

JEG  
CC: HMT

NOTE FOR THE RECORD

The Prime Minister held a meeting at 2000 hours on Friday 21 December to consider what response, if any, should be given to a request from the Governor of the Iranian Central Bank for an assurance that we would not freeze their assets. The Governor and the Deputy Governor of the Bank of England, Mr. Alexander and I were present for the whole meeting; the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer were present for the first part of it (but not when the final text of the message - see below - was agreed).

The Governor first reported on his meeting earlier that evening with Mr. Nobari, the Governor of the Iranian Central Bank. Mr. Nobari had given him a detailed and essentially correct account of events leading up to the Presidential Order. He had then spoken to Mr. Nobari on the following lines. He (Mr. Nobari) had indicated what the Iranians regarded as unlawful action, i.e. the freezing of assets, but he had not mentioned the unlawful acts which Iran had embarked on against the Americans. The two issues had to be considered together. If there was to be a return to normality on the assets question, the hostages must clearly be freed first.

The Governor said that he had then gone on to ask Mr. Nobari about his intentions in coming to London. It seemed that London banks were receiving telexes from Iran requesting the withdrawal of timed deposits in advance of their maturity dates.

Commenting on this, Mr. Nobari had said that Iran "needed the money". But he also indicated that Iran was intent on getting support from Algeria and Libya - and it was partly for this purpose that they were trying to move funds out of London to these countries. Nobari had also said that he had called on Chancellor Kreisky, who had - so he said - been sympathetic. It was no coincidence, therefore, that they were also moving funds - though to a smaller extent - to Austria.

/ Nobari

Nobari had gone on to say that any further action against Iran would simply make the hostage situation worse. He was trying to use what influence he had to get them released, as were others on the Revolutionary Council.

Nobari had asked why our courts were taking any notice of the Presidential Order. He felt that political influence was being brought to bear on them to support the Americans. He (the Governor) had replied that U.S. banks in London might refuse the withdrawal of deposits, but it was open to Iranian depositors to sue in our courts against them. He had of course denied that there was any political influence being brought to bear.

Nobari had finally said that he was afraid, in the light of what the Prime Minister had said in the USA, that we too would freeze Iranian assets. He therefore wanted an assurance from the Prime Minister's Office that we would not do so.

The Governor had replied that the Prime Minister had already made it clear that we do not have the power to freeze assets for political reasons; but he had refrained from saying that there were no circumstances in which we would freeze.

The Governor then said there were no circumstances from a narrow economic and financial point of view in which he would recommend freezing Iran's assets. The Iranians only held about \$300 million of deposits in London denominated in sterling; hence, the withdrawal of this money would have little effect on our reserves or on the exchange rate. But action to freeze Iran's assets would immediately cause concern amongst other Governments which held large deposits in sterling. They would probably withdraw their funds, and this would have a serious effect on sterling.

The Governor went on to say that he was in two minds as to whether we should give Nobari any kind of assurance. It was clearly impossible to rule out freezing altogether - since we might conceivably wish to do so for political reasons or if called upon to do so by a Chapter 7 Resolution. To give a qualified

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assurance might frighten the Iranians into taking their funds out. On the other hand, given that Nobari had specifically asked for an assurance, to say nothing could also have a damaging effect. He himself was inclined to the view that it would be better to say nothing, though the choice was finely balanced.

The Prime Minister, supported by the Deputy Governor, said that in her view it would be better to "come clean" and give an assurance - but setting out the circumstances in which the assurance would not hold. After a lengthy discussion, the attached text was agreed. It was also agreed that it would be better for the Governor to speak to Nobari again, rather than the Prime Minister or someone in her Office.

The Governor then tried to telephone Nobari, but was unable to contact him at his hotel.

It was left that the Governor would try to contact him the following morning, subject to our receiving the text of the American proposals for Chapter 7 action and the possibility - in the light of this text - that it might after all be inadvisable to contact Nobari again. In the event, the text of the American proposals did not arrive on Saturday morning, and when the Governor tried to telephone Nobari (at about 1015 hours) Nobari had already left for Washington. The Governor then advised us that it would, in his view, be better not to "chase" Nobari with a telephone call to Washington: this would seem as if we were panicking. I put this to the Prime Minister, and she agreed that we should let matters rest.

R.