC ORDER BY MAKING SOME GESTURE OF DEFIANCE TO THE INTERNATIONAL FINANCIAL COMMUNITY.

8. AS PRESIDENT LOPEZ PORTILLO REMARKED TO MR ONSLOW ON 24 SEPTEMBER, THE ECONOMY HAS SO FAR CONTINUED TO MOVE FORWARD UNDER ITS OWN INERTIA. BUT THAT INERTIA IS NOW SLOWING DOWN. THE EFFECTS OF AN IMF AGREEMENT HAVE STILL TO BE RECKONED WITH, AND YET MORE DIFFICULT, SOLD CONVINCINGLY TO THE MEXICAN PEOPLE. EVEN IF SUCH AN AGREEMENT HAS THE SUPPORT OF THE PRESIDENT-ELECT, THE EXISTING PRESIDENT FACES THE TWO MOST DIFFICULT MONTHS OF HIS SIX-YEAR TERM.

TICKELL

FINANCIAL

MCAD

NAD

THIS TELEGRAM  
WAS NOT  
ADVANCED

CONFIDENTIAL



FM MEXICO CITY 251940Z SEP 82

TO PRIORITY FCO

TELEGRAM NUMBER 808 OF 25 SEPTEMBER

INFO ROUTINE WASHINGTON, BELMOPAN AND UKDEL IMF/IBRD WASHINGTON

*Pro Munster*

MY TELNO 800: MEXICO: MR ONSLOW'S VISIT

*D*  
*27/9*  
*[Signature]*

1. MR ONSLOW CALLED ON PRESIDENT-ELECT DE LA MADRID ON 23 SEPTEMBER.

MEXICAN ECONOMY

2. DE LA MADRID RECOGNISED THE GRAVITY OF THE PROBLEMS NOW FACING MEXICO, BUT EMPHASISED THAT THE MOST IMMEDIATE ONE WAS SHORTAGE OF FOREIGN EXCHANGE. MEXICO NEEDED THE UNDERSTANDING OF THE INTERNATIONAL FINANCIAL COMMUNITY IF IT WAS TO RECOVER ITS POSITION AS AN HONOURABLE DEBTOR WHICH PAID ITS DEBTS. HE HOPED VERY MUCH THAT THE BRITISH GOVERNMENT WOULD GIVE ITS SUPPORT NOT ONLY TO HIM IN THE EARLY DAYS OF HIS PRESIDENCY BUT ALSO TO PRESIDENT LOPEZ PORTILLO IN THE TWO MONTHS REMAINING TO HIS ADMINISTRATION. MR ONSLOW SAID THAT WE HAD BEEN IN CLOSE TOUCH WITH THE MEXICAN GOVERNMENT THROUGHOUT THE CRISIS AND HAD MANY INTERESTS IN COMMON. HE REFERRED WARMLY TO THE MEETING BETWEEN THE CHANCELLOR OF THE EXCHEQUER AND THE MEXICAN MINISTER OF FINANCE IN TORONTO.

3. DE LA MADRID SAID THAT HE WAS CLOSELY FOLLOWING THE CURRENT NEGOTIATIONS BETWEEN MEXICO AND THE IMF. HE HAD AN OBSERVER IN THE TALKS, AND WAS FULLY IN TOUCH. HE HIMSELF WOULD FULLY SUPPORT WHATEVER AGREEMENTS WERE REACHED WITH THE IMF BY THE PRESENT ADMINISTRATION, AND WOULD ENSURE AS PRESIDENT THAT THEY WOULD BE RESPECTED AND MADE TO WORK. WHEN MR ONSLOW SAID THAT AN AGREEMENT WITH THE IMF WOULD GREATLY INCREASE CONFIDENCE, DE LA MADRID SAID THAT ONLY DEEDS COULD FULLY RESTORE CONFIDENCE IN MEXICO.

CENTRAL AMERICA AND BELIZE

4. MR ONSLOW UNDERLINED THE IMPORTANCE WHICH BRITAIN ATTACHED TO THE AREA, AND DESIRE TO DEVELOP POLITICAL AS WELL AS ECONOMIC RELATIONS WITH IT. WE ALSO HAD A DIRECT RESPONSIBILITY IN THE FORM OF OUR GARRISON IN BELIZE, WHICH WAS NOT THERE BECAUSE WE WANTED IT TO BE. HE HOPED VERY MUCH THAT DE LA MADRID WOULD HWWP IN MAINTAINING THE INDEPENDENCE AND INTEGRITY OF BELIZE.

5. DE LA MADRID SAID THAT MEXICO WANTED TO SEE A REDUCTION OF TENSION IN CENTRAL AMERICA AND THE ESTABLISHMENT OF A CLIMATE OF PEACE WHICH WOULD PERMIT POLITICAL STABILITY AND ECONOMIC DEVELOPMENT. IT WAS VITAL THAT PEOPLE SHOULD BE ALLOWED TO SOLVE THEIR OWN PROBLEMS AND NOT HAVE TO CONTEND WITH INTERVENTION FROM OTHERS. ON BELIZE, MEXICO FULLY SUPPORTED THE INDEPENDENCE OF THE COUNTRY, BASED AS IT WAS ON THE PRINCIPLE OF SELF-DETERMINATION. HE HIMSELF HAD SEEN THE BELIZEAN PRIME MINISTER, AND HAD ASSURED HIM OF HIS SUPPORT FOR BELIZEAN INDEPENDENCE AND DESIRE TO HELP BELIZE AS MUCH AS POSSIBLE. DE LA MADRID WAS NOT OPTIMISTIC ABOUT THE POSSIBILITY OF INFLUENCING GUATEMALA IN THE DIRECTION OF MORE SENSIBLE POLICIES.



# CONFIDENTIAL

6. MR ONSLOW SAID THAT THE INTERNATIONAL ORGANISATIONS COULD DO MORE TO HELP BELIZE. WOULD DE LA MADRID BE WILLING TO HELP BELIZE JOIN THE ORGANISATION OF AMERICAN STATES (OAS)? DE LA MADRID SAID THAT BELIZE WAS A FULL MEMBER OF THE UNITED NATIONS AND AN ACCEPTED MEMBER OF THE INTERNATIONAL COMMUNITY. FROM THAT EVERYTHING MUST FLOW. HE TOOK NOTE OF MR ONSLOW'S POINT ABOUT THE OAS.

## ECONOMIC POLICY

7. MR ONSLOW ASKED HOW RELATIONS BETWEEN BRITAIN AND MEXICO COULD BE ADVANCED. HE REFERRED TO THE PRIME MINISTER'S VISIT TO MEXICO LAST OCTOBER, AND HER PARTICULAR INTEREST IN THE SICARTSA PROJECT. DE LA MADRID SAID THAT MEXICO SHOULD DIVERSIFY ITS INTERNATIONAL RELATIONSHIPS. WITHOUT WISHING TO GO AGAINST THE UNITED STATES, HE SAW MANY OPPORTUNITIES FOR INCREASING THE FLOW OF TRADE AND INVESTMENT FROM OTHER COUNTRIES, AMONG THEM BRITAIN. HE FOUND IT DIFFICULT YET TO SPEAK ABOUT SPECIFIC PROJECTS. HIS GOVERNMENT WOULD LOOK AT EACH ONE AND SEE HOW IT FITTED INTO HIS PLAN OF NATIONAL RECONSTRUCTION: SOME MIGHT BE SPEEDED UP, AND SOME SLOWED DOWN. THE SICARTSA PROJECT AS A WHOLE NEEDED A PROFOUND REVIEW.

## ANGLO-MEXICAN RELATIONS

8. MR ONSLOW REFERRED TO THE QUEEN'S VISIT IN FEBRUARY. DE LA MADRID SAID HE WAS DELIGHTED AT THE PROSPECT. HE WOULD TAKE A PERSONAL INTEREST IN WORKING OUT HER PROGRAMME, AND HOPED TO SPEND A CONSIDERABLE AMOUNT OF TIME WITH HER. MR ONSLOW SAID HE HOPED THERE WOULD BE A GENERALLY CLOSER ANGLO-MEXICAN RELATIONSHIP THAN HAD BEEN POSSIBLE IN THE PAST, WITH MORE POLITICAL CONTENT, INCLUDING VISITS OF MINISTERS EACH WAY. THE MEXICANS SHOULD ALSO LET US KNOW IF THERE WAS ANYTHING WE COULD DO TO HELP ADVANCE RELATIONS BETWEEN MEXICO AND THE EUROPEAN COMMUNITY. HE HOPED THAT DE LA MADRID WOULD BE ABLE TO COME TO LONDON. DE LA MADRID SAID THAT HE WAS GRATEFUL FOR THESE SUGGESTIONS, INCLUDING THE IDEA OF VISITING LONDON. IN GENERAL TERMS HE WAS OPEN TO ANY INITIATIVES. HE SENT HIS WARM RESPECTS TO THE QUEEN, THE PRIME MINISTER AND THE BRITISH GOVERNMENT AS A WHOLE.

COPIES SENT TO  
No. 10 DOWNING STREET

TICKELL

LIMITED  
MCAD  
ERD  
ECD (E)  
PCD  
PS

PS/MR ONSLOW  
SIR J BULLARD  
MR GIFFARD  
MR URE  
MR THOMAS

2

CONFIDENTIAL

THIS TELEGRAM  
WAS NOT  
ADVANCED



SUBJECT

ce Mexico

T 183A/82



ons<sup>+</sup>

**PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T183A/82**

EMBAJADA DE MEXICO

English provisional version of the letter dated the 23rd September, 1982, addressed to the Heads of State and Government of the countries represented in the International Meeting on Cooperation and Development in Cancun in 1981, by the President of the Mexican Republic, Mr. José López Portillo.

Almost a year after the International Meeting on Cooperation and Development of which Mexico had the honour to be host and in accordance with what we came to call Spirit of Cancun, I address myself to the honoured Heads of State and Governments of the countries represented there in order to inform them directly of the present situation of my country within the context of the problems of finances of development discussed in the 1981 Meeting.

We seek now, as then, ways in which the rational may be possible and maintain that shared financing of development is the rational and possible way to sufficiency and health in the world's economy.

We reaffirm our full recognition that many of the problems of the South belong to the South, but also that other very serious limiting factors arise from the relation with the North and we wish to point out that the danger these last elements pose for the economy of the world have rapidly come closer since we met in Cancun. World economic relations which were then already critical, have deteriorated gravely since then.

In particular, all the conditions necessary for the survival and development of countries of the South, have worsened in a way which is unprecedented for so short a lapse of time.

..//



In the first place, the loss of income of these countries has been very acute because of the falling in the prices and in the demand for raw materials, whether these are agricultural or mineral products or even oil.

A generalised loss, and one without parallel in several decades, to which must be added the diminishing of income obtained from the exports of manufactured goods. As a consequence of these factors -and this is the problem which urgently requires a solution since it threatens to bring about a catastrophe in the world's economy- the borrowing needs of the countries of the South have increased disproportionately and have met with the worst financial terms offered in the history of civilization.

Higher rates of interest and shorter and shorter deadlines, combined with steadily decreasing incomes. Thus are formed the two blades of the pair of scissors which threaten to cut short the impetus achieved by some countries and to cancel the chances of progress of many others.

In recent years Mexico has made a great effort to meet the needs of its population by means of the developing of its productive potential in conjunction with the needs of the international economy and with a significant financial support from abroad.

The rapid growth was a present need, indeed was indispensable for us. For a number of years our apparatus of production had been lagging dangerously in relation to the social dynamics of a Republic which today shelters 70 million people, who will become a 100 million within twenty years, and which is conceived within the imperatives of our Constitution of democracy of the constant improvement of the economic, social and cultural conditions of the population.



For these reasons, we financed our expansion with the resources obtained in the world market as well as from our traditional exports and the newly found oil, and also in large measure with loans offered to us by the international financing system which recognized our productive potential. As soon as the conditions which had fostered our impetus changed, in a way which no one expected, much to our regret we slowed it down as much as possible and in a way suggested by the perspective of that time -the middle of 1981- from which no one saw the severity of today's reality.

As the seriousness of our condition of financing grew, we took draconian measures, so much so that in only one year we halted the process of the most rapid expansion in our history and left it completely suspended.

A terrible sacrifice to which we have adjusted given the hard realities of the international economy, which was inadmissibly aggravated by the failure of our traditional financial norms and systems to restrain regulations and avoid the flight of capital.

Finally, faced with the difficulty this flight added our economic problems we saw ourselves forced to take further hard and difficult measures: we established exchange control and nationalised private banks in order to prevent the flight of hard currency from weakening us still more as producers and recipients of credit.

In effect, we estimate that in the last three years the flight of capital from Mexico has reached more than 22 billion Dollars which should be compared with 11 billion Dollars of foreign investment totalled in the history of our country.





As a result of the commercial and financial processes mentioned at the beginning of this letter, the most important factor in the deficit of our fiscal and current account of the balance of payments is the payment of interest of foreign debt. This constitutes effectively, half of the deficit of the public sector estimated in 1982, which in real terms is considerably lower than it was in 1981. Within the current account, the payment of interest will be equal to two thirds of our imports.

In spite of the fall in the prices of our products for export, our commercial balance carried a superavit for the first six months of 1982, and it will increase it even more in the second half of the year. The payment of interest will represent more than double the amount of this superavit.

Paradoxically, as we advanced in this most severe adjustment of our economy to critical conditions, our sources of external financing have toughened their requirements and thus reduced our possibilities to overcome it. In order to achieve it without causing irreparable damage to our economy and indeed the world's economy, we require an additional financing of five billion Dollars for the rest of 1982.

This financing is essential to meet the payments of interest and of basic imports necessary to maintain the productive apparatus working at a minimum level. We need foreign exchange in order to pay and to keep buying. We are confident that our economic potential, as well as our rich natural and human resources guarantee our

..//





capacity to overcome the crisis and maintain the road towards progress which for many decades has supported our country. Our productive structure notably fortified during the last years, is still intact and has the characteristics of diversification and productivity which will allow it to succeed.

Inasmuch as we can count on the rational support and not the timorous of punitive reticence of the international finance community, the required lapse will be shorter, for everyone's benefit, creditors and debtors, since we are part of one and the same world where if the problem belongs to all, we must all become the solution.

Mexico is determined to balance its economy and for that it counts on better internal instruments than ever. The adjustment programmes now in progress will be continued within a system of democratic planning which will be refined and perfected and in this way developing and consolidating within a framework of higher efficiency, free from fisures and speculations and firmly reducing inflation.

Mexico has always payed and will continue to pay. For this it has done and will do whatever possible within its constitutional norms.

We must insist that our problems cannot be imputed solely to ourselves and that their solution depends in great part on the international community, particularly in the way in which relations between the North and the South are ordered.





The case of Mexico is perhaps the most representative of these relations because it involves a border shared with the most powerful nation on earth.

It is for this reason that the manner in which our country is treated is of such significance for the South and for the future of international relations.

This is why we firmly seek conciliation, understanding and respect, unity in diversity which may be translated into practical political action.

That was the Spirit of Cancun. The international community now has the floor.



JOSE LOPEZ PORTILLO

PRESIDENTE CONSTITUCIONAL DE LOS ESTADOS UNIDOS MEXICANOS

Excelentísimo Señora  
MARGARET THATCHER,  
Primera Ministra del Reino Unido de  
la Gran Bretaña e Irlanda del Norte.  
Londres.

Señora Primera Ministra:

Cerca de un año después de la Reunión Internacional sobre Cooperación y Desarrollo de la que México tuvo el honor de ser anfitrión, y conforme a lo que dimos en llamar "espíritu de Cancún", me dirijo a los Excelentísimos Jefes de Estado y gobierno de los países que allí estuvieron representados para darles a conocer directamente la situación actual de mi país, dentro de los problemas de financiamiento del desarrollo tratados en aquella Reunión de octubre de 1981.

Buscamos ahora, como entonces, que lo racional sea posible y sostenemos que el financiamiento del desarrollo compartido, es el camino racional y posible, para proporcionar suficiencia y salud a la economía mundial.

Reiteramos nuestro pleno reconocimiento de que muchos de los problemas del sur, son imputables al sur; pero también que otros muy graves limitantes se derivan de la relación con el norte y advertimos que la posibilidad de que estos últimos resulten fatales para la economía mundial se ha aproximado aceleradamente desde que nos reunimos en Cancún.

Las relaciones económicas mundiales, que ya eran críticas, se han deteriorado mucho desde entonces. En particular todas las condiciones vitales para la sobrevivencia y el desarrollo de los países del sur se han agravado de forma inusitada para tan breve lapso.

En primer lugar han sido muy agudos los descensos de los ingresos de esos países por concepto de la baja en los precios y en los montos demandados de materias primas, sean éstas productos agrícolas, minerales o aún petróleo. Descensos generalizados y sin parangón en varias décadas, a los que se añade la disminución de los ingresos que obtenían por exportaciones de manufacturas.





JOSE LOPEZ PORTILLO

PRESIDENTE CONSTITUCIONAL DE LOS ESTADOS UNIDOS MEXICANOS

- 2 -

Como consecuencia de esos factores, y este es el problema a resolver con urgencia, pues amenaza llevar a la catástrofe a la economía mundial, se han elevado desmesuradamente las necesidades de endeudamiento de los países del sur en los peores términos financieros que se han presentado en la historia civilizada.

Junto a ingresos cada vez más reducidos, tasas de interés más altas y plazos cada vez más cortos. Se conforman así las dos hojas de una tijera que amenaza cortar el impulso logrado por algunos países y cancelar las posibilidades de progreso de muchos otros.

México llevó a cabo durante los últimos años un gran esfuerzo por atender las necesidades de su población mediante el desarrollo de su gran potencial productivo, en complementación con las necesidades de la economía internacional y con un importante apoyo financiero del exterior.

Ese estirón era ya indispensable, apremiante para nosotros. Desde hacía muchos años nuestro aparato productivo se venía rezagando peligrosamente frente a la dinámica social de una República que hoy abriga a 70 millones de personas, que alcanzará los 100 millones dentro de veinte años y que se concibe dentro del imperativo de nuestra concepción constitucional de la democracia del "constante mejoramiento económico, social y cultural del pueblo".

Financiamos nuestra expansión con los recursos que obteníamos del mercado mundial por nuestras exportaciones tradicionales y las nuevas de petróleo.

En buena proporción, también, con los empréstitos que nos ofreció un sistema financiero internacional que reconocía nuestro potencial productivo.

...



JOSE LOPEZ PORTILLO

PRESIDENTE CONSTITUCIONAL DE LOS ESTADOS UNIDOS MEXICANOS

- 3 -

En cuanto cambiaron, de modo imprevisto para todos, las condiciones que permitían nuestro impulso, muy a nuestro pesar lo frenamos en la medida que era factible y aconsejaba la perspectiva de entonces, mediados de 1981, desde la que tampoco nadie veía una realidad tan severa como la de ahora.

