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 IRAN

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Dr Mitchell,

IRAN

The Foreign and Commonwealth Secretary's memorandum OD(80)35 was through force of circumstance circulated very shortly before OD discussed it on Tuesday afternoon. As he reported to Cabinet, the Chancellor has now been able to obtain the views of the Governor about the recommendation, which OD agreed, that the Foreign Secretary should be authorised to explore at the meeting of the Foreign Affairs Council on 21 and 22 April the possibility of the "Second Stage Measures" referred to in paragraph 8 of the paper.

On further reflection, and in the light of the Bank's views, the Chancellor thinks that it would be very unwise at this stage, in Community discussions or elsewhere, to raise the possibility of mandatory action in the financial field as described in paragraph 8(ii) of the Foreign Secretary's paper. His understanding is that this point was taken by colleagues in Cabinet today; but since the discussion was very brief, he has asked me to bring the matter specifically to the attention of members of OD Committee.

The question whether we should proceed with legislation on financial matters to make compulsory the voluntary measures which are already in force is for later discussion. At this stage the Chancellor is concerned only with what should be said about the possibility. He has no doubt that when it became publicly known - as it would once we had raised the question in some Community forum - that the UK were contemplating some legislation in the financial field dealing with Iranian

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loans and credit, the inference would be rapidly drawn that we were preparing a statutory freeze of Iranian assets, following the lead which the US had given. Serious damage would result if it were thought that we were even prepared to contemplate introducing a measure of this kind in an international financial market such as London. This damage would result even if in the end we decided not to introduce the legislation; the supposition that we had seriously thought of doing so would be enough.

The Chancellor urges therefore that until Ministers have had the opportunity of considering these matters further collectively, UK representatives in international discussions should not raise the possibility of legislation in the financial field.

I am sending copies of this letter to the Private Secretaries to other Ministers who attended OD on Tuesday, to the Private Secretary to the Governor, and to David Wright.

Yours ever,

M.A.

M.A. HALL

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