

*Prime Minister**Ans*

NOTE OF A MEETING BETWEEN THE CHANCELLOR OF THE EXCHEQUER AND  
THE DEPUTY SECRETARY OF THE US TREASURY, MR. ROBERT CARSWELL,  
AT NO.11, DOWNING STREET ON THURSDAY 6TH DECEMBER 1979

*Ans*

US Deputy Treasury Secretary Carswell called on the Chancellor this morning during a tour of European capitals. He was accompanied by Mr. Mundheim, General Counsel to the US Treasury, Mr. George Vest, of the State Department, the US Ambassador and Mr. Ammerman. The Chancellor was accompanied by the Governor of the Bank of England and Mr. McMahon; Sir Kenneth Couzens, Mr. Hancock and Mr. Hosker, Treasury Solicitor; and by Lord Bridges of the FCO.

2. After an exchange of courtesies, during which the Chancellor reaffirmed HMG's sympathy for the United States Administration over the plight of the hostages in the Tehran Embassy, Mr. Carswell spoke at length.

3. Mr. Carswell recalled that President Carter had written to the Prime Minister about their visit. The President thought it would be helpful if this small team came to London, in advance of the visit of Secretary of State Vance, to review possible financial options which might be taken in response to the developing situation in Iran. The US had concluded that an early resolution of the plight of the hostages was unlikely. The situation could well escalate with the possibility of show trials. The President was under extreme pressure to act. Available options were unappetising. All could have unfortunate side effects. They ranged over the whole spectrum. The consequences of those in the financial area seemed more predictable. Their purpose in coming to London was to seek to have them explored. The US was sensitive to the consequences for the UK of the actions already



taken, and wished to take proper account of them. Without further action, public perception would grow that the Iranian actions were succeeding in humiliating the US. This would have undesirable consequences. He would like, therefore, to put forward certain proposals which H.M. Government might consider.

4. Before coming to these, Mr. Carswell briefly reviewed the events leading to the Presidential blocking order and the consequences that had followed. President Carter's action had been a direct response to indications that the Iranian Government contemplated withdrawal of official assets from the US, in an attempt to bring about his country's financial humiliation. This had to be seen in the context of previous nationalisation of US assets. The blocking order had been intended as a measured response to that situation. A number of exclusions had been made from it, and the President had licensed all transactions in non-dollar assets. There had been a deliberate attempt to limit the extra-territorial effect of the order. To retreat now from that position carried dangerous political consequences, not least for the hostages. The US was facing an emergency political and economic situation. The Administration had sent representatives for talks with France, Germany, Italy and Switzerland as well as the UK and were meeting the Japanese the following week. But because of London's financial importance, and the extent of Iranian assets there, the United Kingdom occupied a central position. In the coming week, the US Government were likely to take a position in the UK courts on blocking. The Administration intended to make a statement to the courts, though the timing and procedures remained under consideration.

5. Against that background, Mr. Carswell went on to suggest two possible courses of action that he asked the UK authorities to consider.

(a) Statement by HMG

Mr. Carswell's first suggestion was that the Attorney General might appear in the High Court to make a



statement on behalf of Her Majesty's Government in the private action between the Iranian authorities and the US Administration and the Chemical Bank. The burden of his argument was that the illegal and uncivilised acts of the Iranian Government should deprive them of the protection of a purely private action for contract in the UK courts. He submitted that, in the present situation, it would be reasonable for the UK Government to ask the courts to take account of the wider context in judging the legitimacy of applying the US blocking order to assets held in the UK. Mr. Carswell and Mr. Mundheim suggested that this action would be in accordance with the spirit of the Security Council Resolution and the objectives of the International Monetary Fund.

(b) Action by UK Banks to protect their Iranian loans

Mr. Carswell said that since November 14th, the Iranians had made no payment to any US bank in respect of loans either as principal or as syndicate leader. Iran was in default to a sum of \$200 million to the Ex-Im Bank. These were no longer the actions of a normal borrower. The Iranian Government was in default in a technical sense and, he submitted, in a real sense. Was it, therefore, not time for other banks to recognise that fact and give a clear message to the Iranian authorities. This could produce a significant short-term effect on the situation, though not in the longer term because of Iranian oil-wealth.

Mr. Carswell said that he recognised there were difficulties in proceeding under UK law, but he hoped that the UK Government would assess these against the escalating political risks in the deteriorating situation. He regarded the options he had described as at the lower end of the scale of possibilities.



6. The Chancellor repeated that HM Government were sympathetic to the US in its present difficulties and to the search for all possible means to bring about improvement. However, the Government would have to weigh carefully the implications of seeking to introduce policy considerations into a matter of law. The second of Mr. Carswell's proposals seemed a rather blurred concept. Mr. Carswell agreed; but said that the US Administration had had to face that fact, and act upon it. It was not unreasonable for a Central Bank to reach the view that the actions of a foreign state were such as to remove it from the area of normal commercial risks; and in that situation, to advise commercial banks to act accordingly to protect their position. The Governor questioned whether loans to a sovereign government could ever be judged on purely commercial criteria; there must always be a balance of commercial and political risk involved. Mr. Carswell agreed; but said there was ample precedent for the US authorities to make a fresh assessment of political risk, and then take action to classify outstanding loans. The US had in fact been very patient: the Iranians had been in technical default since the revolutionary government came to power.