Al irse acentuando las graves tendencias al deterioro de nuestras condiciones de financiamiento, tomamos medidas draconianas. Tanto así que en sólo un año detuvimos la inercia del proceso de expansión más acelerado de nuestra historia, hasta dejarlo en total suspenso. Terrible sacrificio que nos avenimos ante las duras realidades de la economía internacional y que se agravó inaceptablemente por la incapacidad de nuestras normas y sistemas financieros tradicionales para contener la especulación y evitar la fuga de capitales.

Finalmente, ante el peso que esa fuga añadía a nuestros problemas económicos, nos vimos forzados a implantar otras difíciles y más duras medidas: establecimos el control de cambios y nacionalizamos la banca privada para impedir que la fuga de divisas nos debilitase cada vez más como productores y sujetos de crédito. En efecto, durante los últimos tres años estimamos que la fuga de capitales en México alcanzó más de 22 mil millones de dólares, que compara con los 11 mil millones que en libros significa la inversión extranjera total en toda la historia de nuestro país.

Como resultado de los procesos comerciales y financieros mencionados al inicio de esta carta, el factor de mayor peso dentro de nuestro déficit fiscal y de cuenta corriente de la balanza de pagos es el pago de intereses de la deuda. Este constituye, en efecto, la mitad del déficit del sector público estimado para 1982 que, en términos reales, será mucho menor que el de 1981. Dentro de la cuenta corriente los pagos por intereses equivaldrán a dos terceras partes de las importaciones. Nuestra balanza comercial, a pesar del descenso en los precios de nuestros productos de exportación, fue superavitaria para el





JOSE LOPEZ PORTILLO

PRESIDENTE CONSTITUCIONAL DE LOS ESTADOS UNIDOS MEXICANOS

- 4 -

primer semestre de 1982 y lo será aún más en la segunda mitad del año. El pago de intereses representará más del doble de dicho superávit.

Paradójicamente, conforme hemos avanzado en este severísimo ajuste de nuestra economía a las condiciones de la crisis, nuestras fuentes de financiamiento externo han ido endureciendo sus condiciones y reduciendo nuestras posibilidades de superarla.

Para lograrlo sin daños irreparables en nuestra economía y la del mundo requerimos de un financiamiento adicional del orden de 5 mil millones de dólares en lo que resta de 1982. Este financiamiento es indispensable para hacer frente a los compromisos de pago de intereses y de importaciones esenciales para mantener operando el aparato productivo a niveles mínimos. Necesitamos divisas para pagar y seguir comprando.

Consideramos que nuestro potencial económico, de recursos naturales y humanos, garantiza que saldremos de esta crisis y mantendremos el camino de progreso que ha sostenido nuestro país ya por muchas décadas. Nuestra estructura productiva, fortalecida de modo tan notable durante los últimos años, está aún intacta y tiene características de diversificación y productividad que le deben permitir salir adelante.

En la medida en que contemos con el apoyo racional y no la reticencia timorata o punitiva de la comunidad financiera internacional, el lapso requerido será más corto, en beneficio de todos, acreedores y deudores, pues formamos parte de un sólo mundo, donde si el problema es de todos, la solución somos todos.

México está decidido a equilibrar su economía, y cuenta para ello con mejores instrumentos internos que nunca. Los programas de ajuste en marcha, tendrán su continuación dentro de un sistema de planeación democrática que se afinará y perfeccionará, consolidando y desarrollando nuestra capacidad productiva en un marco de mayor eficiencia y libre de especulación y fisuras y abatiendo la inflación con firme



JOSE LOPEZ PORTILLO

PRESIDENTE CONSTITUCIONAL DE LOS ESTADOS UNIDOS MEXICANOS

- 5 -

za. México siempre ha pagado y seguirá pagando. Ha hecho y hará, para ello, todo lo posible dentro de sus normas constitucionales.

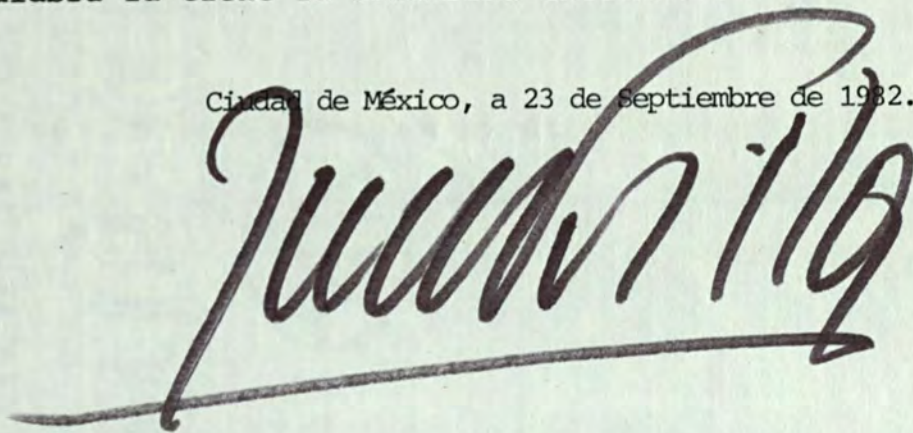
Pero insistimos: nuestros problemas no son imputables exclusivamente a nosotros, y su solución depende en buena medida de la comunidad internacional y en particular de la forma en que se ordenen las relaciones entre el Norte y el Sur.

El caso de México es quizá el más representativo de esas relaciones por implicar frontera con el país más poderoso del orbe.

De ahí que el tratamiento que reciba nuestro país sea tan significativo para el sur y para el futuro de las relaciones internacionales.

Por eso, con toda firmeza buscamos conciliación, entendimiento y respeto, unidad en la diversidad que se traduzca en una voluntad política que desate acciones concretas. Ese es el espíritu de Cancún. La palabra la tiene la comunidad internacional.

Ciudad de México, a 23 de Septiembre de 1982.

A large, stylized handwritten signature in dark ink, which appears to read 'José López Portillo'. The signature is written over a horizontal line that extends across the width of the page.



F.E.R.  
PRIME MINISTER

1. Mr. Scholar - to see  
2. Pl. file  
Mexico

ms

The Governor telephoned me to say that he had received the following message from the Mexican Finance Minister:

"I refer to our recent conversations during the annual meetings held in Toronto, Canada. I am pleased to advise you that conversations between Mexico and the IMF will continue and it is expected that agreement will be concluded shortly." (Signed) Herzog."

The Governor interprets this message as referring to what he told Herzog about the importance which he attached to negotiations with the IMF continuing towards an early conclusion, as a condition for releasing of the tranches of the BIS/FED loans. So what Herzog is saying is that the conditions for further releases of those loans are satisfied, and one cannot read too much into the message as regards the prospects of reaching a very early settlement with the IMF. But the message is nonetheless helpful, when it is borne in mind that Herzog must have reported to his Government in the knowledge of the sort of conditions which the IMF will require and must have been authorised nevertheless to send this message.

F.E.R.B.

11 September 1982



SECRET



10 DOWNING STREET

From the Principal Private Secretary

9 September 1982

Dear John,

MEXICO

The Chancellor of the Exchequer and the Governor of the Bank of England called on the Prime Minister today so that the Governor could report on the latest developments over Mexico.

The Governor said that Finance Minister Herzog had returned to Mexico taking back an outline of the actions which would need to accompany an IMF loan, but not a draft letter of intent. Finance Minister Herzog's intention was to undertake "a definition of political interests" in the next day or two and then to return for further talks. The attitude that President Portillo would take towards the measures which the IMF would require Mexico to take was very uncertain: there were pressures working on him from opposite directions, and it was unclear which way he would move in the remaining period of his Presidency.

In the meantime, the Governor said that arrangements had been made by which the first tranches of the \$300 million loans from the BIS and the Fed would be released *pari passu* on the basis of the Fed's judgement of need. The Advisory Group was holding together 1,100 banks with medium and long-term loans to Mexico on the three-month delay in the repayment of capital. There were still uncertainties in the money market, where the risk was that lenders would be unwilling to renew money market loans to Mexican banks and agencies. The situation was being held for the time being but needed to be carefully watched: many of the banks involved would be the same as those with longer-term loans.

Minister

The Governor said that following Finance/Herzog's consultations in Mexico decisions would have to be taken on the release of the second and third tranches of the BIS and Fed loans. If there were any signs that President Portillo was moving towards renunciation, it might be necessary to consider intervention at Head of Government level. But the best course might be to play the negotiations long, with the aim of holding the situation until the new Administration had more influence on events.

/ The Prime Minister

SECRET



SECRET

- 2 -

The Prime Minister was grateful for this Report and asked the Governor to keep her closely in touch with developments.

I am copying this letter to Tim Allen (Governor's Office).

F. E. R. BUTLER

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

SECRET





FROM: J O KERR  
 DATE: 9 September 1982

SIR KENNETH COUZENS

cc Mr Littler  
 Mr Carey  
 Mr Lavelle  
 Mr Peretz  
 Mr Scholar - No. 10  
 Mr Fall - FCO  
 Mr Hatfield - Cabinet Off.  
 Mr Allen - Bank  
 HM Ambassador - Mexico  
 City

MEETING WITH MEXICAN FINANCE MINISTER

It may be helpful to supplement the references in the telegram I sent from Toronto with a further short account of the conversation which the Chancellor and the Governor had with Mr Silva Herzog at 12.45 on 7 September.

2. Mr Silva Herzog told the Chancellor that he was very grateful for the helpful attitude which the UK authorities were showing in Mexico's current crisis. The Mexican delegation in Toronto had been in daily contact with the Governor.

3. Mr Silva Herzog said that his own position was very difficult. The actions which his Government had taken, and the messages it had sent, over the preceding week were, to put it mildly, quite inconsistent with agreement with the IMF on support, and an adjustment programme. On his return to Mexico City he would - preferably on 9 September - seek to establish a "clear political definition". If President Lopez Portillo agreed with him that an IMF programme was urgent and unavoidable, he would be in speedy contact with BIS, with the Fed, and with the Bank of England, and he would probably wish to ask for the second tranche of BIS support, in order to deal with the urgent liquidity problem. Negotiations with the Fund on necessary adjustment policies could be brought to an early conclusion. On the other hand, the President might feel that such policies were no longer politically feasible.





Nationalisation of the banks was perhaps a pointer in this direction. If so, Mexico would within a very few days have insufficient liquidity to service outstanding debt, and the situation would become critical. Mr Silva Herzog made it plain that he would argue very strongly in favour of the former course. He described nationalisation of the banks as inconsistent with the course of action which he was recommending, and accepted that it had created a major credibility problem for him.

4. The Chancellor said that there certainly was considerable inconsistency between the account of the Mexican Government's policies which the then Ambassador in London had given him on 27 August, and subsequent events. He understood that the Ambassador had since been recalled, in order to run a nationalised bank. The Chancellor also stressed the importance, in the current delicate situation, of the Mexican Government taking full account of the views of the Fund and the international financial community. Both had so far been cooperative. Mr Silva Herzog agreed: it was Mexico's own fault that the crisis was deepening.

5. The Governor wondered whether Mr Silva Herzog would welcome a message from the Prime Minister to President Lopez Portillo. Mr Silva Herzog thought that this would not be advisable at the present juncture.

J O KERR





DBY 080800Z

(Monetary)

(X22)

IMMEDIATE

ADVANCE COPY

ERE DE LAST 2 DE OTTAWA

Mr Haunay (in lieu of de Exams)  
 Mr Thomas  
 Mr Goodison  
 Mr Hayes  
 PS / Mr Onslow  
 PS / Lord Belstead  
 PS / Mr Marten  
 PS / PUS  
 Sir J. Bullard

HJ ERD Mexico  
 HJ MCAD  
 HJ ESID  
 ODA  
 HJ PUSD (2)  
 HJ Planning Staff  
 HJ TRES / 8  
 HJ News D.  
 (2) Mr Scholar No 10 P.S.  
 Mr Little HM Treasury

RC  
 Mr Gifford  
 Mr Ure

WONFO 023/08

OO F C O DESKBY 080800Z

RS 400

SECRET

DESKBY 080800Z

FM OTTAWA 080135Z SEPT 82

TO IMMEDIATE FCOTZZBEGRAM NUMBER 434 OF 08 SEPTEMBER

INFO TO MEXICO CITY WASHINGTON

FOLLOWING FROM CHANCELLOR TO IMF/IBRD MEETINGS , TORONTO

THE MEXICAN SITUATION

1. THROUGHOUT THE FUND/BANK MEETING ATTENTION HAS BEEN FOCUSED ON THE MEXICAN SITUATION. IT HAS BECOME CLEAR THAT THE NEGOTIATIONS WITH THE FUND HAVE BEEN GOING VERY SLOWLY, AND THIS HAS BECOME GENERALLY KNOWN. IN PARTICULAR THE ECONOMIC MEASURES OF 4 SEPTEMBER ARE UNLIKELY TO BE COMPATIBLE WITH ANY LIKELY FUND PROGRAMME. SILVA HERZOG AND ALFREDO PHILLIPS (CENTRAL BANK DIRECTOR) HAVE HAD VARIOUS MEETINGS WITH THE GOVERNOR AND BIS PRESIDENT LEUTWILER, AND THEY BOTH CAME TO SEE ME THIS AFTERNOON. THEY ACKNOWLEDGED THAT THE IMF TIMETABLE HAS SLIPPED, AND THAT SEPTEMBER 4 MEASURES, WHICH TOOK PLACE WITHOUT HERZOG'S KNOWLEDGE, MAY HAVE TO BE REVERSED IN DUE COURSE. HERZOG IS RETURNING TO MEXICO WITH A MEMORANDUM PREPARED BY THE FUND SETTING OUT ECONOMIC OBJECTIVES, BUT NOT PARTICULAR DETAILS,

~~Ridley~~  
 The P.R. has seen a copy.  
 A.S.C. 8/9



SETTING OUT ECONOMIC OBJECTIVES, BUT NOT PARTICULAR DETAILS, OF A FUND PROGRAMME. HE WILL SEEK "POLITICAL DEFINITIONS" FROM PRESIDENT LOPEZ PORTILLO. IF THE PRESIDENT BROADLY ACCEPTS THE ECONOMIC OBJECTIVES, WORK ON SPECIFIC PROGRAMME CAN CONTINUE IMMEDIATELY. IF, HOWEVER, HE FINDS POLITICAL DIFFICULTIES MORE TIME MAY BE REQUIRED FOR HERZOG TO GAIN THE NECESSARY SUPPORT WITHIN THE FACTIONS SURROUNDING THE PRESIDENT. HERZOG HIMSELF IS FULLY AWARE THAT MEXICO'S CREDIBILITY IS AT STAKE, AND WILL DO HIS UTMOST TO MAKE POSSIBLE THE RESUMPTION OF SERIOUS TALKS ON THE PROGRAMME.

2. MEANWHILE, THESE DIFFICULTIES HAVE CAUSED PROBLEMS FOR THE DRAWING DOWN OF THE BIS AND FED CREDITS, WHICH ARE CONDITIONAL ON SATISFACTORY PROGRESS BEING MADE WITH THE FUND NEGOTIATIONS. THE FIRST TRANCHE TOTALLING DOLLARS 600 MILLION HAS BEEN MADE AVAILABLE TO THE MEXICANS AND WILL BE RELEASED IN ACCORDANCE WITH NEED. THE BIS AND FED WILL DECIDE WHETHER AND WHEN THE SECOND TRANCHE MAY BE DRAWN IN ACCORDANCE WITH THE RESULT OF HERZOG'S TALKS WITH THE PRESIDENT.

3. NEWS OF THESE DEVELOPMENTS HAVE REACHED THE PRESS, AND THERE MUST BE SOME DANGER THAT IT WILL HELP TO DISLODGE WHAT HAS HITHERTO BEEN GENERALLY POSITIVE RESPONSE BY PRIVATE BANKS TO MEXICO'S APPEAL FOR 90 DAY MORATORIUM. THE LIQUIDITY SITUATION IS BEING REVIEWED BY THE FED AND OTHER CENTRAL BANKING AUTHORITIES ON A DAILY BASIS. THE GOVERNOR IS FULLY INVOLVED.

4. CLEARLY DEVELOPMENTS IN MEXICO OVER THE NEXT WEEK WILL BE CRITICAL.

5. PLEASE ADVANCE TO SCHOLAR (NO10) LITTLE (HMT) EVANS (FCO)

MORAN

NNNN

IMMEDIATE

Handwritten notes and stamps at the bottom of the page, including "H9 NOW" and "H9 E9".



S E C R E T

1. FOR BERS  
2. AJC (1) AA 7/9

PRIME MINISTER

c. 1. Mr. Butler  
2. Mr. Coles

Mexico

There have been some developments today. The second tranche of the BIS facility was due to be paid today. The BIS and the Fed have declined to make the payment because of the unsatisfactoriness of Mexico's present policies. In fact, the first tranche, although it has been paid over, <sup>has not been used and</sup> cannot be used without the agreement of the BIS and the Fed (it has been redeposited with the BIS).

This will produce a useful pressure point on the Mexicans. In order to maintain confidence the BIS banks and the Fed are not making it public that the facility is being withheld, and are saying that the facility is available on the terms agreed. Meanwhile, negotiations continue with the Mexican Central Bank Governor to try to get him in line.

The news of the second development comes from Toronto. The Mexican Finance Minister Hertzog is about to return to Mexico bearing a package of measures which would be acceptable to the international community, and which, I understand is acceptable to himself. He will then have to slug it out with his colleagues in Mexico City.

The Deputy Governor telephoned me about the third development this evening. The managers of local branches of Mexican banks came into the Bank of England this morning, to say that they had received instructions from their head offices not to pay maturing deposits (Euro deposits, sterling deposits, etc.) from today. They had been arguing with their head offices and had secured a day's grace before being obliged to implement these instructions. Mr. McMahon immediately arranged a meeting with Mr. Tello, the Mexican President's emissary, currently in London, who is also the brother of the new Mexican Central Bank Governor, and explained to him the portent of what was being proposed. Mr. Tello immediately telephoned Mexico City. The result was a message a short while later that it had all been a misunderstanding and that no instructions had been sent from Mexico City.

/ Somehow or other



S E C R E T

- 2 -

Somehow or other the Guardian got hold of this story this evening. The Bank hope that they have succeeded in persuading them not to print this story. Let us hope that they have succeeded.

