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CONFIDENTIAL

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TO IMMEDIATE WASHINGTON

TELEGRAM NUMBER 1973 OF 21 DECEMBER 1979.

AND TO TEHRAN, PRIORITY BONN, PARIS, ROME, TOKYO, BERNE AND UKMIS
NEW YORK.INFO THE HAGUE, BRUSSELS, LUXEMBOURG, COPENHAGEN, DUBLIN, UKREP
BRUSSELS, OTTAWA AND MOD (HD OF DEFENCE SALES).

MY IPT.

WE UNDERSTAND THAT YOUR GOVERNMENT WILL BE MAKING AN APPLICATION FOR CHAPTER 7 DETERMINATION, IN ORDER TO SECURE THE RELEASE OF THE HOSTAGES. AS WE HAVE SAID ALREADY, WE WILL GIVE ALL OUR SUPPORT TO THIS APPLICATION.

IN THE MEANTIME, WE HAVE CONSIDERED THE PROPOSALS CONTAINED IN THE DOCUMENT HANDED TO US ON 17 DECEMBER. I AM GLAD TO BE ABLE TO TELL YOU THAT WE ARE ALREADY TAKING ACTION WHICH SHOULD SUBSTANTIALLY MEET WHAT THE ADMINISTRATION IS ASKING US TO DO. BUT WE MUST EMPHASISE THAT ANY ACTION WHICH WE ARE TAKING IS LINKED SOLELY TO THE FREEING OF THE HOSTAGES, AND THAT AS SOON AS THEY ARE FREED, WE WILL FEEL FREE TO RELAX THESE MEASURES. WE HAVE NOTICED THAT THERE HAS BEEN A CERTAIN AMBIGUITY IN YOUR OWN APPROACH SO FAR: FOR EXAMPLE, THE NOTE HANDED TO US REFERRED TO ''ECONOMIC MEASURES TO THWART IRANIAN INSTIGATED DISTURBANCES TO THE INTERNATIONAL FINANCIAL SYSTEM'': WHEREAS EARLIER WE HAD UNDERSTOOD THAT ANY ECONOMIC MEASURES WERE TO BE AIMED SOLELY TO SECURE THE FREEING OF THE HOSTAGES.

FURTHERMORE, WE WANT IT CLEARLY UNDERSTOOD THAT THE ACTION WE ARE TAKING MUST NOT BE GIVEN PUBLICITY. THIS IS FOR THREE REASONS. FIRST, WE WISH TO AVOID AS FAR AS POSSIBLE DAMAGE TO THE INTERNATIONAL FINANCIAL SYSTEM. SECOND, WE HAVE VERY SUBSTANTIAL DEPOSITS

FROM IRAN AND OTHER OPEC COUNTRIES IN LONDON. THE IRANIANS ARE ALREADY BEGINNING TO MOVE THESE OUT, AND WE DO NOT WISH TO EXACERBATE THE SITUATION. THIRD, WE HAVE 27 EMBASSY STAFF STILL IN TEHRAN AND 300 OTHER BRITISH NATIONALS IN THE COUNTRY. WE DO NOT WANT THEM TO BE TAKEN HOSTAGE.

BANKING MEASURES

WE ARE ALREADY IN TOUCH WITH OUR BANKS AND THEY WILL NOT BE OFFERING NEW OR INCREASED CREDITS TO THE IRANIAN GOVERNMENT OR GOVERNMENTAL AGENCIES - APART FROM SHORT-TERM CREDITS SPECIFICALLY ASSOCIATED WITH COMMERCIAL TRANSACTIONS.

