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Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

19th December, 1979

*Dear Michael,*

IRAN

.....  
I attach a paper prepared by Treasury officials in haste this afternoon following an inter-departmental meeting chaired by the Treasury this morning. I am circulating this tonight as a basis for the Prime Minister's meeting tomorrow afternoon.

The Chancellor has seen this note. He has considerable doubts whether it would be advisable to go as far as suggested in the draft reply to the Americans. But he wishes to reserve his position until he has heard the Governor's report on his visit to Bonn - see paragraph 13 of the attached note.

Copies go to the Private Secretaries of the Foreign and Commonwealth Secretary, the Secretary of State for Trade, the Secretary of State for Energy; the Attorney-General, the Governor of the Bank of England and Sir Robert Armstrong.

*J. W.*

*McK*

*P.P.* (A.M.W. BATTISHILL)

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Federal Bureau of Investigation  
Washington, D.C. 20535

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The Office of the Director of the FBI is pleased to announce that the following information is being made available to the public. This information is being made available to the public in order to provide a better understanding of the FBI's activities and to ensure that the public is kept informed of the Bureau's operations.

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DRAFT DOCUMENT TO BE AGREED BETWEEN THE CENTRAL BANKS OF THE UNITED KINGDOM, GERMANY, FRANCE, ITALY, JAPAN AND SWITZERLAND

(WITH APPROPRIATE TEXTUAL ADAPTATIONS)

*Central Banker* *When so-called*  
The ~~Bank of England~~ will pass on to banks in the ~~UK~~ a request by ~~the~~  
~~HMG~~ that they should take certain steps in support of the United States  
action in freezing Iranian official assets with the aim of helping to  
secure the release of the United States hostages in Tehran. The  
action requested by HMG is that the banks should:-

(i) Refrain from offering new credit to the Iranian Government or government agencies apart from the type of short-term credit normally associated with commercial transactions.

*Pressure*  
(ii) Decline to open new demand or deposit accounts in any currency for the Iranian Government or government agencies, apart from those that are needed for normal commercial transactions, in order to prevent massive switching of deposits from United States banks or out of dollars into other currencies.

*Pressure*  
(iii) Decline to accept substantial increases in existing non-dollar deposits by the Iranian Government or government agencies so as to prevent massive switching of deposits from the United States banks or out of dollars into other currencies.

2. A similar request will be made simultaneously by the Governments of Germany, France, Italy, Japan and Switzerland to banks in their countries.

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3. The Bank of England will make it clear that this is a request by HMG that the banks should voluntarily do those things in support of a foreign policy objective - namely to help the United States to secure the release of their hostages in Tehran. It is not formal guidance by the Bank of England of the type used to achieve domestic monetary policy or prudential objectives. Individual banks must, in the last resort, take decisions which protect what they judge to be their vital commercial interests. The request will be withdrawn automatically when the hostages are released.

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DRAFT BRITISH REPLY TO THE UNITED STATES NOTE OF 17 DECEMBER

HMG have considered the six proposals contained in the note handed to the Foreign and Commonwealth Office and the Treasury on 17 December, following earlier discussions in Brussels and London. These matters were subsequently discussed with the United States President and Secretary of State in Washington. Four of the proposals concerned guidance to banks and two of them advice to oil companies.

Guidance to banks

2. HMG shares the United States concern that the present crisis in relations with Iran should be resolved without lasting damage to the international financial system. They are accordingly prepared to join with the authorities in other major financial centres in making a request to major banks in London (both British banks and those from other countries) in support of the United States action to secure the release of their hostages. Concerted action by the following Governments seems to HMG to be essential to secure the intended effect: United Kingdom, Germany, France, Italy, Japan and Switzerland. A draft of the confidential memorandum which might be the basis of a concerted request to banks in all these countries is attached.