MLS

7 September 1982



8 SUBJECT



ls  
see header

10 DOWNING STREET

From the Private Secretary

7 September, 1982.

Call by Senor Tello

Thank you for your letter of 6 September. Senor Tello duly called on me this morning. I do not propose to record the conversation in detail since he had just come from an hour's discussion in the Foreign and Commonwealth Office, and assured me that all the points which he proposed to put to me had already been made in his earlier discussions.

His main message was that the President of Mexico had decided, as a political gesture, to send special emissaries to Britain, France, Germany, Switzerland, the United States, and Canada, to explain the significance of the measures recently adopted by the Mexican Government. These measures had no ideological motivation. It had been essential to take steps to protect the massive flight of capital from Mexico. He hoped that we would help to convince British bankers, if necessary, that too gloomy a view should not be taken of the current financial situation.

He handed me a copy of a "communique" (enclosed) which he hoped the Government would agree to issue. In reply to my question he confirmed that he had left a copy with the Foreign and Commonwealth Office - I said that I had no doubt that you would let him know your decision on a possible press release in due course.

I am sending copies of this letter and enclosure to John Kerr (HM Treasury), and Tim Allen (Bank of England).

A. J. COLES

J.E. Holmes, Esq.,  
Foreign and Commonwealth Office.

S



*Her Majesty's Government received Ambassador Manuel Tello, designated by the President of Mexico, Señor José López Portillo, to inform of the implications and significance of the measures adopted by the Mexican Government on the 1st September, 1982, regarding the nationalization of the country's private banks, and the establishment of a foreign currency exchange control system generalized in the country.*

*The British Government who, at the same time appreciated President López Portillo's gesture, which reflects the close relationship and friendship existing between the two countries, declared to the Special Envoy its understanding for the measures accorded.*

*London, 7th September, 1982.*



Prime Minister

It looks as if the  
IMF are not going  
to make progress  
quickly.

Ottawa

tel: 422  
-5/9



FERB

6.8

10 DOWNING STREET

~~Re: [unclear]~~

The Telegram you  
mentioned over the weekend  
is attached.

It arrived 9.30 am

today

*[Handwritten signature]*

6/9

cc MCS.



**CONFIDENTIAL**

CONFIDENTIAL

FM OTTAWA 062010Z

TO PRIORITY FCO

TELEGRAM NUMBER 432 OF 06 SEPTEMBER 1982

INFO UK DEL IMF/IBRD WASHINGTON AND MEXICO CITY

PA

FOLLOWING FROM UKDEL TO IMF/IBRD ANNUAL MEETING TORONTO

IMF: MEXICO

1. THE MANAGING DIRECTOR CALLED A MEETING OF EXECUTIVE DIRECTORS ON SEPTEMBER 5 TO HEAR THE LATEST POSITION ON MEXICO.
2. THE MD EXPLAINED THAT THE STAFF MISSION HAD RECENTLY RETURNED FROM MEXICO CITY. WHILE THEY WERE THERE THE GOVERNMENT HAD ALREADY ANNOUNCED SOME IMPORTANT MEASURES AND FURTHER MEASURES HAD BEEN ANNOUNCED ON SEPTEMBER 4. THE FUND WOULD FIRST NEED TO UNDERSTAND THESE MEASURES AND THEN ASSESS THEIR IMPACT ON A POSSIBLE ADJUSTMENT PROGRAMME. THIS WOULD TAKE SOME TIME AND INVOLVE SOME DELAY IN THE NEGOTIATIONS. THEY HAD TALKED TO SILVA HERZOG AND WOULD SEEK TO PUT TOGETHER ON MONDAY A MEMORANDUM OUTLINING THE MAIN THRUST OF A PROGRAMME BUT NOT THE DETAILED MEASURES IT WOULD CONTAIN. THIS SHOULD HELP THE MINISTER TO TEST WITH HIS AUTHORITIES WHETHER THAT SORT OF DIRECTION WAS ACCEPTABLE TO THEM AND WHETHER IT WOULD BE POSSIBLE TO NEGOTIATE A PROGRAMME AT THE EARLIEST POSSIBLE TIME, BEFORE THE TRANSFER OF POWER. IF THE MEMORANDUM WAS APPROVED BY THE PRESENT ADMINISTRATION THE FUND TEAM COULD GO BACK VERY SOON. IF NOT, THE PROCESS WOULD BE DELAYED.
3. HE ADDED THAT THE FUND HAD MADE CLEAR TO SILVA HERZOG THAT THEY WANTED TO HELP MEXICO. HOWEVER WHILE THEY UNDERSTOOD THE URGENCY THEY COULD NOT AGREE A PROGRAMME WHICH DID NOT FULLY MEET THE NORMAL CRITERIA AND PRACTICES OF THE FUND IN THIS MATTER. TIME WOULD BE NEEDED TO ESTABLISH THE QUANTITATIVE CRITERIA AND PHASING BEFORE A LETTER OF INTENT WAS AGREED. THIS REQUIRED A CLEAR STRATEGY ON THE DIRECTION WHICH ADJUSTMENT SHOULD TAKE.
4. BEZA (HEAD OF IMF MISSION) SAID THAT BEFORE THE LATEST ANNOUNCEMENT THEY HAD 10 WORKING DAYS IN MEXICO AND WERE MAKING SOME PROGRESS IN NEGOTIATIONS. REPRESENTATIVES OF THE NEW ADMINISTRATION HAD PARTICIPATED IN THE DISCUSSIONS. IT HAD BEEN UNDERSTOOD BY ALL SIDES THAT THE SIZE OF THE ADJUSTMENT NEEDED WAS LARGE. A BIG REDUCTION WAS NEEDED IN THE PUBLIC SECTOR DEFICIT IF A REDUCTION WAS TO BE ACHIEVED IN THE PRESENT VERY HIGH LEVEL OF INFLATION. THE MISSION HAD ALSO DISCUSSED ACCOMPANYING MEASURES IN THE FIELD OF EXCHANGE RATE POLICY, INCOMES POLICY ETC. ON SEPTEMBER 1 THE GOVERNMENT HAD ANNOUNCED THE NATIONALISATION OF THE BANKS, COMPREHENSIVE EXCHANGE CONTROL AND CHANGES IN INTEREST RATE POLICY BUT DETAILS HAD NOT BEEN AVAILABLE WHEN THE MISSION LEFT. THE FURTHER ANNOUNCEMENT ON SEPTEMBER 4 HAD INVOLVED A FIXED 2-TIER EXCHANGE SYSTEM AND SOME REDUCTIONS IN INTEREST RATES.

**CONFIDENTIAL**

/ 5.



# CONFIDENTIAL

5. IN SUBSEQUENT QUESTIONING A NUMBER OF DIRECTORS EXPRESSED CONCERN ABOUT THE WAY IN WHICH THESE DECISIONS APPEARED TO HAVE BEEN TAKEN. BUIRA (MEXICO) CONFIRMED THAT THE LATEST MEASURES HAD NOT BEEN TAKEN IN CONSULTATION WITH THE INCOMING ADMINISTRATION. THE MD SAID THAT DIRECTORS WOULD BE KEPT IN TOUCH WITH DEVELOPMENTS. ERB (UNITED STATES) OBSERVED THAT A FUND PROGRAMME WAS A NECESSARY ELEMENT IN THE ARRANGEMENTS FOR SHORT TERM ASSISTANCE.

6. THE FOLLOWING ADDITIONAL INFORMATION WAS PROVIDED BY BUIRA AND THE STAFF IN REPLY TO QUESTIONS:

(A) THE NATIONALISATION COVERED ALL EXCEPT FOREIGN BANKS. BUIRA DID NOT HAVE A FULL EXPLANATION FOR IT BUT SPECULATED THAT IT REFLECTED A NUMBER OF FACTORS INCLUDING THE WEAKENING POSITION OF A NUMBER OF BANKS, THE ROLE WHICH THE GOVERNMENT FELT THE BANKS WERE PLAYING IN ASSISTING EXTERNAL FLOWS AND OTHER

POLITICAL (BUT NON IDEOLOGICAL) REASONS.

(B) ON INTEREST RATES BUIRA SAID THAT THERE HAD RECENTLY BEEN A VERY LARGE SPREAD BETWEEN BORROWING AND LENDING RATES. THE MEASURES PLUS A FURTHER REDUCTION OF 2 PERCENTAGE POINTS ON BOTH SIDES.

MEASURES APPEARED TO INVOLVE A REDUCTION IN THIS SPREAD BY 5 PERCENTAGE POINTS PLUS A FURTHER REDUCTION OF 2 PERCENTAGE POINTS ON BOTH SIDES. THIS WOULD BE APPLIED FOR UP TO 5 WEEKS WHEN THE SITUATION WOULD BE REASSESSED. THE LENDING RATE ON LOW COST HOUSING WHICH WAS ALREADY SUBSIDISED HAD ALSO BEEN REDUCED. BEZA SAID THAT THESE MEASURES HAD NOT BEEN DISCUSSED WITH THE MISSION AND HE DECLINED TO SPECULATE ON THE REASONS. IT WAS POINTED OUT THAT THEY WOULD INEVITABLY MAKE IT MORE DIFFICULT TO WORK OUT A SUITABLE ADJUSTMENT PROGRAMME.

(C)

BEZA SAID THAT MEXICO HAD TRADITIONALLY HAD NO EXCHANGE CONTROLS. THE RECENT SYSTEM HAD INVOLVED ONE FIXED RATE MOVED AT THE DISCRETION OF THE AUTHORITIES AND ONE FREE RATE WHICH COULD TAKE THE PRESSURES. THE LATEST FIGURES HAD BEEN 50 PESOS TO THE DOLLAR FOR THE PREFERENTIAL RATE AND 100-108 FOR THE FREE RATE. BUIRA SAID THAT UNDER THE NEW SYSTEM THE PREFERENTIAL RATE WOULD BE 50 (FOR DEBT SERVICE AND ESSENTIAL IMPORTS) AND THE OTHER RATE 70 (FOR EVERYTHING ELSE INCLUDING EXPORTS, TOURISM AND NON ESSENTIAL IMPORTS). CONTROLS WERE ALSO IMPOSED ON THE AMOUNTS WHICH TRAVELLERS COULD TAKE ETC.

(D) ON THE POSSIBLE CFF DRAWING, BEZA SAID THAT THE MISSION'S DISCUSSIONS HAD BEEN LIMITED TO GATHERING THE NECESSARY DATA FOR CONSIDERATION IN WASHINGTON.

MORAN

MONETARY  
ERD  
MCA D

THIS TELEGRAM  
WAS NOT  
ADVANCED

COPIES TO:  
MR R. FELLOWES  
BUCKINGHAM  
PALACE

# CONFIDENTIAL



012  
CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

6 September 1982

Dear John,

Call by Senor Tello on 7 September 1982

You have kindly agreed to receive Senor Manuel Tello in response to the request contained in Mexico City telno 715.

/ I enclose a copy of the brief prepared for Senor Tello's call on Mr Onslow.

Yours ever

A handwritten signature in cursive script, appearing to read 'John Holmes'.

(J E Holmes)  
Private Secretary

A J Coles Esq  
10 Downing Street

CONFIDENTIAL



CALL BY SENOR MANUEL TELLO, DEPUTY MINISTER OF FOREIGN AFFAIRS OF MEXICO AND EMISSARY OF PRESIDENT LOPEZ PORTILLO ON MR ONSLOW AT 1115 AM ON 7 SEPTEMBER 1982

POINTS TO MAKE

1. Welcome initiative of President Portillo to explain Mexico's policies to friends such as UK. Grateful for opportunity to hear Mexican Government's views. Make sure that they are known to all those concerned in HMG.
2. How do Mexicans see next few months. What steps will be necessary?
3. While Mexico must take those measures that seem best fitted to meet problems must remember that important element in resolution of problems is confidence. Hope will take every opportunity to confirm to international banking community (to whom two-thirds of debt owed) Mexico's resolve to deal with problems.
4. In particular the overseas branches of the Mexican banks now nationalised may find themselves in a difficult position. We believe it is important for the Mexican authorities to indicate their support for these branches.
5. In our view negotiations with respect to Government guaranteed debt should take place in the established multilateral forum, the Paris Club.
6. International action to help Mexico swift and substantial. UK played its part. Important to bring next stage - negotiations with IMF to a successful conclusion. Meanwhile, hope to see continuing efforts in Mexico to deal with causes of crisis.

/7.



7. The economic crisis will present the incoming administration with considerable constraints on its policies particularly those of social and industrial development. How do you see the situation? Is there likely to be a dangerous degree of popular discontent?

8. Looking forward to my first visit to Mexico. I plan to be there 22-24 September for a Heads of Mission Conference.



CALL BY SENOR MANUEL TELLO, DEPUTY MINISTER OF FOREIGN AFFAIRS  
OF MEXICO AND EMISSARY OF PRESIDENT LOPEZ PORTILLO ON  
MR ONSLOW AT 1115 AM ON 7 SEPTEMBER 1982

ESSENTIAL FACTS

1. Copies of Mexico City telegram numbers 715, 720 and 726  
/ are attached. In 715 is described Señor Tello's visit and its  
purpose.

or the  
K

2. Telegram 720 describes the effect of the nationalisation of  
the banks and the imposition of exchange controls. The main  
difficulty/arising from the exchange controls is their effect  
on the operation of British companies in Mexico whose remittances  
and essential imports will be affected.

3. Telegram 726 describes the Government's domestic presentation  
of the economic measures. Noteworthy are comments in paragraph  
6 that there must be considerable doubt about the outcome of  
the IMF negotiations and paragraph 8 which envisages the  
possibility of a default.

/

4. Further comment is contained in ERD's paper of 2 September,  
copied to PS/Mr Onslow of which a further copy is annexed and  
in a copy of Treasury briefing for the Prime Minister describing  
the action by the international community to help in the Mexican  
financial crisis.

n  
ondon

5. There are four branches/of the Mexican banks now nationalised,  
two of which are recognised banks and two licenced deposit takers.  
There is in addition a consortium bank.

/

6. A copy of a personality report on Señor Manuel Tello is  
attached. He is the brother of the newly-appointed Governor of  
the Central Bank.



## MEXICO

1. The Mexican Government yesterday announced the imposition of full exchange controls and the nationalisation of private Mexican banks. These measures form part of Mexico's response to the continuing liquidity crisis. This note briefly examines the implications of the latest moves for the Mexican economy and for British interests. Mexico City telegrams No 711 and 713 are attached.
2. The response to the economic and financial crisis that broke in Mexico in mid-August were swift and substantial. Emergency action by the Mexican Government has been supported by massive international assistance. The US Government has made \$2 billion available bilaterally, plus access to a swap arrangement for \$700 m from the Fed. A bridging loan of \$1850 million (half of it put up by the US) has been put together through the BIS. Private banks have agreed to roll over payments on Mexican public debts maturities for 90 days. Moves have begun to allow Mexico to draw up to 450% of her quota with the IMF, although this money cannot be made available immediately.
3. Nevertheless, problems still remain. The financing gap, even in the short-term, is still substantial. Even if the short-term problems can be solved, longer-term<sup>problems</sup> will persist. Mexico's highly ambitious economic policies, founded on what has proved to be an over-optimistic forecast of oil prices, will need to be adjusted, and such adjustment will be socially and politically painful.
4. The most recent measures represent emergency action to stem continued capital flight. But the nationalisation of private banks is bound to damage international banking confidence in Mexican policies. Exchange controls, however severe, will be circumvented because of Mexico's long land frontier with the United States. These measures, on top of those already taken, are leading to economic and commercial confusion within the country.



5. Mexico is rich in natural resources and its medium-term prospects are reasonably good, provided the confidence of its creditors can be restored. But the economic crisis has come at a time of political hiatus. The new President, De la Madrid, does not formally take over until December. Meanwhile, President Lopez Portillo is completely discredited. Fortunately, the Finance Minister and the Governor of the Central Bank are among the few members of the Administration whose reputation remains untainted.
6. British banks are not directly affected by the latest measures, since they have no branches in Mexico. But the total exposure of British banks is very large - some \$6 billion. Our commercial interests are substantial and include the major steel project at Sicartsa, agreed during the Prime Minister's visit last October. Our trade is bound to be affected by the immediate economic troubles. But we will want to stay well placed to profit from Mexico's eventual recovery.
7. Politically, our interest is in the stability of Mexico as a large and strategically placed Latin American country. The persistence of attempts by the Soviet Union, through Cuba, to expand its influence in Central America adds to the importance of a stable Mexico.

Economic Relations Department

2 September 1982

\* replaced 2 SchV  
by Carlos Tello  
Macías, brother of  
the Def F.M.



GRS 495

UNCLASSIFIED  
DESKBY 020800Z SEPTEMBER  
FM MEXICO CITY 020210Z SEPT 82  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 712 OF 2 SEPTEMBER  
INFO PRIORITY WASHINGTON, HAVANA, SAN JOSE, TEGUCIGALPA,  
BELMOPAN

NIPT (NOT TO ALL): PRESIDENT LOPEZ PORTILLO'S STATE OF THE  
NATION ADDRESS: FOREIGN POLICY

1. IN HIS SPEECH TO THE MEXICAN CONGRESS THE PRESIDENT REVIEWED HIS GOVERNMENT'S FOREIGN POLICIES AND ACHIEVEMENTS. HE SAID THAT DURING HIS ADMINISTRATION THERE HAD BEEN A DANGEROUS REVIVAL OF THE COLD WAR. MEXICO HAD DECIDED TO ADOPT AN ACTIVE AND DYNAMIC ATTITUDE, INSTEAD OF WATCHING PASSIVELY THE DETERIORATION OF INTERNATIONAL RELATIONS. IT HAD TAKEN A NUMBER OF IMPORTANT INITIATIVES AIMED AT IMPROVING NORTH/SOUTH RELATIONS, NOTABLY THE WORLD ENERGY PLAN AND THE CANCUN SUMMIT CONFERENCE. THE DECISION TAKEN BY THE SEVEN INDUSTRIALIZED COUNTRIES AT VERSAILLES ON GLOBAL NEGOTIATIONS WAS IN PART DUE TO THE SPIRIT OF CANCUN.
2. THE PRESIDENT SAID THAT HE HAD GIVEN PRIORITY TO MEXICO'S RELATIONS WITH THE COUNTRIES OF CENTRAL AMERICA AND THE CARIBBEAN, TO WHICH IT HAD GIVEN SUBSTANTIAL ECONOMIC AID. IT HAD PROVED DIFFICULT TO COMBINE GOOD RELATIONS WITH THE UNITED STATES WITH SYMPATHY AND SUPPORT FOR THE NOBLE STRUGGLES OF THE PEOPLES OF THE REGION. FOR GOOD OR ILL MEXICO HAD MAINTAINED ITS FRIENDSHIP WITH THE PEOPLE OF NICARAGUA, THREATENED BY INCOMPREHENSION, BLINDNESS AND THE ARBITRARY AND UNRESTRAINED USE OF FORCE. ITS PROPOSAL FOR A NEGOTIATED SOLUTION TO THE CONFLICT IN EL SALVADOR, MADE JOINTLY WITH FRANCE, WAS THE ONLY REALISTIC ALTERNATIVE TO FURTHER BLOODSHED AND REGIONALIZATION. IT HAD SUPPORTED THE INDEPENDENCE AND ECONOMIC DEVELOPMENT OF BELIZE. IT HAD STRENGTHENED ITS HISTORIC LINKS WITH CUBA AND HAD TRIED TO PERSUADE THE AMERICANS THAT THEIR TRADITIONS OF LIBERTY AND TOLERATION WERE NOT COMPATIBLE WITH THREATS, OSTRACISM AND THE REFUSAL TO ACCEPT A REALITY WITH 23 YEARS OF EXISTENCE.