7. The Chancellor then asked Mr. Carswell for what purpose the US Government were inviting the UK to take the actions he had suggested. Mr. Carswell had explained that the blocking order had initially been directed at the threat of withdrawal of Iranian assets. It seemed now to be directed at wider purposes, and almost to sustain a position of economic warfare. Was that the position? Mr. Carswell replied that that was correct. Secretary Vance would be able to explain what other options were under consideration. The US was ready to listen to advice, and to consider options which others cared to suggest.



8. The Governor said he wanted to be sure that he understood what Mr. Carswell was saying. The blocking order had been intended originally to protect the US from a situation in which claims on the Iranian Government would have been left outstanding. But the act of withdrawal by a depositor was not itself an illegitimate act. Was Mr. Carswell saying that the current actions were designed to secure the release of hostages? Would such outcome remove the need for the blocking order? Or was Mr. Carswell implying that it would still be needed as a protection against the threatened withdrawal of Iranian assets.

9. Mr. Carswell said the main concern was for the hostages. But he could not deny the importance of longer term implications of the blocking action. How these would be unravelled depended on how the hostages were released and whether normal relations could be resumed with Iran. The US objective would be to get back to normal as quickly as possible once the hostages were released. He could not deny that that might not be immediately possible. The Chancellor referred to Rhodesian sanctions. That had been a response to a United Nations resolution. Unfortunately the US was not operating against that kind of background. Mr. Carswell replied that that approach could be one of the options. But this might require more time than was available: and there was fear of a Russian veto. A trade embargo or blockade was another alternative; that could cause terrible problems. The consequences for limited financial actions were more easily predictable. But a unified response from other countries could only be helpful. The Chancellor said this raised questions about the powers available to the UK Government and the Bank of England, and whether further legislation would be needed. Sir Kenneth Couzens admitted to worries that escalation of the default action might turn out to be more harmful to US self-interest than to the Iranian Government. The US clearly needed a strongly concerted response from a whole number of countries. A powerful response from one or two countries could cause more difficulties. Mr. Carswell agreed that it would be best if all countries responded



together; but, because of the heightening effect of cross-default clauses, even help from one or two would be valuable. The extent of Iranian assets in London removed any immediate risk to the UK banking system.

10. The Governor said that depended on the judgement of the UK courts. There was no necessarily close mutuality between Iranian claims and assets. He could not understand why the US had moved so quickly to declare defaults. Would it not have been better, and in line with the declared objective of the blocking order, for Chase to have allowed assets to be applied to US claims rather than to declare a default.

11. In reply, Mr. Carswell repeated what he had said about fears of withdrawal by the Iranians. Since 14th November, the Iranian authorities had offered to make payments only to foreign banks; no offers whatsoever had been made to US banks. For others to countenance such payments would weaken the US position and strengthen that of Iran. The Governor asked whether the Iranian response was not simply that they would meet their obligations to those who had not taken action against them. Mr. Carswell said that ignored the fact that the US had licensed payments with newly-acquired dollars. The Chancellor said he could not understand why Chase had refused to allow payments mandated before the Presidential Order. It seemed as if the US had actively encouraged default. Mr. Carswell replied that the Chancellor's description of the timing applied only to the first default, not the second. Sir Kenneth Couzens said he could not see that it helped the US position to spread and escalate default: this would weaken the dollar and hardly help the hostages. Once the US had secured the Iranian assets, he could not see the logic of preventing transactions to US banks and other residents. Mr. Carswell said this was to ignore the total situation, in which there could be no expectation of any authorised payments to US residents.



12. The Chancellor said he did not wish to seem to be rejecting all US suggestions. We wanted to be helpful. But we wanted also to appreciate longer-term implications of different courses. Affecting the traditional separation of the Executive from the Judiciary could have far-reaching juridical and other implications. These needed to be carefully weighed. Hasty action could do more harm to the US than Iran and to confidence in the financial system. This would not be in our mutual interest.

13. In the course of further exchanges, Mr Carswell again repeated that US actions were directed first and foremost to the release of the hostages. Mr Hancock asked whether the proposed US statement to the Courts would make that clear. Mr Mundheim said that the Presidential order was wide enough to embrace that interpretation. But he and Mr Carswell acknowledged the importance of reaffirming a clear statement of objective. The Governor said there was considerable difference between the US seeking to justify its actions against Iranian assets by reference to a clear act of illegality rather than to a suspected threat of default on Iranian debts.

14. The Ambassador said there was a ratchet effect in the present situation. It was important that the American people and President continued to respond moderately and should not be forced to retreat into unilateral chauvinist action. They must not feel isolated from their friends. Unilateral action would be less effective. And others would capitalise on any suggestion that the US had lost the full support of her allies. He was not suggesting that this was the position but he hoped HMG would recognise the President's sense of personal isolation.



15. Mr Carswell thanked the Chancellor for receiving them. Because of French air traffic control problems he and Mr Vest would have to leave almost immediately for Paris; but Mr Mundheim was remaining in London and would be available for further talks with the Bank. The meeting ended at 1.30 p.m.

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A.M.W. BATTISHILL  
6th December 1979

Circulation

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