3. The attached draft follows closely proposals A, B and D in the United States note. But as the action envisaged does not extend as far as a trade embargo (which would require a Chapter VII Resolution) HMG considers that it would be right to exclude from

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any guidance measures that would serve to frustrate regular commercial transactions. On the other hand the guidance would serve to reduce the chances of a massive switch of Iranian deposits from United States banks to the banks of other countries and out of dollars into other currencies.

4. Proposal B is that we should ask banks "to require punctual payment of interest and principal on outstanding loans to Iran, declaring Iran in default if the payments fail to come in on time". The first half of this proposal presents no difficulty. 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 to exercise their rights to offset or enforce payment, as specified in the loan agreements. We cannot oblige banks to take decisions on this which conflict with their judgement on where their financial interests lie.

Advice to oil companies

5. 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 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 did not simply direct Iranian sales on to the spot market. 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.

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IRAN: VOLUNTARY ACTION IN SUPPORT OF THE UNITED STATES

Note by Treasury Officials

On 17 December the US Embassy handed to the Foreign Office and the Treasury a note asking us to take six specific steps in support of the United States over Iran. A copy of this note is at Annex A.

2. During the Prime Minister's talk in Washington with President Carter on 18 December, Mr Brzezinski pressed us strongly to do what the Americans had asked. At a subsequent meeting with the Foreign and Commonwealth Secretary, Mr Vance handed over a list of measures which the Americans would like to see taken indicating the extent to which France, Germany and Italy were ready to comply. These developments are reported in Washington telegrams Nos 4250 and 4251 - copies attached at Annexes B and C. This second list includes the proposals in Annex A plus three others (see paragraph 9 below).

3. This note has been prepared by Treasury officials following a meeting on 19 December with officials of the Bank of England, Foreign and Commonwealth Office, Department of Trade, Department of Energy and ECGD officials. It is not an agreed document. It is exclusively concerned with the voluntary measures suggested by the United States in advance of any Chapter VII resolution or of any decision to seek such a resolution. This means, in particular, that the measures would have to be taken without legislative powers and also that they would not include a trade embargo.

Multilateral support

4. Ministers have made it clear that we cannot take action which would have costs for the United Kingdom on our own. There must be a sufficient degree of multilateral support. We have checked the information in telegram 4251 with the French and Germans. The French clearly are not prepared to go as far as Mr Vance supposes. We understand that the Germans intend to consult their major banks informally before reaching a final view on what they might do.

5. Our latest information on what the other major countries tell us they might be prepared to do is summarised in Annex D. It will be seen that the Swiss are reported to have told the Americans that they would inform their banks of the Americans' wishes but would leave them entirely free to do whatever they thought appropriate. The European central bank Governors are meeting in Bonn

tonight and our Governor will be present. He will take the opportunity to discover directly what the other main countries are proposing to do in response to the American request.

6. It seems very unlikely that the Americans will be able to get support for what they want from more than a very limited number of countries. Ministers will therefore have to consider what degree of collective support would be sufficient to enable us to make any move. In the case of banking measures, Treasury officials consider that it would be important to secure agreement to collective action by the following countries: Germany, France, Italy, Japan and Switzerland. In the case of the oil proposals, as explained below, it is likely that UK interests would be damaged unless the action were supported by all the major oil-consuming countries.

Objective of the measures

7. There has been an important ambiguity about US objectives since they first froze Iranian assets. At that time they said their purpose was to prevent Iranian action to default on debts to United States citizens and shake the dollar. Subsequently they told the Chancellor that their purpose was to put pressure on Iran to release the hostages. This has not been made clear in public. The same ambiguity persists in the latest proposals. The document at Annex A explicitly says that the action now sought from allies is intended "to thwart Iranian instigated disturbance to the international financial system". In fact, no disturbance to the international financial system flowing from action by Iran has yet taken place. All the evidence available to the Bank of England suggests that Iran is making every effort to ensure that banking relationships between Iran and non-US banks are conducted in as correct a manner as possible. The dollar has been remarkably stable since the hostages were taken.