/ 3. THE



3. THE PRESIDENT SAID THAT LITTLE PROGRESS HAD BEEN MADE IN BILATERAL US/ MEXICAN RELATIONS, BUT THAT AN IMPORTANT DEVELOPMENT WAS THAT FOR THE FIRST TIME IN HISTORY MEXICO HAD BECOME AN ACCEPTED INTERLOCUTOR OF THE UNITED STATES OVER MATTERS NOT DIRECTLY BILATERAL.
4. A NOTABLE OMISSION FROM THE PRESIDENT'S SPEECH WAS ANY SUBSTANTIVE REFERENCE TO THE FALKLANDS CONFLICT. THIS WAS MENTIONED ONLY AS ONE OF A NUMBER OF TOPICS ON WHICH THE MEXICAN GOVERNMENT HAD HAD DISCUSSIONS WITH THE US GOVERNMENT.
5. FURTHER REPORT FOLLOWS WITH FULL TEXT OF REMARKS ON CENTRAL AMERICA AND THE CARIBBEAN WHICH WILL BE RELEVANT TO THE FORTHCOMING HEADS OF MISSION CONFERENCE.  
PLEASE SEE MIFT.

TICKELL

STANDARD  
MCAD  
NAD  
SAM D  
FALKLANDS UNIT  
WIAD



UNCLASSIFIED [CULL]  
DESKBY 020800Z  
FM MEXICO CITY 020210Z SEPT 82  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 711 OF 2 SEPTEMBER  
AND TO IMMEDIATE TREASURY, DOT, ECGD, BANK OF ENGLAND  
INFO WASHINGTON

PRESIDENT LOPEZ PORTILLO'S STATE OF THE NATION LECH: NEW  
ECONOMIC MEASURES

1. IN AN EMOTIONAL STATE OF THE NATION ADDRESS TO THE MEXICAN CONGRESS TODAY, PRESIDENT LOPEZ PORTILLO ANNOUNCED THE IMMEDIATE INTRODUCTION OF FULL EXCHANGE CONTROLS AND THE NATIONALISATION OF ALL MEXICAN PRIVATE BANKS. HE ALSO SAID HE WOULD INTRODUCE A BILL TO MAKE THE BANK OF MEXICO FULLY GOVERNMENT CONTROLLED.
2. MUCH OF THE PRESIDENT'S FOUR-HOUR SPEECH WAS DEVOTED TO A DEFENCE OF THE ECONOMIC POLICIES PURSUED DURING THE SIX YEARS OF HIS ADMINISTRATION. HE SAID THAT HIS GOVERNMENT HAD SEIZED THE OPPORTUNITY PROVIDED BY MEXICO'S OIL RESOURCES IN ORDER TO PROMOTE THE COUNTRY'S FURTHER INDUSTRIALISATION, TO CREATE JOBS AND TO IMPROVE THE WELFARE AND EDUCATIONAL STANDARDS OF THE MEXICAN PEOPLE. THE PRESENT ECONOMIC AND FINANCIAL CRISIS DID NOT REPRESENT A FAILURE OF THE POLICY OF GROWTH, BUT WAS DUE TO AN UNFORSEEABLE COMBINATION OF ADVERSE EXTERNAL AND INTERNAL DEVELOPMENTS.
3. THE PRESIDENT DEMONSTRATED THE ECONOMIC POLICIES OF SOME INDUSTRIALISED COUNTRIES WHICH, IN SEEKING TO REDUCE INFLATION, HAD IN FACT ACHIEVED ONLY HIGH INTEREST RATES AND RECESSION. THERE WAS A FINANCIAL PLAGUE WHICH WAS DOING GROWING DAMAGE THROUGHOUT THE WORLD. MEXICO HAD BEEN SERIOUSLY AFFECTED BY HIGH INTEREST RATES IN THE UNITED STATES, FALLING PRICES OF RAW MATERIALS AND A DECLINE IN EXPORTS AND EARNINGS FROM TOURISM. BY JULY ITS FOREIGN DEBT HAD REACHED US DOLLARS 76 BILLION, 80 PERCENT ATTRIBUTABLE TO THE PUBLIC SECTOR AND 20 PERCENT TO THE PRIVATE SECTOR. THE POTENTIAL OF THE COUNTRY WOULD HAVE ENABLED IT TO OVERCOME THE DIFFICULTIES CAUSED BY A HOSTILE WORLD, BUT IT HAD BEEN DEFEATED BY SPECULATION AGAINST THE PESO AND THE FLIGHT OF CAPITAL. MEXICANS HELD AT LEAST US DOLLARS 14 BILLION IN US BANK ACCOUNTS, THEY OWNED PROPERTY ABROAD WORTH AN ESTIMATED US DOLLARS 30 BILLION OF WHICH ONLY 8.5 BILLION HAD BEEN PAID, AND US DOLLARS 12 BILLION WERE HELD IN DOLLAR ACCOUNTS IN MEXICO. IN THE PAST TWO TO THREE YEARS US DOLLARS 22 BILLION HAD LEFT THE COUNTRY AND MEXICANS HAD INCURRED A FURTHER US DOLLAR 20 BILLION IN UNREGISTERED FOREIGN DEBTS. TAKEN TOGETHER, THE MOVEMENT INTO DOLLARS TOTALLED US DOLLARS 54 BILLION, EQUIVALENT TO HALF THE CURRENT ASSETS OF THE MEXICAN BANKING SYSTEM OR TWO THIRDS OF THE COUNTRY'S FOREIGN DEBT.



4. THE PRESIDENT SAID THAT MUCH OF THE COUNTRY'S FINANCIAL DIFFICULTIES WERE THUS DUE TO THE LACK OF SOLIDARITY SHOWN BY A RELATIVELY SMALL NUMBER OF PRIVILEGED MEXICANS AND BY THE PRIVATE BANKS. FOLLOWING THE BRUTAL ATTACK ON THE PESO IN FEBRUARY, THE GOVERNMENT HAD ADOPTED A RANGE OF PAINFUL MEASURES OF IMPECCABLE FINANCIAL ORTHODOXY TO RECTIFY THE SITUATION. BUT THE SPECULATORS WERE INSATIABLE. A FEW MEXICANS ADVISED AND SUPPORTED BY THE PRIVATE BANKS, HAD TAKEN MORE OUT OF THE COUNTRY THAN HAD THE FOREIGN EMPIRES WHICH HAD EXPLOITED MEXICO FROM THE BEGINNING OF ITS HISTORY.
5. THE PRESIDENT SAID THAT HE HAD NO WISH TO CONDUCT A WITCH HUNT. BUT THE TIME HAD COME TO TAKE DRASTIC MEASURES TO REDUCE THE COUNTRY'S VULNERABILITY. HE HAD SIGNED TWO DECREES, ONE INTRODUCING EXCHANGE CONTROLS AND THE OTHER NATIONALISING ALL PRIVATE BANKS. THESE MEASURES WOULD CAUSE MANY PROBLEMS AND SOME HARDSHIP, ESPECIALLY IN THE FRONTIER AREAS. BUT THESE WOULD BE DEALT WITH. THE MEASURES WERE JUSTIFIED BY THE NATIONAL INTEREST.
5. THE PRESIDENT SAID THAT ALL BANKS WOULD BE CLOSED UNTIL 6 SEPTEMBER TO ALLOW TIME FOR THE MEASURES TO BE IMPLEMENTED. PEOPLE WITH BANK ACCOUNTS HAD NO CAUSE FOR APPREHENSION AND THE BANK SERVICES TO THEM WOULD NOT BE CHANGED. THE ONLY CHANGE WOULD BE THAT OWNERSHIP OF THE BANKS WOULD PASS TO THE NATION FROM THOSE WHO HAD BETRAYED IT.
6. FCO PLEASE ADVANCE TO ATKINSON (TREASURY), OWEN (DOT), HALL (ECGD) AND GILCHRIST (BANK OF ENGLAND).

TICKELL

(ADVANCED AS REQUESTED)

FINANCIAL  
MCAD  
NAD

COPIES TO:  
ADVANCE ADDRESSEES





p.a.  
TCM  
26/8

ERD  
a PS  
PS/A. McKinnon  
Sir S. Bull  
Mr Whittard  
Mr Adam  
MCAD

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

ACM 090/1

PRIME MINISTER

MEXICO

I understand you received some briefing from the Bank on Mexico while you were abroad. But you may like to be brought up to date, particularly on UK participation in the BIS loan to Mexico.

2. The Mexican experience has been the classic one of over-rapid expansion leading to growing inflation and an external collapse. The Portillo administration, relying too heavily on Mexico's oil wealth, sought very fast growth and development. The budget deficit grew rapidly as a proportion of GNP (it has reached 14 per cent), inflation increased and external borrowing accelerated. As has happened with industrial as well as developing countries, the process has ended with depreciation, a flight of capital and inability to borrow further. Mexico now faces retrenchment and financial reconstruction with the help of the international community.

3. Action to deal with the Mexican financial crisis is proceeding by four main routes:-

(i) Direct help from the United States

This has provided Mexico with the most immediate assistance. We know of 4 forms of help totalling nearly \$3½ billion. The Mexican central bank exhausted a swop facility of \$700 million with the Fed more than a week ago. The United States are advancing \$1 billion to Mexico against future deliveries of Mexican oil for the US strategic





stockpile: and a further \$1 billion by way of credit to enable the Mexicans to buy US grain. In addition, the Fed is likely to provide a short term loan of another \$750 million in parallel with the BIS loan from other central banks.

(ii) The IMF application

After some hesitation on political grounds, the Mexicans have announced that they have applied to the IMF for facilities totalling nearly \$4 billion over 3 years. \$800 million is likely to be available quite quickly as a Compensatory Financing Facility related to the loss of export earnings from the fall in the price obtained for Mexican oil and other primary exports. The remainder will be a normal drawing related to Mexico's IMF quota and spread over 3 years. Provided a satisfactory adjustment programme can be speedily negotiated with the IMF, the announcement effect of this application on Mexico's credit standing is likely to be at least as valuable as the money itself.

(iii) Rescheduling of private debts

The Mexicans are asking the private banks to which \$60 billion is owed to defer requirements for capital repayments during the coming months. There will be practical difficulties in obtaining an agreement with the very large number of banks involved, some of them quite small, but it is in the interests of the banks to obtain a rescheduling which secures continued payment of interest, even at the cost of deferment of capital repayments for the present. The total exposure of US banks and their subsidiaries is about \$22 billion, of Japanese banks \$8 billion, of British banks \$6 billion and French banks \$4-5 billion. The figure of \$8 billion is sometimes quoted for UK





banking exposure, but this relates to banks registered in London, including American-owned subsidiaries. The \$6 billion figure relates to banks in British ownership or control, wherever registered.

- (iv) A BIS loan of \$ $\frac{1}{2}$  billion for 3 months renewable up to a maximum of one year. This will be linked with a direct loan by the Fed of the same amount to make a total loan from the central banks of 11 countries of \$1 $\frac{1}{2}$  billion. The Americans do not belong to the BIS.

4. The UK participation in the central bank short term loan operation will be a commitment by the Bank of England to provide \$140 million to the BIS if the BIS were to fail to obtain repayment. In a total short term loan of \$1 $\frac{1}{2}$  billion, of which half is carried by the United States, \$140 million is not an unreasonable UK share, given the extent of our banking exposure. Since the risk is too large for the Bank to carry it on its own resources, as it has done so far on a much smaller scale in the case of Hungary, we are giving the Bank a Treasury guarantee in respect of this commitment. This gives rise to no public expenditure problem unless and until it is called. The BIS will seek assurances of a "take out" from the proceeds of the Mexican application to the IMF, if necessary. There is no specific statutory authority under which the Treasury can extend this guarantee and in accordance with PAC requirements we shall therefore be laying a Minute before Parliament. There is a clear justification for the action we are taking in the urgency of the situation and the international character of the rescue in which we are participating.

5. We think it very possible that Mexico will seek a rescheduling of official as well as private banking debt. This would be likely, as a minimum, to produce deferment of capital





repayments to ECGD during the coming months, with a corresponding addition to the PSBR in the year of deferment. The amount involved could be of the order of £100 million or more. Total ECGD exposure to Mexico is about \$2 billion.

6. A striking feature has been the speed with which this international rescue operation has been set in motion. The American authorities have recognised the urgency of the requirement and the extent to which their own interests were at stake, both in the economic stability of their neighbour and in the exposure of their banking system. The IMF and BIS have also reacted very speedily. The Mexican authorities for their part have tackled the situation with urgency and determination once the actual extremity was upon them. The pace is bound to be slower now. Agreeing an IMF programme will take some time. So will the negotiations with the banks. But at least the international financial community has so far avoided an impression in the markets that the Mexican situation was going out of control. What is now needed as much or more than the plugging of a particular financial gap is a progressive restoration of confidence in Mexican credit.

7. Copies of this minute go to the Foreign and Commonwealth Secretary, the Secretary for Trade, the Governor of the Bank of England, and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G.H.' with a flourish.

G.H.

24 August 1982



CONFIDENTIAL

TELLO MACIAS, LIC. MANUEL

Deputy Minister of Foreign Affairs in charge of Multilateral Affairs since June 1979.

Born 1935. Studied at the University of Georgetown, Washington DC.

Joined Foreign Service, 1957. Treaty Department, Foreign Ministry, 1957-59. Mexican delegation to OAS, 1959-63. Mexican delegation to international organisations in Geneva, 1963-67. Deputy Director General (1967-70) and Director General (1970-72) of International Organisations Department in Foreign Ministry. Director in Chief for Multilateral Affairs 1972-74. Director in Chief for Bilateral Affairs, 1974-77. Ambassador to London 1977-79.

One of Mexico's more able younger diplomats. Brought back to Mexico on promotion to Deputy Minister when Castañeda took over as Foreign Secretary from Roel. Son of a former Mexican Foreign Minister and brother of Carlos Tello. Married to a Salvadorean wife. No children.

CONFIDENTIAL



CONFIDENTIAL  
DESKBY 030800Z

CONFIDENTIAL

FM MEXICO CITY 022115Z SEPT 82  
TO IMMEDIATE FCO

TELEGRAM NUMBER 715 OF 03 SEPT.

INFO ROUTINE: WASHINGTON, PARIS, BONN, TREASURY, BANK OF ENGLAND.

EMISSARY FROM PRESIDENT LOPEZ PORTILLO

1. PRESIDENT LOPEZ PORTILLO IS SENDING PERSONAL EMISSARIES TO WASHINGTON, PARIS, LONDON AND BONN TO EXPLAIN HIS DECISION TO NATIONALISE THE MEXICAN PRIVATE BANKS AND IMPOSE FULL EXCHANGE CONTROL. IZQUIERDO (PRESIDENTIAL ADVISER) WILL BE GOING TO WASHINGTON, MANUEL TELLO (DEPUTY MINISTER OF FOREIGN AFFAIRS) TO PARIS AND LONDON, AND NAVARRETE (ALSO DEPUTY FOREIGN MINISTER) TO PARIS AND BONN.
2. IN INFORMING ME OF THIS DECISION THIS MORNING, TELLO SAID THAT HE PLANNED TO ARRIVE IN LONDON SOME TIME ON 6 SEPTEMBER AND HOPED TO MAKE HIS CALLS THE FOLLOWING DAY. THE MEXICAN AMBASSADOR IN LONDON HAS BEEN INFORMED AND MAY ALREADY HAVE BEEN IN TOUCH. TELLO SAID THAT PRESIDENT LOPEZ PORTILLO HOPED THAT YOU MIGHT BE ABLE TO SEE TELLO, WHO WOULD ALSO LIKE TO CALL ON MR. ONSLOW. THE PRESIDENT ALSO HOPED THAT TELLO MIGHT CALL AT NO 10 DOWNING STREET. IN VIEW OF TELLO'S RANK THE PRESIDENT DID NOT FEEL THAT HE COULD ASK THE PRIME MINISTER TO RECEIVE HIM, BUT HE WONDERED IF SOMEONE COULD DO SO ON HER BEHALF ( FOR EXAMPLE THE SECRETARY OF THE CABINET OR THE PRINCIPAL PRIVATE SECRETARY). TELLO EMPHASISED TO ME THAT THE PRESIDENT'S EMISSARIES WERE NOT INSTRUCTED TO ASK FOR ANYTHING BUT THE UNDERSTANDING OF THE FOUR GOVERNMENTS OF MEXICO'S CURRENT PREDICAMENT AND THE MEASURES TAKEN TO DEAL WITH IT. THESE COUNTRIES HAD, HE SAID, BEEN CHOSEN FOR THEIR PARTICULAR IMPORTANCE TO MEXICO.
3. TELLO ADDED THAT THE FINANCE MINISTER, SILVA HERZOG, HAD BEEN INSTRUCTED TO SPEAK IN SIMILAR TERMS TO THE CHANCELLOR OF THE EXCHEQUER AND THE GOVERNOR OF THE BANK OF ENGLAND IN TORONTO. ARRANGEMENTS TO MEET THEM WOULD BE MADE ON THE SPOT.
4. TELLO, WHO WAS AMBASSADOR TO LONDON BETWEEN 1977 AND 1979, IS ONE OF THE FOUR MEXICAN DEPUTY FOREIGN MINISTERS. HE HAS PARTICULAR RESPONSIBILITY FOR THE UNITED NATIONS AND MULTILATERAL AFFAIRS. THROUGHOUT THE FALKLANDS CRISIS HE WAS A GOOD FRIEND. HIS BROTHER HAS JUST BEEN MADE GOVERNOR OF THE BANK OF MEXICO. HE SPEAKS EXCELLENT ENGLISH. HE SAID THAT HE WOULD NOT TAKE UP VERY MUCH OF ANYONE'S TIME BUT WANTED TO MAKE WHAT WAS IN HIS OWN WORDS A POLITICAL GESTURE ON THE PART OF PRESIDENT LOPEZ PORTILLO.
5. FCO PLEASE ADVANCE TO PRIVATE SECRETARIES OF THE CHANCELLOR OF THE EXCHEQUER AND GOVERNOR OF THE BANK OF ENGLAND.