WE WOULD BE PREPARED TO ASK OUR BANKS NOT TO OPEN NEW DEMAND OR DEPOSIT ACCOUNTS FOR THE IRANIAN GOVERNMENT AND ITS AGENCIES, AND WE WOULD ALSO BE PREPARED TO ASK THEM NOT IN GENERAL TO ACCEPT SUBSTANTIAL INCREASES IN EXISTING NON-DOLLAR DEPOSITS FROM IRAN. BUT IN FACT WE NOW REGARD BOTH OF THESE PROPOSALS AS INCREASINGLY ACADEMIC. THE IRANIANS ARE SHOWING NO INTEREST IN BRINGING THEIR FUNDS TO LONDON. ON THE CONTRARY, THEY ARE TAKING THEM OUT. HOWEVER, TO THE EXTENT THAT ACTION IS NEEDED TO COMBAT SWITCHING OF IRANIAN FUNDS OUT OF DOLLARS INTO OTHER CURRENCIES, WE THINK A FAR BETTER APPROACH WOULD BE TO ORGANISE A RECYCLING OPERATION AMONGST CENTRAL BANKS. UNDER SUCH AN ARRANGEMENT, WE WOULD ASK OUR BANKS TO IDENTIFY AND REPORT ALL TRANSACTIONS WHICH APPEAR TO REPRESENT SWITCHING BY IRAN FROM DOLLARS INTO OTHER CURRENCIES.

HOWEVER, WE DO NOT THINK THAT WE CAN GO ALONG WITH YOUR PROPOSAL B RELATING TO DEFAULTS. ALL BANKS EXPECT THEIR LOANS TO BE SERVICED PROMPTLY: IF THEY WERE NOT, THE LOANS WOULD BE TECHNICALLY IN DEFAULT. BUT THE BANK OR BANKS MAKING THE LOANS THEN HAVE TO DECIDE WHETHER AND HOW BEST TO EXERCISE THEIR RIGHTS TO OFFSET OR ENFORCE PAYMENT, AS SPECIFIED IN THE LOAN AGREEMENTS. HMG CANNOT OBLIGE BANKS TO TAKE DECISIONS ON THIS WHICH CONFLICT WITH THEIR JUDGEMENT ON WHERE THEIR FINANCIAL INTERESTS LIE.

WE ARE ALREADY TAKING SUBSTANTIAL ACTIONS THEREFORE IN THE FINANCIAL FIELD TO SUPPORT YOUR POSITION. BUT WE BELIEVE IT IS ESSENTIAL THAT THERE SHOULD BE CONCERTED ACTION BY THE UNITED KINGDOM, FRG, ITALY, FRANCE, JAPAN AND SWITZERLAND TO SECURE THE INTENDED EFFECT. WE WOULD BE GLAD TO SUPPORT THE ADMINISTRATION IN APPROACHES TO THESE GOVERNMENTS TO GET AGREEMENT ON THE MEASURES OUTLINED ABOVE. WE THINK THESE REPRESENT THE HIGHEST COMMON FACTOR.

OIL MEASURE

HITHERTO BRITISH OIL COMPANIES HAVE NOT PAID FOR IRANIAN OIL IN CURRENCIES OTHER THAN US DOLLARS: NOR HAVE THEY ACCEPTED RECENT IRANIAN ATTEMPTS TO SELL OIL IN 1980 AT PRICES SHARPLY ABOVE THOSE ASKED BY OTHER OPEC COUNTRIES. HMG IS PREPARED IN PRINCIPLE TO ADVISE BRITISH OIL COMPANIES TO MAINTAIN THIS ATTITUDE IN FUTURE AS PART OF EFFECTIVE AND CONCERTED ARRANGEMENTS MADE BY ALL MAJOR OECD AND IEA COUNTRIES WHICH COVER SPOT MARKET TRANSACTIONS AS WELL AS PURCHASES BY THE OIL COMPANIES. HMG IS READY THEREFORE TO JOIN AT SHORT NOTICE IN INTERNATIONAL DISCUSSIONS DESIGNED TO SECURE AN EFFECTIVE COMMON INITIATIVE BY OECD AND IEA COUNTRIES ON THESE LINES.

ECGD

IN ADDITION, ALTHOUGH THIS DOES NOT FEATURE EXPLICITLY IN YOUR PROPOSALS, WE CAN REAFFIRM THAT ON OFFICIAL CREDIT INSURANCE, THE EXPORT CREDIT GUARANTEE DEPARTMENT ARE NOT ISSUING ANY NEW GUARANTEES FOR NEW BUSINESS.

CARRINGTON