8. In the view of Treasury officials, we should only contemplate action in support of the United States in order to help secure the release of the hostages. If we endorsed the US statement of the purpose of the action as being to thwart Iranian disturbance to the financial markets, we would be likely to intensify Third World fears that their assets held in the major financial centres, notably London, were no longer safe from direct political interference. Although Iranian action in seizing the US hostages has been almost universally condemned, there is nothing like the same degree of international support for the American financial measures. The Finance Minister of Kuwait, for example, has recently made a sharp public attack on the appropriateness of the US measures.



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Commentary on the US proposals

9. There are three proposals in the list contained in Washington telegram No 4251 which are not in the formal US document at Annex A. These are as follows:-

- (i) Freeze Iranian assets without Chapter VII action. X
- (ii) Deny military sales.
- (iii) Deny official export credits.

Ministers have already ruled out the first of these. It is clear that no other country would be prepared to contemplate such action.

10. No military spares and ammunition have been supplied to Iran since the hostages were taken in early November and the Americans know this. We cannot claim credit for this action in public because we have no legal basis for the delays that we are imposing and, if we refused to deliver, we should be in breach of contract.

11. ECGD suspended cover in February on commercial grounds; but in June it was agreed that a limited amount of new short-term cover should be permitted for certain joint ventures. No publicity was given to this and the public position is that ECGD remains off cover for Iran. However, it would not be strictly accurate to say that we are denying all official export credits as requested by the Americans. We might, if Ministers wished, say that we would give no new export credit cover after a certain date; but there is a case in the pipeline which would have to be dealt with before that date.

12. There seems very little to be gained by reminding the Americans of what we are doing on military sales and export credit in our reply to the document at Annex A. It seems more advantageous to limit our reply to the six proposals in Annex A.

Possible draft reply

13. Treasury officials have prepared the attached draft reply to the American note for Ministers to consider on the assumption that they would wish to be as forthcoming as possible. We understand that Department of Energy officials would be content with what is proposed for oil. But the Bank of England consider that even the limited response incorporated in the draft reply to the banking proposals would be contrary to our interests. The Governor will be discussing this matter with his fellow Governors in Bonn tonight and will be able to report his considered views on his return. Treasury officials do not recommend the reply in the draft but suggest that, if Ministers decide that a positive response must be made, the draft is a possible way in which the matter might be handled.

Banking proposals

14. The draft reply goes a long way towards complying with the American request in the proposals A, C and D in the note in Annex A. But it explicitly rules out the American suggestion that banks should refrain from giving normal commercial credit. This seems to us to be inconsistent with the assumption that these voluntary measures should not amount to a trade embargo. The Americans are not intending to stop exports to Iran themselves in the absence of a Chapter VII resolution and we think it unlikely that such trade could continue with no credit given at all. The measures which the draft reply suggests that we should offer to take seem unlikely to arouse serious opposition from the banks. They are unlikely in present conditions to want to give credit to Iran extending beyond that needed to finance trade and commerce. We would expect them to be sympathetic to the suggestion that they should not exploit the American freeze to facilitate the switching of deposits from US banks or out of the dollar.

15. On the other hand, the Bank of England have pointed out that a bank which has an outstanding loan to Iran and no Iranian ~~deposits~~ might be prevented from covering its exposed position if it complied with a request not to accept new deposits. For that reason, the attached drafts have been drawn up in such a way as leave individual banks free to take decisions that they consider necessary to protect their commercial interests.

16. Proposal B in Annex A would constitute a direct attempt to interfere with the commercial judgements of banks. We do not therefore think that the Government could support it. The reasons are explained in the attached draft reply to the Americans.

17. Even the limited agreement to the US suggestions in the draft reply would carry a risk to British interests. HMG has so far maintained an attitude of complete neutrality on the US action in freezing assets. The Third World countries who keep their money in London are well aware of this. Once we get off the fence, they may decide that London is no longer a safe place for their money. We have far more at stake than any of America's other allies. London is the world's leading international financial centre and one of the few truly competitive sectors of the UK economy.