FICKELL  
FINANCIAL  
MCAD  
MAD  
WED

COPIES TO:  
PS/ CHANCELLOR OF EXCHEQUER  
PS/ GOVERNOR B/ENGLAND

CONFIDENTIAL



RESTRICTED

GRS 295

*has been again please*

RESTRICTED [CULL]

FM MEXICO CITY 030115Z SEPT 82

TO PRIORITY FCO

TELEGRAM NUMBER 720 OF 2 SEPTEMBER

INFO PRIORITY WASHINGTON, DOT, TREASURY, ECGD, BANK OF ENGLAND.

MY TELS NOS. 716 AND 717: NEW ECONOMIC MEASURES / IMPACT ON  
BRITISH TRADE.

1. THE DECREES NATIONALISING THE BANKS AND IMPOSING EXCHANGE CONTROLS HAVE INEVITABLY ADDED TO THE GLOOM OF BRITISH COMPANIES OPERATING OR TRADING HERE (MY TELNO 707).
2. THERE ARE TWO MAIN ASPECTS. THE IMPACT OF THE NATIONALISATION OF THE BANKS IS MAINLY PSYCHOLOGICAL. THERE WERE NO BRITISH HOLDINGS IN THE MEXICAN BANKS WHICH HAVE BEEN NATIONALISED. THE BRITISH BANKS BASED HERE ALL OPERATE REPRESENTATIVE OFFICES WHICH ARE NOT AFFECTED BY THE DECREE. APART FROM THE IMMEDIATE PROBLEMS CAUSED BY THE CLOSURE OF THE COMMERCIAL BANKS UNTIL 6 SEPTEMBER, BRITISH COMPANIES SHOULD NOT BE DIRECTLY AFFECTED BY THE NATIONALISATION.
3. THE IMPOSITION OF FULL EXCHANGE CONTROLS IS BOUND TO HAVE AN IMPORTANT IMPACT ON BRITISH COMPANIES HERE. THE DECREE DOES PROVIDE FOR THE PROVISION OF FOREIGN EXCHANGE FOR THE PAYMENTS OF ROYALTIES AND OTHER COMMITMENTS (DIVIDENDS ARE NOT MENTIONED AS SUCH), BUT THEY ONLY RANK TENTH OUT OF 12 IN ORDER OF PRIORITY FOR FOREIGN EXCHANGE. ANY SUCH PAYMENTS WILL NEED THE AUTHORISATION OF THE FOREIGN INVESTMENT COMMISSION.
4. IN THE SHORT TERM MOST BRITISH COMPANIES WILL BE MAINLY CONCERNED WITH KEEPING THEIR OPERATIONS HERE AFLOAT RATHER THAN PAYING DIVIDENDS TO THEIR PRINCIPALS. THEIR IMMEDIATE NEEDS FOR FOREIGN EXCHANGE WILL BE FOR IMPORTS TO WHICH THE GOVERNMENT IS INEVITABLY GIVING HIGHER PRIORITY. EVEN HERE THE ALLOCATION OF FOREIGN EXCHANGE WILL BE BOUND TO RESTRAIN IMPORTS FOR THE NEXT FEW MONTHS.
5. GIVING THE CONTINUING IMPORTANCE THE MEXICAN GOVERNMENT CONTINUES TO ATTACH TO ATTRACTING FOREIGN INVESTMENT TO MEXICO, I BELIEVE THAT ANY RESTRICTIONS ON THE PAYMENT OF DIVIDENDS TO FOREIGN PRINCIPALS SHOULD BE REASONABLY SHORT-TERM.

TICKELL

FINANCIAL

MCAD

NAD

COPIES TO:

MR ATKINSON TREASURY

MR OWEN DOT

MR HALL ECGD

MR GILCHRIST BANK OF ENGLAND

RESTRICTED



GRS820

[CULT]

CONFIDENTIAL

CONFIDENTIAL

DESKBY 052100Z

FM MEXICO CITY 051920Z SEP 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 726 OF 5 SEPTEMBER

INFO IMMEDIATE WASHINGTON, TREASURY, DOT, ECGD, BANK OF ENGLAND,  
TORONTO (FOR DELEGATION TO IMF MEETING)

MIPT: NEW MEXICAN ECONOMIC MEASURES

1. THE GOVERNMENT HAS ORGANISED A SERIES OF MASS MEETINGS DESIGNED TO SHOW POPULAR SUPPORT FOR THE MEASURES. LARGE NUMBERS OF PEASANTS AND WORKERS WERE BUSSED INTO MEXICO CITY FROM SURROUNDING AREAS ON 4 SEPTEMBER FOR A RALLY AT WHICH LOPEZ PORTILLO AND OTHER ORATORS DECLARED THAT THE MEASURES WERE A HISTORIC STEP FORWARD IN MEXICO'S REVOLUTION.
2. FOR INTERNAL PURPOSES THE GOVERNMENT IS EMPHASISING THE RADICAL POLITICAL NATURE OF THE NEW ECONOMIC POLICY. AS CARLOS TELLO SAID: QUOTE THE STATE HAS IN THIS WAY REMOVED THE PRINCIPAL OBSTACLE TO THE ESTABLISHMENT OF A NATIONALIST ECONOMIC POLICY. IN THE MEDIUM TERM THE EXCHANGE CONTROL WILL ALLOW US TO FREE OUR INTERNAL FINANCIAL POLICY FROM THE TYRANNY OF THE INTERNATIONAL MONEY AND CAPITAL MARKET. THIS WILL ALLOW US TO TACKLE RADICALLY THE OTHER SECULAR PROBLEMS OF THE MEXICAN ECONOMY. UNQUOTE. AT THE SAME TIME AN EFFORT IS BEING MADE TO CONVINCe DOMESTIC AS WELL AS INTERNATIONAL OPINION THAT THE MEASURES DO NOT REPRESENT A MOVE TOWARDS SOCIALISM. SELECTED FOREIGN JOURNALISTS ARE BEING BRIEFED THAT THE MEASURES WERE FORCED ON THE GOVERNMENT BY EVIDENCE THAT THE PRIVATE BANKS HAD ENCOURAGED, AND STIMULATED A MASSIVE FLIGHT OF CAPITAL.
3. REPRESENTATIVES OF THE PRIVATE SECTOR HAVE CONDEMNED THE MEASURES AS UNJUST AND UNNECESSARY, HAVE BLAMED ECONOMIC MISMANAGEMENT BY THE GOVERNMENT FOR THE COUNTRY'S FINANCIAL PREDICAMENT AND SAID THAT MEASURES OF SUCH TRANSCENDENTAL IMPORTANCE SHOULD BE SUBJECT TO A PLEBISCITE AND NOT THE FIAT OF ONE MAN. BUT THE DECISION TO SELL OFF THE PRIVATE BANKS' NON-BANKING ASSETS TO THE PRIVATE SECTOR WILL BE WELCOMED TO THE PRIVATE SECTOR. SO SHOULD THE APPOINTMENT OF RESPECTED AND EXPERIENCED PUBLIC FIGURES TO HEAD THE LARGEST BANKS (INCLUDING DAVID IBARRA, FORMER FINANCE MINISTER AND JOSE JUAN OLLOQUI, CURRENT MEXICAN AMBASSADOR IN LONDON). THE PRIVATE SECTOR WILL BE RELIEVED AT BEING ALLOWED TO REPAY ITS FOREIGN DEBTS AND PAY FOR ITS IMPORTS AT THE PREFERENTIAL EXCHANGE RATE.
4. EVEN SO THE NEW MEASURES REPRESENT A SUBSTANTIAL EXTENSION OF STATE CONTROL OVER THE ECONOMY. THE REDUCED PRIVATE SECTOR WILL REQUIRE APPROVAL FROM GOVERNMENT OFFICIALS FOR MANY DECISIONS PREVIOUSLY IN PRIVATE HANDS. THE SCOPE FOR CORRUPTION AND ENRICHMENT BY GOVERNMENT OFFICIALS, ALREADY A FEATURE OF THE LOPEZ PORTILLO ADMINISTRATION, WILL BE GREATLY EXPANDED.
5. AT FIRST SIGHT THE NEW MEASURES SEEM TO CREATE AS MANY PROBLEMS AS THEY SOLVE. THE SUBSIDY REQUIRED TO SERVICE MEXICO'S DEBT AND ALL ITS IMPORTS AT 50 PESOS TO THE DOLLAR, WHILE EXPORTS ARE PAID AT 70, WILL BE ENORMOUS. THE GOVERNMENT'S ABILITY TO FINANCE IT

CONFIDENTIAL

/ WITH



# CONFIDENTIAL

WILL BE DECREASED DRASTICALLY BY THE DECISION TO REDUCE INTEREST PAYMENTS TO DEPOSITORS FROM 44 TO 34 PER CENT OVER THE NEXT FIVE WEEKS. WITH INFLATION RISING AT OVER 70 PER CENT THIS YEAR, THIS IS BOUND TO LEAD TO A SERIOUS RUNDOWN IN DEPOSITS. THE DECISION TO FIX BOTH THE EXCHANGE RATES SHOWS DISREGARD FOR THE EFFECTS OF INFLATION ON MEXICO'S CAPACITY TO INCREASE ITS MANUFACTURED EXPORTS AND ATTRACT MORE TOURISTS.

6. MOREOVER THE GOVERNMENT SEEMS AT LEAST TEMPORARILY TO HAVE LOST SIGHT OF THE AUSTERITY PROGRAMME INTRODUCED EARLIER IN THE YEAR AND THE MORE RECENT APPLICATION TO THE IMF. TELLO MADE NO REFERENCE TO THE IMF IN HIS DECLARATION. HE IS AT PRESENT BEHAVING LESS LIKE THE GOVERNOR OF THE BANK THAN THE MINISTER OF FINANCE, WHO IS SAFELY OUT OF THE COUNTRY AT THE IMF MEETING. TELLO IS KNOWN TO FAVOUR A CENTRALLY PLANNED ECONOMY AND TO BE OPPOSED TO POLICIES ASSOCIATED WITH THE IMF. THERE MUST NOW BE CONSIDERABLE DOUBT ABOUT THE OUTCOME OF THE IMF NEGOTIATIONS. IT IS HARD TO TELL IF PRESIDENT LOPEZ PORTILLO IS FULLY AWARE OF THE IMPLICATIONS OF WHAT IS GOING ON. BUT PRESIDENT-ELECT DE LA MADRID WILL BE IN NO DOUBT.

7. MANY IN THE PRIVATE SECTOR ARE CLINGING TO THE HOPE THAT THE MEASURES MAY NOT BE IRREVERSIBLE AND THAT THE DE LA MADRID ADMINISTRATION MAY CHANGE COURSE AGAIN WHEN IT ASSUMES OFFICE ON 1 DECEMBER. TELLO AND HIS ECONOMIC VIEWS ARE STRONGLY OPPOSED BY DE LA MADRID'S CLOSEST ADVISERS. BUT REVERSING THE PRESENT POLICIES WILL BE DIFFICULT: THE GOVERNMENT IS TRYING TO ESTABLISH THEM AS PART OF THE MYTHOLOGY OF MEXICAN NATIONALISM, TOGETHER WITH THE EXPROPRIATION OF THE FOREIGN OIL COMPANIES IN 1938. IN DOING SO IT HAS THE SUPPORT OF THE TRADES UNION MOVEMENT AND THE LEFT.

8. AS SEEN FROM HERE, I SHOULD HAVE THOUGHT THAT THE GENERAL WESTERN INTEREST WAS TO AVOID, OR AT LEAST POSTPONE AS LONG AS POSSIBLE, A CONFRONTATION WITH THE PRESENT MEXICAN GOVERNMENT. OTHERWISE THERE WOULD BE A REAL RISK OF A DEFAULT, WHICH SOME HERE MAY ANYWAY WANT FOR INTERNAL POLITICAL REASONS. DE LA MADRID MAY FIND HIMSELF SERIOUSLY CONSTRAINED WHEN HE TAKES OFFICE IN 3 MONTHS TIME, BUT WE CAN BE FULLY CERTAIN OF A NEW APPROACH, IF NOT OF NEW POLICIES, AS WELL AS NEW MEN TO GIVE THEM EFFECT.

9. FCO PLEASE ADVANCE TO ATKINSON (TREASURY), OWEN (DOT), HALL (ECGD) AND GILCHRIST, BANK OF ENGLAND.

TICKELL

ADVANCED AS REQUESTED

FINANCIAL DISTN:  
MCAJ  
NAJ  
SAMJ  
WIAJ

COPIES TO:  
ADVANCE ADDRESSEES.

2  
CONFIDENTIAL



SECRET

Unrecd

ADVANCE COPY

2310

Hd [unclear]

Hd [unclear]

WONFO/005/50TWON/02/5

LOO FCO DESKBY 060900Z

GRS 290

PS NO 10 Downing St

SECRET

ECLIPSE

45

MR LITTLE [unclear]

DESKBY 060900Z

MR BARTON [unclear]

FM OTTAWA 052100Z AUG 82

TO IMMEDIATE FCO

MR GIBBS A.U.S.S.

TELEGRAM NUMBER 422 OF 5 SEPTEMBER

AND TO ROUTINE MEXICO

[Handwritten mark]

V

FOLLOWING FROM UKDEL TO IMF/IBRD ANNUAL MEETING TORONTO

1. FINCH GAVE ANSON AN ACCOUNT TODAY OF THE REPORT BY THE IMF MISSION WHICH RETURNED FROM MEXICO CITY LATE YESTERDAY. HE HAS GIVEN A SIMILAR ACCOUNT TO THE AMERICANS BUT NOT YET TO OTHERS.

2. FINCH DESCRIBED THE MEXICAN SITUATION AS VERY UNSTABLE. THE MINISTER CLAIMED THAT HE WANTED TO GO AHEAD AND NEGOTIATE AN ECONOMIC PROGRAMME WITH THE IMF AS QUICKLY AS POSSIBLE. THE NEW CENTRAL BANK GOVERNOR APPEARED HOWEVER TO WANT TO PROCEED IN THE OPPOSITE DIRECTION. THERE WERE SIGNS OF FRICTION BETWEEN THE INCOMING AND OUTGOING PRESIDENTS. IT WAS PROBABLE THAT THE IMF WOULD NOT BE ABLE TO CLARIFY THE SITUATION, DESPITE THEIR BEST EFFORTS TILL THE NEW PRESIDENT TOOK OFFICE. THE FUND MIGHT BE DESCRIBING THE SITUATION IN RATHER MORE OPTIMISTIC TERMS, BUT THEY DID NOT WANT TO GIVE THE OUTGOING PRESIDENT AN OPPORTUNITY FOR SAYING THAT THE IMF WERE IMPOSING UNREASONABLE CONDITIONS AND HENCE AN EXCUSE FOR REPUDIATING LOANS. FOR THE SAME REASON THE FUND MISSION WOULD RETURN TO MEXICO AS SOON AS THE MEXICANS ASKED FOR IT. BUT AT PRESENT, CONDITIONS APPEARED TOO DISORDERLY FOR AGREEMENT TO BE ACHIEVABLE.



3. FINCH SAID THAT THE AMERICANS WERE EXTREMELY JITTERY AND HAD PRESSED THE FUND TO SETTLE BY THE END OF THE MONTH IN ORDER TO AVERT A COLLAPSE OF THE SYSTEM. THE AMERICANS WERE PARTICULARLY CONCERNED ABOUT THE EXPOSURE OF MAJOR US BANKS, FOR SOME OF WHOM THE MEXICAN EXPOSURE AMOUNTED TO A LARGE PROPORTION OF THEIR CAPITAL AND RESERVES. THE FUND HOWEVER DID NOT PROPOSE TO MOVE UNTIL THEY COULD GET A SATISFACTORY PROGRAMME. THEY FELT THE AMERICAN PRESSURE SHOULD BE DIRECTED TO THE MEXICANS, SINCE THE PROBLEMS WERE ON THE SIDE. THEY HAD ALSO ASKED THE AMERICANS TO CONSIDER GIVING MEDIUM TERM OFFICIAL ASSISTANCE, SINCE ALL THEY HAD DONE SO FAR WOULD ONLY INCREASE THE LIKELY PROBLEMS IN 1983. THE BIS ATTACHMENT OF MEXICAN OIL WOULD ALSO TEND TO ENCOURAGE BANKS TO WITHDRAW SUPPORT FROM MEXICO: ONE MAJOR US BANK HAD ALREADY BEEN INQUIRING ABOUT THE TERMS OF THE BIS SUPPORT.

4. ON THE ECONOMIC SITUATION, FINCH SAID THAT THE FISCAL DEFICIT THIS YEAR WOULD BE AROUND 15 PER CENT OF GDP -- ABOUT THE SAME FIGURE AS LAST YEAR. THE EXTERNAL FINANCING POSITION WOULD POINT TO REDUCING THIS TO 6 PER CENT, BUT IT MIGHT NOT BE PRACTICABLE IN THE FIRST YEAR TO GET IT LOWER THAN 8 PER CENT. THE MEASURES TO ACHIEVE THIS FIGURE WERE NOT YET IN SIGHT, AND AS THEY MUST INCLUDE ~~A~~ BIG REDUCTION IN SUBSIDIES IT WAS QUESTIONABLE WHETHER THEY COULD BE IMPLEMENTED WITHOUT SERIOUS SOCIAL UNREST. THE PROSPECT WAS THAT SOME OF THE INTEREST DUE TO THE COMMERCIAL BANKS COULD NOT BE PAID AND THAT THEY WOULD HAVE TO NEGOTIATE A SETTLEMENT ON THE LINES OF THAT AGREED WITH POLAND.

5. ON THE POINTS IN YOUR TELNO. 171, FINCH SAID THAT THE MOST IMPORTANT STRUCTURAL ADJUSTMENT WAS TO GET INCENTIVES RIGHT. THIS WENT TOGETHER WITH GETTING THE BUDGET RIGHT, GIVEN THAT SUBSIDIES WOULD NEED TO BE REDUCED DRASTICALLY. REDUCTION OF SUBSIDIES SHOULD ALSO HAVE A BENEFICIAL EFFECT ON THE PARASTATAL SECTOR. THE EXCHANGE RATE HAD ALREADY MOVED A CONSIDERABLE WAY AND GIVEN THE WEAKNESS OF THE CONTROL SYSTEMS THE MEXICANS WOULD PROBABLY HAVE AN OVER-DEPRECIATED RATE FOR SOME TIME. HE DID NOT THINK IT WOULD BE PRACTICABLE TO REMOVE TRADE AND EXCHANGE RESTRICTIONS IN THE EARLY PART OF THE PERIOD, BUT THIS COULD BE PART OF A PROGRAMME OVER 3 YEARS. THE PUBLIC EXPENDITURE CUTS WOULD NEED TO INVOLVE A CUT IN REAL WAGES. HE EMPHASISED AGAIN THAT THE FUND DID NOT WANT TO PUT MONEY INTO MEXICO UNTIL THEY WERE SATISFIED THAT ADEQUATE ADJUSTMENT WOULD BE ACHIEVED.

6. FCO PLEASE GIVE LIMITED DISTRIBUTION TO NO. 10, LITTLER (TREASURY), BALFOUR (BANK) AND EVANS (FCO).



GRS820

[CULT]

CONFIDENTIAL

CONFIDENTIAL

DESKBY 052100Z

FM MEXICO CITY 051920Z SEP 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 726 OF 5 SEPTEMBER

INFO IMMEDIATE WASHINGTON, TREASURY, DOT, ECGD, BANK OF ENGLAND,  
TORONTO (FOR DELEGATION TO IMF MEETING)

*MS*

MIPT: NEW MEXICAN ECONOMIC MEASURES

1. THE GOVERNMENT HAS ORGANISED A SERIES OF MASS MEETINGS DESIGNED TO SHOW POPULAR SUPPORT FOR THE MEASURES. LARGE NUMBERS OF PEASANTS AND WORKERS WERE BUSSED INTO MEXICO CITY FROM SURROUNDING AREAS ON 4 SEPTEMBER FOR A RALLY AT WHICH LOPEZ PORTILLO AND OTHER ORATORS DECLARED THAT THE MEASURES WERE A HISTORIC STEP FORWARD IN MEXICO'S REVOLUTION.

2. FOR INTERNAL PURPOSES THE GOVERNMENT IS EMPHASISING THE RADICAL POLITICAL NATURE OF THE NEW ECONOMIC POLICY. AS CARLOS TELLO SAID: QUOTE THE STATE HAS IN THIS WAY REMOVED THE PRINCIPAL OBSTACLE TO THE ESTABLISHMENT OF A NATIONALIST ECONOMIC POLICY. IN THE MEDIUM TERM THE EXCHANGE CONTROL WILL ALLOW US TO FREE OUR INTERNAL FINANCIAL POLICY FROM THE TYRANNY OF THE INTERNATIONAL MONEY AND CAPITAL MARKET. THIS WILL ALLOW US TO TACKLE RADICALLY THE OTHER SECULAR PROBLEMS OF THE MEXICAN ECONOMY. UNQUOTE. AT THE SAME TIME AN EFFORT IS BEING MADE TO CONVINCE DOMESTIC AS WELL AS INTERNATIONAL OPINION THAT THE MEASURES DO NOT REPRESENT A MOVE TOWARDS SOCIALISM. SELECTED FOREIGN JOURNALISTS ARE BEING BRIEFED THAT THE MEASURES WERE FORCED ON THE GOVERNMENT BY EVIDENCE THAT THE PRIVATE BANKS HAD ENCOURAGED AND STIMULATED A MASSIVE FLIGHT OF CAPITAL.

3. REPRESENTATIVES OF THE PRIVATE SECTOR HAVE CONDEMNED THE MEASURES AS UNJUST AND UNNECESSARY, HAVE BLAMED ECONOMIC MISMANAGEMENT BY THE GOVERNMENT FOR THE COUNTRY'S FINANCIAL PREDICAMENT AND SAID THAT MEASURES OF SUCH TRANSCENDENTAL IMPORTANCE SHOULD BE SUBJECT TO A PLEBISCITE AND NOT THE FIAT OF ONE MAN. BUT THE DECISION TO SELL OFF THE PRIVATE BANKS' NON-BANKING ASSETS TO THE PRIVATE SECTOR WILL BE WELCOMED TO THE PRIVATE SECTOR. SO SHOULD THE APPOINTMENT OF RESPECTED AND EXPERIENCED PUBLIC FIGURES TO HEAD THE LARGEST BANKS (INCLUDING DAVID IBARRA, FORMER FINANCE MINISTER AND JOSE JUAN OLLOQUI, CURRENT MEXICAN AMBASSADOR IN LONDON). THE PRIVATE SECTOR WILL BE RELIEVED AT BEING ALLOWED TO REPAY ITS FOREIGN DEBTS AND PAY FOR ITS IMPORTS AT THE PREFERENTIAL EXCHANGE RATE.

4. EVEN SO THE NEW MEASURES REPRESENT A SUBSTANTIAL EXTENSION OF STATE CONTROL OVER THE ECONOMY. THE REDUCED PRIVATE SECTOR WILL REQUIRE APPROVAL FROM GOVERNMENT OFFICIALS FOR MANY DECISIONS PREVIOUSLY IN PRIVATE HANDS. THE SCOPE FOR CORRUPTION AND ENRICHMENT BY GOVERNMENT OFFICIALS, ALREADY A FEATURE OF THE LOPEZ PORTILLO ADMINISTRATION, WILL BE GREATLY EXPANDED.

5. AT FIRST SIGHT THE NEW MEASURES SEEM TO CREATE AS MANY PROBLEMS AS THEY SOLVE. THE SUBSIDY REQUIRED TO SERVICE MEXICO'S DEBT AND ALL ITS IMPORTS AT 50 PESOS TO THE DOLLAR, WHILE EXPORTS ARE PAID AT 70, WILL BE ENORMOUS. THE GOVERNMENT'S ABILITY TO FINANCE IT

CONFIDENTIAL

*/ WIKK*



# CONFIDENTIAL

WILL BE DECREASED DRASTICALLY BY THE DECISION TO REDUCE INTEREST PAYMENTS TO DEPOSITORS FROM 44 TO 34 PER CENT OVER THE NEXT FIVE WEEKS. WITH INFLATION RISING AT OVER 70 PER CENT THIS YEAR, THIS IS BOUND TO LEAD TO A SERIOUS RUNDOWN IN DEPOSITS. THE DECISION TO FIX BOTH THE EXCHANGE RATES SHOWS DISREGARD FOR THE EFFECTS OF INFLATION ON MEXICO'S CAPACITY TO INCREASE ITS MANUFACTURED EXPORTS AND ATTRACT MORE TOURISTS.

6. MOREOVER THE GOVERNMENT SEEMS AT LEAST TEMPORARILY TO HAVE LOST SIGHT OF THE AUSTERITY PROGRAMME INTRODUCED EARLIER IN THE YEAR AND THE MORE RECENT APPLICATION TO THE IMF. TELLO MADE NO REFERENCE TO THE IMF IN HIS DECLARATION. HE IS AT PRESENT BEHAVING LESS LIKE THE GOVERNOR OF THE BANK THAN THE MINISTER OF FINANCE, WHO IS SAFELY OUT OF THE COUNTRY AT THE IMF MEETING. TELLO IS KNOWN TO FAVOUR A CENTRALLY PLANNED ECONOMY AND TO BE OPPOSED TO POLICIES ASSOCIATED WITH THE IMF. THERE MUST NOW BE CONSIDERABLE DOUBT ABOUT THE OUTCOME OF THE IMF NEGOTIATIONS. IT IS HARD TO TELL IF PRESIDENT LOPEZ PORTILLO IS FULLY AWARE OF THE IMPLICATIONS OF WHAT IS GOING ON. BUT PRESIDENT-ELECT DE LA MADRID WILL BE IN NO DOUBT.

7. MANY IN THE PRIVATE SECTOR ARE CLINGING TO THE HOPE THAT THE MEASURES MAY NOT BE IRREVERSIBLE AND THAT THE DE LA MADRID ADMINISTRATION MAY CHANGE COURSE AGAIN WHEN IT ASSUMES OFFICE ON 1 DECEMBER. TELLO AND HIS ECONOMIC VIEWS ARE STRONGLY OPPOSED BY DE LA MADRID'S CLOSEST ADVISERS. BUT REVERSING THE PRESENT POLICIES WILL BE DIFFICULT: THE GOVERNMENT IS TRYING TO ESTABLISH THEM AS PART OF THE MYTHOLOGY OF MEXICAN NATIONALISM, TOGETHER WITH THE EXPROPRIATION OF THE FOREIGN OIL COMPANIES IN 1938. IN DOING SO IT HAS THE SUPPORT OF THE TRADES UNION MOVEMENT AND THE LEFT.

8. AS SEEN FROM HERE, I SHOULD HAVE THOUGHT THAT THE GENERAL WESTERN INTEREST WAS TO AVOID, OR AT LEAST POSTPONE AS LONG AS POSSIBLE, A CONFRONTATION WITH THE PRESENT MEXICAN GOVERNMENT. OTHERWISE THERE WOULD BE A REAL RISK OF A DEFAULT, WHICH SOME HERE MAY ANYWAY WANT FOR INTERNAL POLITICAL REASONS. DE LA MADRID MAY FIND HIMSELF SERIOUSLY CONSTRAINED WHEN HE TAKES OFFICE IN 3 MONTHS TIME, BUT WE CAN BE FULLY CERTAIN OF A NEW APPROACH, IF NOT OF NEW POLICIES, AS WELL AS NEW MEN TO GIVE THEM EFFECT.

9. FCO PLEASE ADVANCE TO ATKINSON (TREASURY), OWEN (DOT), HALL (ECGD) AND GILCHRIST, BANK OF ENGLAND.

TICKELL

ADVANCED AS REQUESTED

FINANCIAL DISTN:  
MCAD  
NAD  
SAM  
WIA

COPIES TO:  
ADVANCE ADDRESSEES.

2  
CONFIDENTIAL



GRS 320

UNCLASSIFIED

DESKBY 052100Z

FM MEXICO CITY 051900Z SEP 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 725 OF 5 SEPTEMBER

INFO IMMEDIATE WASHINGTON, TREASURY, DOT, ECGD, BANK OF ENGLAND,  
TORONTO (FOR DELEGATION TO IMF MEETING)

MY TELNO 711: NEW MEXICAN ECONOMIC MEASURES

1. THE NEW GOVERNOR OF THE BANK OF MEXICO, CARLOS TELLO, ANNOUNCED YESTERDAY THAT FROM 6 SEPTEMBER THERE WOULD BE TWO FIXED PARITIES OF THE PESO: A PREFERENTIAL RATE OF 50 PESOS TO THE DOLLAR AND AN ORDINARY RATE OF 70 PESOS TO THE DOLLAR. PREFERENTIAL RATE DOLLARS WOULD BE USED FOR PURPOSES CONSIDERED ESSENTIAL IN THE NATIONAL INTEREST, INCLUDING THE SERVICING OF ALL FOREIGN DEBT, BOTH PRIVATE AND PUBLIC, AND ALL AUTHORIZED IMPORTS. EXPORTS WOULD BE PAID AT THE ORDINARY RATE OF 70 TO THE DOLLAR. THE BUYING AND SELLING OF FOREIGN CURRENCY OTHER THAN THROUGH THE NATIONAL BANKING SYSTEM WOULD BE ILLEGAL. MEXICANS WOULD BE ALLOWED TO ACQUIRE UP TO 250 DOLLARS AT THE ORDINARY RATE FOR TRAVEL ABROAD.

2. TELLO ALSO ANNOUNCED SUBSTANTIAL REDUCTION IN VARIOUS INTEREST RATES, AND IN THE COST OF MORTGAGES AND LOANS CONSIDERED TO BE OF SOCIAL IMPORTANCE. HE SAID THAT MANUFACTURING AND COMMERCIAL COMPANIES PREVIOUSLY OWNED BY THE PRIVATE BANKS AND NOW THEREFORE BY THE STATE WOULD IN DUE COURSE BE OFFERED FOR SALE. MONEY IN BANK ACCOUNTS WOULD REMAIN THE PROPERTY OF THE ACCOUNT-HOLDER AND WOULD NOT BELONG TO THE GOVERNMENT.

3. TELLO SAID THAT THE PRIVATE BANKS HAD OPERATED IN A WAY WHICH MAXIMISED THEIR OWN PROFITS AND IGNORED THE SOCIAL AND ECONOMIC INTERESTS OF THE MEXICAN PEOPLE. THE NATIONALISATION OF THE BANKS AND THE IMPOSITION OF FULL EXCHANGE CONTROLS WOULD ENABLE MEXICO TO ESCAPE FROM THE TYRANNY OF FOREIGN SPECULATION.

4. PLEASE SEE MIFT.

5. FCO PLEASE PASS TORONTO (FOR IMF DELEGATION DESKBY 052100Z, AND ADVANCE TO ATKINSON (TREASURY), OWEN (DOT), HALL (ECGD) AND GILCHRIST, BANK OF ENGLAND.

TICKELL

[ADVANCED AS REQUESTED]

FINANCIAL  
MCAD  
NAD  
S AM D  
WIAD

COPIES TO  
MR ATKINSON TREASURY  
MR OWEN DOT  
MR HALL ECGD  
MR GILCHRIST BANK OF ENGLAND



## RESTRICTED

GRS 295

RESTRICTED [CULL]

FM MEXICO CITY 030115Z SEPT 82

TO PRIORITY FCO

TELEGRAM NUMBER 720 OF 2 SEPTEMBER

INFO PRIORITY WASHINGTON, DOT, TREASURY, ECGD, BANK OF ENGLAND.

MY TELS NOS. 716 AND 717: NEW ECONOMIC MEASURES / IMPACT ON  
BRITISH TRADE.

1. THE DECREES NATIONALISING THE BANKS AND IMPOSING EXCHANGE CONTROLS  
HAVE INEVITABLY ADDED TO THE GLOOM OF BRITISH COMPANIES OPERATING  
OR TRADING HERE (MY TELNO 707).

2. THERE ARE TWO MAIN ASPECTS. THE IMPACT OF THE NATIONALISATION  
OF THE BANKS IS MAINLY PSYCHOLOGICAL. THERE WERE NO BRITISH HOLDINGS  
IN THE MEXICAN BANKS WHICH HAVE BEEN NATIONALISED. THE BRITISH  
BANKS BASED HERE ALL OPERATE REPRESENTATIVE OFFICES WHICH ARE NOT  
AFFECTED BY THE DECREE. APART FROM THE IMMEDIATE PROBLEMS  
CAUSED BY THE CLOSURE OF THE COMMERCIAL BANKS UNTIL 6 SEPTEMBER,  
BRITISH COMPANIES SHOULD NOT BE DIRECTLY AFFECTED BY THE NATION-  
ALISATION.

3. THE IMPOSITION OF FULL EXCHANGE CONTROLS IS BOUND TO HAVE AN  
IMPORTANT IMPACT ON BRITISH COMPANIES HERE. THE DECREE DOES  
PROVIDE FOR THE PROVISION OF FOREIGN EXCHANGE FOR THE PAYMENTS  
OF ROYALTIES AND OTHER COMMITMENTS (DIVIDENDS ARE NOT MENTIONED  
AS SUCH), BUT THEY ONLY RANK TENTH OUT OF 12 IN ORDER OF  
PRIORITY FOR FOREIGN EXCHANGE. ANY SUCH PAYMENTS WILL NEED THE  
AUTHORISATION OF THE FOREIGN INVESTMENT COMMISSION.

4. IN THE SHORT TERM MOST BRITISH COMPANIES WILL BE MAINLY CONCERNED  
WITH KEEPING THEIR OPERATIONS HERE AFLOAT RATHER THAN PAYING DIV-  
IDENDS TO THEIR PRINCIPALS. THEIR IMMEDIATE NEEDS FOR FOREIGN  
EXCHANGE WILL BE FOR IMPORTS TO WHICH THE GOVERNMENT IS IN-  
EVITABLY GIVING HIGHER PRIORITY. EVEN HERE THE ALLOCATION OF  
FOREIGN EXCHANGE WILL BE BOUND TO RESTRAIN IMPORTS FOR THE NEXT  
FEW MONTHS.

5. GIVING THE CONTINUING IMPORTANCE THE MEXICAN GOVERNMENT  
CONTINUES TO ATTACH TO ATTRACTING FOREIGN INVESTMENT TO MEXICO,  
I BELIEVE THAT ANY RESTRICTIONS ON THE PAYMENT OF DIVIDENDS  
TO FOREIGN PRINCIPALS SHOULD BE REASONABLY SHORT-TERM.

TICKELL

FINANCIAL

MCAD

NAD

COPIES TO:

MR ATKINSON TREASURY

MR OWEN DOT

MR HALL ECGD

MR GILCHRIST BANK OF ENGLAND

RESTRICTED



**CONFIDENTIAL**

CONFIDENTIAL [CULL]

FM MEXICO CITY 030145Z SEPT 82.

TO ROUTINE FOC

TELEGRAM NUMBER 721 OF 2 SEPTEMBER

INFO WASHINGTON, DOT, TREASURY, ECGD, BANK OF ENGLAND.