Advice to oil companies

18. Proposals E and F in Annex A ask HMG to give advice to oil companies. In this case we assume that it is British oil companies that is meant. Any request

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to Shell Transport and Trading should be associated with an identical request to the Royal Dutch Company by the Netherlands Government because the Shell Group is only 40% British owned.

19. Proposals E and F must be viewed against the need to keep Iranian and other OPEC oil flowing in the interests of the world economy. Proposal F is also particularly difficult for the UK in another respect. Shell and BP are the two major oil companies who buy most oil directly from Iran. Other European countries such as Germany buy Iranian oil from the spot market. As formulated proposal F would discriminate against these direct sales while doing little or nothing to stop other countries bidding for Iranian oil at high prices through the spot markets. Moreover any action on these lines could well affect the flow of Iranian oil exports.

20. We would not rule out concerted action along the lines of E and F for these reasons. Indeed there would be wider benefits to be had if we could put a ceiling on the price the Iranians can secure for their oil. But it is important that our reply to the Americans should make it clear that:-

a) We could not accept F as drafted, and would want it to cover spot sales as well

b) We could not ask UK oil companies to accept such constraints without similar obligations being accepted by other major oil companies and traders, and without effective arrangements to ensure their observation by all concerned. The interests of BP and Shell would be damaged unless the action covered all the major oil-consuming countries.

HM Treasury

19 December 1979

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1. The United States has decided to seek the cooperation of its major allies in a series of economic measures against Iran and to thwart Iranian instigated disturbance to the international financial system, following the talks which the Secretary, Under Secretary Cooper, Deputy Secretary Carswell, Under Secretary Solomon, and Assistant Secretary Vest held in Europe last week.

2. During the consultations we discussed the possibility of invoking UN sanctions under Chapter VII of the United Nations Charter. We are examining that possibility very carefully, but we have come to no decision on this point and will be consulting further.

3. A number of governments have quietly taken individual steps already, and we have received indications that many are willing to counsel their banks and firms to take a number of other helpful additional measures. Britain, France, Germany and Italy have already halted shipment of military equipment and the granting of new official export credits.

4. We wish governments to advise their major banks:

(A) To offer no new credits to Iran or Iranian governmental entities (hereinafter "Iran");

(This means that banks will make no new loans or increases in existing, legally binding credit facilities--including extensions of trade credit by way of letter of credit financing (i.e. without full cash cover), purchasing or discounting acceptances or otherwise.)

(B) To require punctual payment of interest and principal on outstanding loans to Iran, declaring Iran in default if the payments fail to come in on time.

(This means that banks will declare a default and accelerate payment immediately upon any failure to pay interest or principal and simultaneously declare a default on any other loans by that bank having cross default clauses. It also means that banks will vote to declare a default and accelerate syndicate loans when payments from Iran to the syndicate have not been made timely.)

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(C) Refuse to open new demand or time deposit accounts for Iran;

(This means that banks open no time or deposit accounts in any currency for Iran.)

(D) To decline to accept substantial increases in existing non-dollar deposits by Iran.

Finally, countries should advise their oil or trading firms:

(E) *To refuse to pay currencies other than US dollars for Iranian oil, and*  
(F) ~~(E)~~ To refuse to purchase oil directly from Iran at terms sharply different from those offered by other OPEC countries. This does not preclude purchase of Iranian-origin oil through broker in regular spot markets, subject to the Tokyo summit and IEA agreements on restraint.

5. Taken together, these measures will serve three important objectives. First, they will send a strong signal to Iran, through the financial community, that other countries back the United States in deed as well as in words, and are not willing to carry on "business as usual" in the present circumstances. Second, they represent defensive measures against any attempt Iran might make to disrupt the international financial markets by putting pressure on the dollar. Third, they will modestly increase pressure on Iran's ability to import goods.

6. The Embassy has been instructed to elicit a concrete response. The U.S. Government would like to see implementation of the above measures as soon as possible.

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