MY TELNO 713: NEW ECONOMIC MEASURES

1. A KEY POLITICAL QUESTION IN MEXICO IS HOW PRESIDENT-ELECT DE LA MADRID REGARDS PRESIDENT LOPEZ PORTILLO'S DECISION TO NATIONALISE THE MEXICAN PRIVATE BANKS AND IMPOSE EXCHANGE CONTROL.
2. I UNDERSTAND THAT DE LA MADRID WAS NOT INFORMED ABOUT THE PRESIDENT'S DECISION UNTIL THE NIGHT BEFORE. THERE WAS NO CONSULTATION. WHEN COMMENTING AFTERWARDS TO THE PRESS, HE SAID THAT THE MEASURES WERE RELATED TO THE CRITICAL CIRCUMSTANCES OF THE COUNTRY, THAT THE STATE COULD NOT ALLOW SITUATIONS TO DEVELOP WHICH THREATENED SERIOUS HARM TO THE NATIONAL INTEREST, AND THAT THE PRESIDENT HAD SPOKEN WITH DEPTH AND COURAGE. THESE COMMENTS SCARCELY AMOUNT TO AN ENDORSEMENT.
3. NOR CAN DE LA MADRID HAVE WELCOMED THE DEPARTURE OF HIS FRIEND AND ASSOCIATE MIGUEL MANCERA, WHO OFFERED HIS RESIGNATION AS GOVERNOR OF THE BANK OF MEXICO ON 26 AUGUST. THE PRESIDENT ACCEPTED THE RESIGNATION BUT ASKED HIM NOT TO REVEAL IT UNTIL 1 SEPTEMBER. THE APPOINTMENT IN MANCERA'S PLACE OF CARLOS TELLO WILL NOT INSPIRE CONFIDENCE IN BUSINESS CIRCLES. TOGETHER WITH THE MINISTER OF INDUSTRY, OTEYZA, BOTH GRADUATES OF KING'S COLLEGE CAMBRIDGE HE HAS LONG BEEN REGARDED AS A LEADING ADVOCATE WITHIN THE GOVERNMENT OF RAPID INDUSTRIAL GROWTH AND THE EXPANSION OF PUBLIC OWNERSHIP.
4. THE RELATIONSHIP BETWEEN OUTGOING AND INCOMING PRESIDENTS IS ALWAYS DIFFICULT, BUT THIS TIME IT PROMISES TO BE EXCEPTIONALLY SO. MANY HOPE THAT THE PROSPECT OF DE LA MADRID MAY ACT AS A RESTRAINING INFLUENCE ON LOPEZ PORTILLO WHO, IN HIS STATE OF THE NATION ADDRESS, HINTED AT A WITCH-HUNT AFTER THOSE WHO TAKEN LARGE SUMS OF MONEY OUT OF THE COUNTRY. THE STATIONING OF POLICE AND SOLDIERS ROUND THE PRIVATE BANKS TO PREVENT DOCUMENTS FROM BEING TAKEN IN OR OUT HAS CAUSED MUCH APPREHENSION. BUT THERE IS SO MUCH DIRTY LINEN IN THE GOVERNMENT'S OWN CUPBOARD THAT THE IMPENDING END OF THE ADMINISTRATION SHOULD ACT AS A DETERRENT. DE LA MADRID WILL CERTAINLY MAKE WHOLESAL CHANGES OF MEN WHEN HE TAKES OFFICE ON 1 DECEMBER. BUT IT IS TOO EARLY TO SAY HOW MUCH FREEDOM OF ACTION HE WILL HAVE TO MAKE CORRESPONDING CHANGES OF MEASURES.

TICKELL

FINANCIAL

MCAD

NAD

**CONFIDENTIAL**



CONFIDENTIAL

Prime  
Minister

GRS 875

CONFIDENTIAL [CULL]

DESKBY 020800Z

FM MEXICO CITY 020330Z SPET 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 713 OF 2 SEPTEMBER

INFO PRIORITY WASHINGTON, TREASURY, DOT, ECGD, BANK OF ENGLAND.

MIPT: PRESIDENT LOPEZ PORTILLO'S STATE OF THE NATION ADDRESS:  
COMMENT

1. PRESIDENT LOPEZ PORTILLO'S DECISION AT ONE STROKE TO IMPOSE FULL EXCHANGE CONTROLS AND TO NATIONALISE PRIVATE MEXICAN BANKS REPRESENTS A DRAMATIC ATTEMPT TO RECOVER THE POLITICAL INITIATIVE IN MEXICO, TO RE-ESTABLISH HIS REPUTATION AS A LEADER (TAKING THE MANTLE OF PRESIDENT LAZARO CARDENAS WHO NATIONALISED THE OIL INDUSTRY IN THE 1930S) AND TO FIX MEXICAN FINANCIERS AND THEIR FOREIGN FRIENDS AS THE GUILTY MEN RESPONSIBLE FOR THE CURRENT ECONOMIC CRISIS.

2. THERE HAVE BEEN MURMURS FOR SOME TIME ABOUT THE POSSIBILITY OF SUCH MEASURES BUT THE DECISION CAME AS A SHOCK TO ALL (INCLUDING THE AMERICANS WHO HAVE BEEN WORKING CLOSELY WITH THE MINISTRY OF FINANCE AND THE BANK OF MEXICO).

THE PRESIDENT MAY WELL BELIEVE THAT THE BANKS WERE AT LEAST PARTLY RESPONSIBLE FOR THE LATEST RUN ON THE PESO, AND MUST KNOW THAT AT LEAST FOUR OF THE MAIN PRIVATE BANKS HAVE RECENTLY HAD DIFFICULTIES IN ROLLING OVER THEIR SHORT-TERM FUNDS. THE BANKS HAVE HITHERTO OPERATED UNDER A CONCESSION FROM THE GOVERNMENT WITHDRAWABLE AT WILL. AS PUBLIC SECTOR BANKS HAVE A SUBSTANTIAL SHARE OF THE MARKET AND THE CENTRAL BANK'S CONTROL OVER THE WHOLE SYSTEM IS STRONG, THE DECISION TO NATIONALISE MAY BE LESS STARTLING IN ITS EFFECTS THAN IT NOW LOOKS.

3. IN INTERNAL POLITICAL TERMS THE PRESIDENT MAY WELL SUCCEED IN HIS IMMEDIATE AIM. MEXICANS GENERALLY LIKE A BOLD AND RADICAL STROKE. THE PRIVATE BANKS ARE NOTORIOUSLY INEFFICIENT AND RAPACIOUS, AND BANKERS SYMBOLISE FLAGRANT WEALTH IN A COUNTRY WHERE EXTREMES OF RICHES AND POVERTY ARE STARK. MEXICANS ARE PREDISPOSED TO BLAME FOREIGNERS, ESPECIALLY AMERICANS, FOR THEIR ILLS, AND ARE CONSCIOUS OF THE INCREASING PENETRATION OF THE US DOLLAR INTO THEIR ECONOMY. THE ARGUMENT THAT THE GOVERNMENT WAS LOSING CONTROL OF ONE OF THE ESSENTIAL ASPECTS OF SOVEREIGNTY WILL HAVE MUCH APPEAL. SO WILL THE PRESIDENT'S STATEMENT THAT THE SAVINGS OF THE COUNTRY HAD BEEN EXTRACTED FOR USE ABROAD, AND THAT IN SEEKING NOW TO BORROW DOLLARS, MEXICANS WERE BEING ASKED TO BEG FOR THE CRUMBS FROM THEIR OWN BREAD. BY ACTING AS HE HAS, THE PRESIDENT WILL ALLY HIMSELF WITH THE TRADES UNION MOVEMENT WHICH HAD LONG BEEN ASKING FOR THE DECISIONS NOW TAKEN. THIS MAY BE THE PRICE FOR WAGE RESTRAINT.

CONFIDENTIAL

/ 4. BUT

WA  
3/2



4. BUT THESE FAVOURABLE EFFECTS FOR THE PRESIDENT MAY NOT LAST. THE MEXICANS HAVE A PROFOUND AND WELL-JUSTIFIED DISTRUST OF ALL GOVERNMENT ACTIVITIES AND NATIONALISED INDUSTRIES, AND THE IDEA OF A NATIONALISED BANKING SYSTEM WILL NOT INSPIRE CONFIDENCE, AT LEAST AMONG THOSE WHO HOLD BANK ACCOUNTS. THE PRESIDENT SHOWED HIMSELF AWARE OF THIS IN HIS SPEECH. MANY WILL FEAR THAT THE NEXT STEP WILL BE TO EXTEND THE CONTROL OF THE STATE OVER INDUSTRY THROUGH THE MONOPOLY OF LOAN CAPITAL AND THE ACQUISITION OF THE PRIVATE BANKS' LARGE STAKE IN INDUSTRY, COMMERCE AND TOURISM. MANY WILL ASK WHY THE GOVERNMENT COULD NOT HAVE SOLVED THE PROBLEM EARLIER BY LESS DRASTIC MEANS: TO TAKE MEASURES OF THIS KIND IN THE LAST THREE MONTHS OF A SIX-YEAR ADMINISTRATION LOOKS LIKE DESPERATION RATHER THAN WISDOM. MANY WILL BE AWARE OF THE PRACTICAL DIFFICULTIES, HITHERTO JUDGED INSURMOUNTABLE, IN ENFORCING EXCHANGE CONTROL, PARTICULARLY IN BORDER AREAS. IN THE PRESENT CYNICAL ATMOSPHERE MANY BELIEVE THAT AMONG THE MAIN CULPRITS FOR THE FLIGHT OUT OF PESOS ARE THE MEMBERS OF THE LOPEZ PORTILLO FAMILY AND THE POLITICIANS OF THE RULING PARTY. THE IMPLICATIONS FOR BUSINESS AND THE ECONOMY AS A WHOLE CANNOT NOW BE ASSESSED, BUT BY PERPETUATING THE CONFUSION AND UNCERTAINTY REFERRED TO IN MY TELNO 707, THE SITUATION COULD BE MADE WORSE RATHER THAN BETTER.
5. THE INTERNATIONAL IMPLICATIONS ARE SO FAR REMOTE FOR MOST MEXICANS. NO DOUBT THE PRESIDENT HAS CALCULATED THAT MEXICO IS TOO IMPORTANT IN THE WORLD ECONOMY FOR ANYONE, INCLUDING ITS CREDITORS AND THE INTERNATIONAL MONETARY FUND, TO ALLOW IT TO GO BUST. THE INTERNATIONAL FINANCIAL COMMUNITY HAS TOO BIG A STAKE IN THE COUNTRY. I GATHER THAT AT ONE POINT IN THE NEGOTIATIONS IN WASHINGTON LAST WEEK, THE MEXICAN MINISTER OF FINANCE THREATENED TO WITHDRAW AND TO DECLARE MEXICO IN DEFAULT IF CERTAIN CONDITIONS WERE PRESSED UPON HIM.
6. THROUGHOUT THE PRESIDENT'S SPEECH RAN A STRONG UNDER-CURRENT OF RESENTMENT AGAINST THE UNITED STATES. THIS WAS PARTICULARLY EVIDENT IN THE SECTION ON FOREIGN AFFAIRS. HIS PRIVATE SECRETARY RECENTLY TOLD ME HOW STRONGLY HE FEELS ON THE SUBJECT. THE PRESIDENT'S DECISIONS OF TODAY ARE NOT ONLY AN ATTEMPT TO RECOVER AUTHORITY AT HOME BUT ALSO AN ACT OF DEFIANCE AGAINST FOREIGNERS, ESPECIALLY AMERICANS, WHO IN HIS JUDGEMENT HAVE BEEN TRYING TO SUBORN MEXICAN SOVEREIGNTY.
7. A MAJOR UNCERTAINTY IS THE ATTITUDE OF PRESIDENT-ELECT DE LA MADRID, WHO SAT IMPASSIVELY THROUGH THE SPEECH. IT IS HARD TO BELIEVE THAT HE CAN HAVE WELCOMED POPULIST DECISIONS WHICH WILL GRAVELY COMPLICATE HIS OWN TASK WHEN HE TAKES OVER ON 1 DECEMBER.
8. FCO PLEASE ADVANCE TO ATKINSON (TREASURY), OWEN (DOT), HALL (ECGD) AND GILCHRIST (BANK OF ENGLAND).

TICKELL

FINANCIAL  
MCAD  
NAD

COPIES TO:  
ADVANCE ADDRESSEES

-2-

CONFIDENTIAL

See the  
attached  
telegram



Prime Minister

Mexico

hr  
23/8

GRS 520

CONFIDENTIAL

CONFIDENTIAL [COLL]

FM MEXICO CITY 20 2300Z AUG 82

TO PRIORITY FCO

TELEGRAM NUMBER 683 OF 20 AUGUST

INFO PRIORITY TREASURY, ECGD, BANK OF ENGLAND, DOT  
INFO ROUTINE WASHINGTON

MY TELNO 680: MEXICAN ECONOMY

1. THE PESO GAINED CONSIDERABLE GROUND ON 20 AUGUST, CLOSING AT 90 TO THE DOLLAR. BANKS ARE, HOWEVER, ONLY HANDLING THE SIMPLEST TRANSACTIONS BECAUSE THEY ARE STILL NOT CONFIDENT ENOUGH OF THE WAY THE NEW REGULATIONS WORK TO CASH BANKERS DRAFTS ETC.
2. BUSINESS LEADERS HAVE GENERALLY WELCOMED THE FINANCE MINISTER'S LATEST MEASURES ( MY TELNO 678) AND THERE HAS BEEN SOME SUPPORT FROM THE OFFICIAL TRADE UNION MOVEMENT. THE LATTER HAVE MENTIONED THE NEED FOR THE WORKERS PURCHASING POWER TO BE DEFENDED BUT SO FAR ONLY IN A LOW KEY. THE OPPOSITION, BOTH RIGHT AND LEFT, HAVE SHARPLY CRITICISED THE DECISION TO APPLY TO THE IMF. BUT PUBLIC OPINION SEEMS TO ACCEPT THAT MATTERS HAVE REACHED SUCH A PASS THAT HELP MUST BE SOUGHT WHEREVER IT CAN BE FOUND.
3. CONFIDENCE WILL BE DIFFICULT TO RESTORE. THE CONTROLS IMPOSED ON MEXDOLLAR ACCOUNTS WAS PROBABLY THE BIGGEST BLOW AND CAUSED GREAT RESENTMENT. THE COUNTRY IS STILL RIFE WITH RUMOURS, OF EVEN MORE DRACONIAN FINANCIAL RESTRICTIONS AND DRAMATIC POLITICAL EVENTS. THE RUMOUR-MONGERS HAD PRESIDENT LOPEZ PORTILLO SHOT TWICE LAST WEEK AND PRESIDENT-ELECT DE LA MADRID ON 15 AUGUST. THE STORIES ABOUT A MILITARY COUP, PERSISTENT ALL YEAR LONG, HAVE INEVITABLY INCREASED AS THE PRESTIGE OF THE PRESENT ADMINISTRATION AND THE SYSTEM ITSELF HAVE DROPPED. SOME TROOPS HAVE BEEN MOVED INTO MEXICO CITY, GUADALAJARA AND MONTERREY. THE ARMY HAVE TOLD FOREIGN ATTACHES THAT THIS FORMS PART OF THE PREPARATIONS FOR THE INDEPENDENCE CELEBRATIONS ON 16 SEPTEMBER. NOBODY BELIEVES THIS VERSION. THE MOVE IS PROBABLY A PRECAUTION AGAINST CIVIL UNREST. IN FACT THERE HAS SO FAR BEEN NO SIGN OF PUBLIC DISTURBANCES. THE AVERAGE MEXICAN IS PROBABLY TOO BUSY TRYING TO COPE WITH A RAPIDLY DETERIORATING ECONOMIC SITUATION TO BE IN THE MOOD TO TAKE TO THE STREETS. OUTWARDLY EVERYTHING IS NORMAL AND THERE IS NONE OF THE VIOLENCE WHICH MARKED THE LAST MONTHS OF PRESIDENT ECHEVERRIA'S PRESIDENCY. IT IS ONLY IN THE TOWNS ON THE US BORDER THAT THE RETAIL TRADE HAS BEEN SERIOUSLY DISRUPTED BY THE FALL OF THE PESO AND THE CLOSE OF THE EXCHANGE MARKETS.

CONFIDENTIAL

14.



CONFIDENTIAL

4. THE LOSS OF CONFIDENCE IN PRESIDENT LOPEZ PORTILLO IS ALMOST TOTAL. NEWSPAPERS ARE NOW EVEN PREPARED TO MENTION MEMBERS OF HIS FAMILY IN CONNECTION WITH LARGE TRANSFERS OF FUNDS TO THE UNITED STATES. BUT PARTICULARLY AFTER HE HAS DELIVERED HIS LAST STATE OF THE UNION ADDRESS ON 1 SEPTEMBER, ALL EYES WILL BE ON THE NEW ADMINISTRATION DUE TO TAKE OFFICE ON 1 DECEMBER. THE FINANCE MINISTER IS ACTING INCREASINGLY AS IF HE WERE IN SOLE CHARGE OF THE ECONOMY. SILVA HERZOG'S REPUTATION AND THAT OF PRESIDENT ELECT DE LA MADRID ARE UNBLEMISHED AND THERE IS CONSIDERABLE PUBLIC HOPE AND EXPECTATION THAT THE NEXT ADMINISTRATION WILL MANAGE THE ECONOMY BETTER AND ALSO REDUCE THE CURRENT LEVEL OF CORRUTION. IF THE GOVERNMENT, BACKED BY THE IMF, IS SEEN TO BE REGAINING CONTROL OF THE ECONOMY OVER THE NEXT FEW WEEKS, THE POLITICAL FACTORS SHOULD ALSO WORK IN FAVOUR OF A RECOVERY OF CONFIDENCE AS THE DE LA MADRID ERA APPROACHES.

TICKELL

FINANCIAL

(REPEATED AS REQUESTED)

MEAD

THIS TELEGRAM  
WAS NOT  
ADVANCED

NAD

- 2 -  
CONFIDENTIAL



10-12  
**SUBJECT**

Copied to Mascheret  
and to Argentina  
Relations  
Part 28

NOTE FOR THE RECORD

Following her lunch yesterday with Herr Leutwiler, President of the Swiss National Bank, the Prime Minister had two telephone conversations with Sir Douglas Wass.

Mexico

Mexico

The Prime Minister said that Herr Leutwiler was concerned about the financial situation in Mexico. It would be very serious if the Mexican Government were to repudiate or to default on any of its loans. Herr Leutwiler had wondered whether President Lopez Portillo, and President-designate De La Madrid, appreciated the seriousness of the situation. The Prime Minister suggested that a political demarche to the Mexican Government might be timely. After talking to Sir Antony Acland and the Chairman of the US Federal Reserve, Sir Douglas Wass came back to the Prime Minister and told her that a political demarche of this sort could be counter-productive. The Americans considered that the Mexicans were determined to avoid even a rescheduling of their debt, and the thought of default or repudiation had not even entered their minds. It would not be wise even to hint at these possibilities at this stage. The Mexicans were seeking help from the IMF, and were likely to announce this shortly. Repudiation or default would then be quite out of the question. President Reagan was in touch with President-designate De La Madrid, but it was unlikely that he would make the sort of demarche suggested by Herr Leutwiler. The Prime Minister said that she was content not to press this suggestion.

Argentina

The Prime Minister told Sir Douglas that Herr Leutwiler shared the Bank of England's eagerness to lift financial restrictions on Argentina. She had explained to him that this was the last card that might enable us to achieve the lifting of restrictions on air service operators such as British Caledonian, and that we could not afford to throw away this opportunity lightly. She agreed

/with



with Sir Douglas that it would have been absurd to have conceded the lifting of financial restrictions when we had not even received a reply to the conditions that had been put to the Argentines.

In the second telephone conversation, Sir Douglas explained that the Bank of England had now had a formal reply from the Argentines to the conditions that we had put forward; that is to say, to the suggestion that we would lift financial restrictions if the Argentines were willing to agree to lift restrictions on all invisible trade, including air services. The Argentines were not willing to accept this suggestion. The US State Department had told us that the control of Argentine air space was in the hands of the air force, and that it was not within the power of the present government to persuade the air force to lift its restrictions, except on terms unacceptable to us. It seemed that the Argentines were not even inclined to promise us parallel terms to those European air service operators at present subject to Argentine restrictions. Lufthansa and Air France, for instance, were confident of negotiating a lifting of restrictions by the end of September; at present it seemed unlikely that we would be able to achieve the same for British Caledonian. Sir Douglas recommended that we should at present make no further move in the negotiations. There was no point in conceding the lifting of financial restrictions to the Argentine at the first set-back. We should simply make no move. The Prime Minister agreed.

LM

17 August 1982



Mexico

4



Foreign and Commonwealth Office

London SW1A 2AH

27 July 1982

Prime Minister

To see.

A.J.C. <sup>27</sup>/<sub>7</sub>

MR <sup>2</sup>/<sub>8</sub>

h-u.

ms

-13/7

Dear John,

I enclose the original of a letter to the Prime Minister, received through the Ambassador in Mexico City, from Senor Miguel de la Madrid in response to the Prime Minister's message of congratulations on his success in the Presidential elections. I also enclose a translation provided by our Embassy.

Yours over,

Francis Richards

(F N Richards)  
Private Secretary

A J Coles Esq  
10 Downing Street



SUBJECT

ex Marlen  
gps.

PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T 143 A/8

UNOFFICIAL TRANSLATION OF A LETTER DATED 13 JULY FROM LIC MIGUEL  
DE LA MADRID TO THE PRIME MINISTER OF GREAT BRITAIN

Most Distinguished Mrs Thatcher

I received with pleasure the kind message of congratulations which you sent me through Mr Crispin Tickell, the Ambassador of your country in Mexico, regarding the favourable results which I obtained in the Presidential elections on the 4th of July.

I fully agree with you in the view that our countries will continue to strengthen their links of friendship and co-operation.

Thanking you for your kind attention I have pleasure in sending you cordial greetings.



MIGUEL DE LA MADRID

México, D.F., julio 13 de 1982

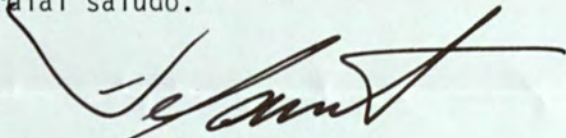
Señora  
Margaret Thatcher  
Primera Ministro de Gran Bretaña  
P r e s e n t e .

Excelentísima señora Thatcher:

Recibí con agrado el amable mensaje de felicitación que se sirvió usted enviarme por conducto del señor Crispin Tickell, Embajador de su país en México, - con motivo de los favorables resultados que obtuve en las elecciones presidenciales del pasado 4 de - julio.

Coincido plenamente con usted en el sentido de que nuestros países continuarán fortaleciendo sus lazos de amistad y cooperación.

Agradecido por su fina atención, me es grato enviarle un cordial saludo.



A large handwritten signature in dark ink, which appears to be "Miguel de la Madrid". The signature is written in a cursive style and is crossed out with a long, horizontal line that extends to the left and right of the signature.

gcm'



Subject

Master  
ops

T 142H/82

33

**PRIME MINISTER'S**

**PERSONAL MESSAGE**

RESTRICTED

SERIAL No. T 142H/82

TOP COPY

14085 - 1		
ACM 020/1		
RECORDED IN REGISTRY NO. 8		
13 JUL 1982		
DESK OFFICER	REGISTRY	
INDEX	PA	Stamp Taken

OO MEXICO CITY      DESKBY 121300Z  
 GRS 85  
 RESTRICTED  
 DESKBY 121300Z  
 FM FCO 121035Z JUL 82  
 TO PRIORITY MEXICO CITY  
 TELEGRAM NUMBER 577 OF 12 JULY  
 MEXICAN PRESIDENTIAL ELECTION

1. PLEASE CONVEY THE FOLLOWING MESSAGE FROM THE PRIME MINISTER TO SENOR DE LA MADRID.
2. BEGINS: 'PLEASE ACCEPT MY CONGRATULATIONS ON YOUR SUCCESS IN THE PRESIDENTIAL ELECTIONS. I AM SURE THAT DURING YOUR PRESIDENCY THE EXCELLENT RELATIONS WHICH HAPPILY EXIST BETWEEN OUR TWO COUNTRIES WILL FLOURISH. I LOOK FORWARD TO THE OPPORTUNITY OF MEETING YOU WHEN YOU HAVE TAKEN OFFICE.' ENDS

PYM

NNNN  
 DISTRIBUTION  
 LIMITED  
 MCAD  
 PCD  
 NEWS DEPT  
 PS  
 PS/MR ONSLOW  
 PS/PUS  
 MR GIFFARD  
 MR URE.

[ COPIES SENT TO:  
 NO.10 DOWNING STREET. ]

1

RESTRICTED



Mexico

12 July 1982

Mexican Presidential Elections

The Prime Minister agrees that the message of congratulations to the new Mexican President which was enclosed with your letter of 9 July may be despatched.

JOHN COLES

John Holmes, Esq.,  
Foreign and Commonwealth Office.





Foreign and Commonwealth Office

London SW1A 2AH

9 July 1982

Dear John,

Mexican Presidential Elections

Senor Miguel de la Madrid was elected to the Presidency of Mexico on 4 July. Official figures have not yet been published, but reports indicate that he won about three quarters of the vote. The new President will be sworn in on 1 December for a non-renewable term of office of six years.

I have already written to you about Senor de la Madrid and what little we know of his policies.

As you know, the present Mexican Government played a generally helpful and moderating role throughout the Falklands crisis. There was an exchange of messages between the Prime Minister and the Mexican President.

/ I enclose a draft message of congratulations from the Prime Minister to Senor de la Madrid. HM Ambassador in Mexico City could most easily convey this: he has told us that an excellent opportunity will present itself on Monday 12 July. It would therefore be helpful to have the Prime Minister's agreement by then.

Yours ever

*J E Holmes*  
(J E Holmes)  
Private Secretary



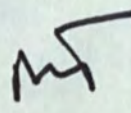
OUT TELEGRAM

	Classification and Caveats	Precedence/Deskby
	RESTRICTED	PRIORITY

ZCZC  
 GBS  
 CLASS  
 CAVEATS  
 DESKBY  
 FM FCO  
 PRE/ADD  
 TEL NO

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

ZCZC  
 GRS  
 RESTRICTED  
 FM FCO  
 TO PRIORITY MEXICO CITY  
 TELEGRAM NUMBER  
 MEXICAN PRESIDENTIAL ELECTION  
 1. Please convey the following message from the Prime Minister to Senor de la Madrid.  
 2. BEGINS: 'Please accept my congratulations on your success in the Presidential Elections. I am sure that during your Presidency the excellent relations which happily exist between our two countries will flourish. I look forward to the opportunity of meeting you when you have taken office.' ENDS  
 PYM  
 NNN



NNNN ends telegram	BLANK	Catchword
File number	Dept	Distribution
Drafted by (Block capitals)	PRIVATE OFFICE	LIMITED
Telephone number		MCAD
Authorised for despatch		PCD
Comcen reference	Time of despatch	NEWS DEPT
		PS
		PS/MR ONSLOW
		PS/PUS
		MR GIFFARD
		MR URE
		COPY TO: PS/NO 10





Foreign and Commonwealth Office

London SW1A 2AH

7 July, 1982

Dear John,  
Mexico

*MJ*

*12/7*

Prime Minister  
You asked for a note  
about him. A.S.C. 6/7

You asked for some details about the President-elect of Mexico, Miguel de la Madrid.

Senor de la Madrid is 47 - fifteen years younger than his predecessor, and one of a new generation of technocratic economic planners. He is by training a banker and civil servant and has never held an elected office. Senor de la Madrid received a Masters Degree from Havard University in 1965 and subsequently worked for the Ministry of Finance, where he worked under Senor Jose Lopez Portillo who was later to become President. President Lopez Portillo made him Secretary for Planning and the Budget in 1979, a post he held until his nomination as candidate for the Presidency, in September 1981.

Senor de la Madrid has a reputation as having fairly conservative economic views. It is difficult to predict how his Presidency will develop, as Mexico faces massive economic problems. However, he has stated that the attack on inflation will be the major target; Senor de la Madrid has also pledged himself to fighting corruption, endemic in Mexican public life. His election campaign has been cautious rather than inspiring.

The new President, who is due to take office on December 1, is likely to follow a similar line to his predecessor in foreign affairs. Good relations with Cuba as well as the United States, and some sort of mediatory role in Central America, will almost certainly remain priorities, although the new President may tone down his predecessor's support for revolutionary movements in Central America.

However, Senor de la Madrid's term of office is an unopposed six years, and Mexican Presidents in the past have not always developed according to a predictable pattern.

*Yours ever*

*John Holmes*

(J E Holmes)  
Private Secretary

A J Coles Esq  
Private Secretary  
10 Downing Street

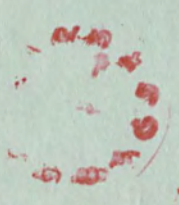


Foreign and Commonwealth Office

London SW1A 1AA



20F  
11/11





Mexico - Seen by  
MAP

RESTRICTED  
SAVINGRAM

BY BAG

FM MEXICO CITY

RESTRICTED

TO FCO TEL NO 13 SAVING OF 24 SEPTEMBER AND FOR INFORMATION TO WASHINGTON  
MEXICO: THE PRESIDENTIAL SUCCESSION.

1. On 19 September President López Portillo said in a speech in Monterrey that the name of the nominee of the ruling Institutional Revolutionary Party (PRI) to succeed him would be announced "within a very few days". This prompted intense speculation that there might have been a change in the President's earlier determination to delay the announcement until after the Cancún Summit on 22-23 October. Whoever is chosen will almost certainly be elected.
2. In the days immediately following the President's speech, a number of leading politicians appeared to be trying to damp speculation. Fidel Velázquez (leader of the labour wing of the PRI) said for example that nothing had changed in the timetable for the party's selection process and that a very few days could be 30, 60 or even 90 days. But some journalists and others with good access to the Presidency are now saying categorically that the candidate will be announced before Cancún, and possibly even before the end of September.
3. Among candidates for the succession, the field is still wide open. The serious runners are generally considered to be Miguel de la Madrid (Minister of the Budget), Ojeda Paullada (Minister of Labour), de la Vega (Minister of Commerce), Olivares Santana (Minister of the Interior), Ibarra (Minister of Finance), Solana (Minister of Education) and García Paniagua (President of the PRI). If Ladbrokes were in operation, the man with the shortest odds would be de la Madrid. But there are some who think that the growing speculation about his Presidential chances may in practice spoil them. Both Ojeda Paullada and de la Vega have also long been fancied while Olivares Santana and García Paniagua have been talked about recently. But as the final decision rests in effect with the President alone, the views of even well informed observers are not much guide to the outcome.
4. Whenever the new candidate's name is announced, it is evident that López Portillo's authority is already in decline, even though he still has nearly 15 months to serve of his six-year term. For some time now there have been criticisms of him in the press and elsewhere which would not, given the realities of the Mexican power structure, be made of a President in full possession of his powers.

/This

RESTRICTED



RESTRICTED

This process will inevitably accelerate from now on. Mexico is thus entering that period of transition (interrupted by the Presidential elections next July and ending with the official change of command in December 1982) when the country will in practice have two leaders, neither of them in full control.

5. This lame duck period is traditionally associated with economic difficulties and official paralysis in overcoming them. Change reaches even further down the hierarchy than in the United States. The eyes of politicians, civil servants and businessmen are fixed on new permutations of practice and policy, and the distribution of jobs, services and wealth which goes with them. Work on major projects tends to diminish, and large government contracts usually dry up. We are assured that this time continuity will be better preserved. Certainly all Mexico's trading partners will hope so. But the lesson for us is that in current negotiations covering possible major British contracts with Mexico, time is now running against us and we on our side cannot afford responsibility for delay.

TICKELL

FCO/WHITEHALL

M & CD

[NOT ADVANCED]

2  
RESTRICTED



Mexico

22



Foreign and Commonwealth Office

London SW1A 2AH

29 May 1981

kg.

Phm  
28/6

Dear Michael,

As you know, Sir R Armstrong has agreed to see the Personal Representatives of President Lopez Portillo and Chancellor Kreisky on 2 June.

I enclose a copy of the brief which we have prepared for Sir Robert Armstrong's use.

I am copying this letter to David Wright (Cabinet Office).

yours ever  
Robert Lyne

(R M J Lyne)  
Private Secretary

M O D'B Alexander Esq  
10 Downing Street  
LONDON



CALL ON SIR R ARMSTRONG BY DR LENNKH AND Sr ANGUIANO, 5 PM,  
TUESDAY 2 JUNE

POINTS TO MAKE

1. Welcome initiative by President Lopez Portillo and Chancellor Kreisky in arranging for this preparatory visit.
2. The Prime Minister will be going to Cancún in a constructive spirit, looking to make progress wherever possible and aware of the need to show positive results.
3. Hope that we can move away from stereotyped discussions of recent years and seek a meeting of minds among heads of state and government.
4. Experience of preparatory process for Economic Summits indicates need to keep preparations as light as possible.
5. Similarly, best to have the minimum by way of a formal communiqué. Since this can have a very inhibiting effect on discussion.
6. (If raised) Believe that present list of participants is sensible and workable: would not welcome any amendment or addition.
7. (If raised) Difficult at this stage to take a view on whether the Summit should be a one-off event or the first in a series. Views of heads of government at the end of the Mexico Summit should be the best guide on this point.



## BACKGROUND

1. This is a short call. The visitors are seeking a 'steer' as to the Prime Minister's personal views in this field. They will pay a courtesy call on the Lord Privy Seal and have official talks with Lord Bridges.
2. Dr Lennkh will now probably be accompanied by Ambassador Anguiano on his visit to London, as Sr Naverrete will be 'on other business' with President Lopez Portillo. The London consultations appear to be the penultimate phase in this preliminary stage, to be followed only by talks between President Lopez Portillo and President Reagan on 8/9 June.
3. The Austrians have told us that they see these talks as providing providing an opportunity
  - a) To review personally the developments leading to the present stage
  - b) To describe in further detail the views and inclinations of individual governments (Lennkh has told us that this would provide also an opportunity to touch on the difference in outlook between the Mexicans and the Austrians - see para 5 below)
  - c) To obtain at first hand an indication of the UK Government's general reactions to the Summit proposals, and in particular an impression of the Prime Minister's personal philosophy on aid and associated problems.
4. UK views would also be welcomed on
  - a) Whether participation of more states should again be raised (given continuing pressure from the Cubans for an invitation)
  - b) Whether the Summit should be a one-off conference or a first of a series

/c)



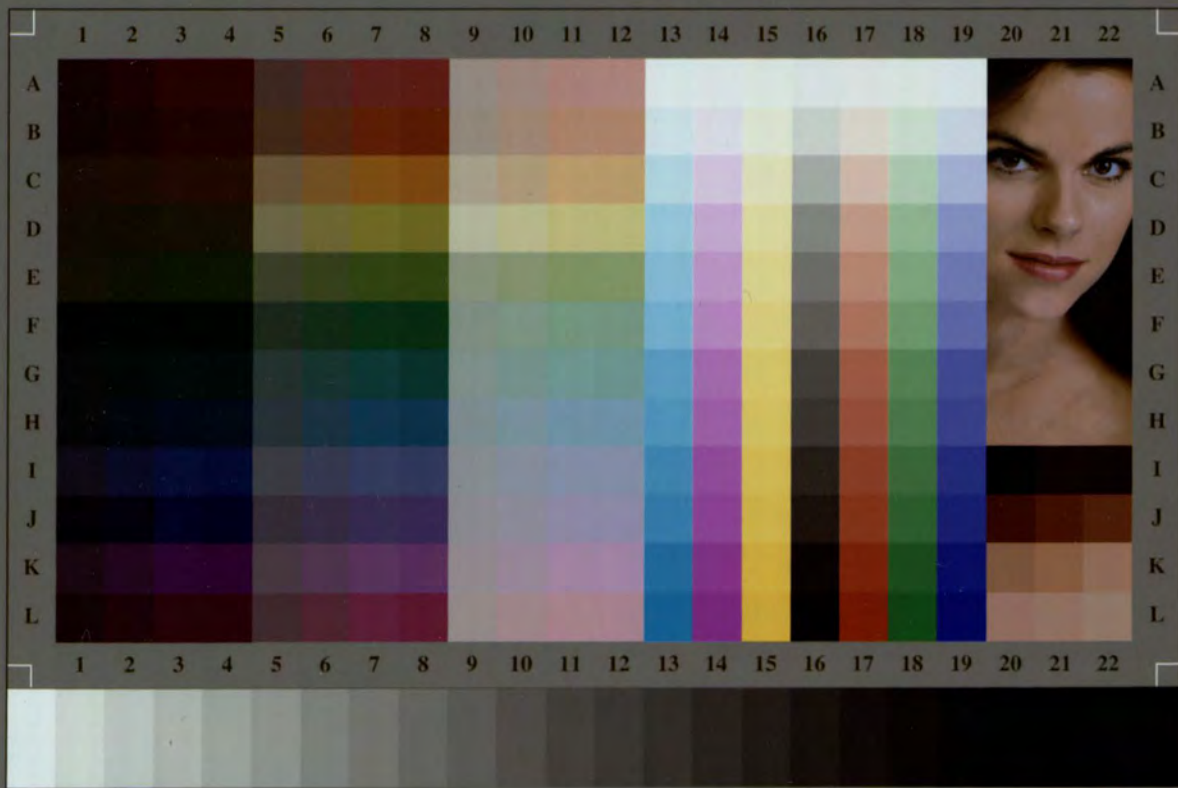
c) The preparation of advance papers.

5. The Mexicans tend to favour the preparation of detailed documentation and have prepared a 31-page document entitled 'Framework for the Discussions' which will be on the table at the preparatory meeting of Ministers of Foreign Affairs to take place on 1-2 August. The heads of discussion<sup>(Annex A)</sup> set out in the Mexican document are not, for the most part, intrinsically prejudicial but the area which they cover, and the degree of detail that they suggest looks impractical as a detailed framework for two days of discussion. Lennkh has told us that Kreisky hopes that heads of government will not go into the conference with prepared positions. He apparently supports Chancellor Schmidt's view that only the minimum of papers should be prepared in advance, and (according to Lennkh) it was largely because of Kreisky's concern that the documentation might become rigid that he had nominated Lennkh rather than an MFA official as his Representative. This appears to be a major area of difference between the Mexicans and the Austrians.



r 29/5/81





IT8.7/2-1993  
2007:03

[FTP://FTP.KODAK.COM/GASTDS/Q60DATA](ftp://ftp.kodak.com/gastds/q60data)

Q-60R2 Target for  
KODAK  
Professional Papers

