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## 10 DOWNING STREET

From the Private Secretary

10 December 1979

Dear George.

The Prime Minister held a meeting at 1800 hours this evening to discuss the response which the Government might make to the United States proposals that we should take action to freeze Iranian assets in London. The following were present: the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Trade, the Attorney General, the Governor and Deputy Governor of the Bank of England, and Sir Robert Armstrong.

The Prime Minister first reported briefly on her meeting with Mr. Vance earlier today. Mr. Vance had handed over a copy of an Opinion by Mr. Patrick Neill, QC, which suggested that the Government did have powers under the 1947 Exchange Control Act to implement the freezing of Iranian assets with US banks located in London. This was contrary to the advice which she had been given in her briefing. She asked the Attorney General for his advice on Mr. Neill's Opinion.

The Attorney General said that he had now had an opportunity to study the Opinion, and had concluded that it was probably wrong. His own view was that, if the Government were to use the 1947 powers as a purely political action, the courts would be likely to regard it as ultra vires. He could not be certain of this, but he felt there was a more than even probability that they would. Mr. Neill had cited the fact that the 1947 Act had been used to block the Rhodesian balances in 1965. But there had been an economic basis for this action, and it was not purely political as it would be if we were now to move against Iran. The test as to whether use of the 1947 Act was legal was whether the motivation was economic; if we were to freeze the Iranian assets, when so far they had shown no intention of defaulting or withdrawing their funds, the action would be taken as entirely political. It had been argued that, in order to minimise the repercussions of an order freezing Iranian assets, such an order should make it clear that its object was to secure the freeing of the American hostages. But to do this would make the objective transparently political and make it all the more likely that the order would be overturned in the courts. If it

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- 2 -

was accepted that we did not have powers to freeze the Iranian assets, primary legislation would, of course, be required. But if we were to propose the necessary legislation, the Iranians would presumably immediately withdraw their funds in anticipation.

The Governor said that, even if it were possible to freeze the Iranian assets, there were powerful economic arguments against any move in this direction. He of course understood why the US Administration was putting pressure upon us to take action: apart from wanting our general support, most of Iran's monetary assets were located in US and UK banks in London, whereas American claims on Iran were with US banks in New York. But if we were now to take action when we had no direct quarrel with the Iranians, this would result in grave risks for the UK as a banking centre and for the international financial system. Other countries would lose confidence in sterling as a reserve currency and would take their assets elsewhere. There were reports from Kuwait that the Kuwaitis thought the American action was quite improper and there was a danger that that they would switch their assets out of dollars. If European Governments were to take any action in support of the Americans, it would seem far better to act on trade with Iran rather than hit at the payments mechanism which could have much wider ramifications.

The Chancellor added that there were reports from our Embassy in Jeddah that the Saudis would be greatly worried by any freezing of Iranian assets on our part or by any other European government. The Secretary of State for Trade pointed out that the oil producers might also react to further freezing of Iranian assets by keeping more oil in the ground. This point was particularly relevant with the meeting of OPEC Ministers coming up on 17 December.

The Governor went on to say that even if the Government did not take up Mr. Vance's proposals, the existing Presidential order could very well soon cause serious difficulties for us. He had in mind a situation where the courts found in favour of an Iranian trying to withdraw his funds from a US bank, and that bank refusing to agree the withdrawal. If that happened, the bank in question would be in default under British banking law. In that situation, he would have to refuse the bank a licence under the new Banking Act. This would mean that US banks would have to go elsewhere, which would be damaging to them but also to the UK.

The Foreign and Commonwealth Secretary said that, while it was clear that there were many difficulties in our trying to follow the US lead, there was none the less a real political problem. It would be very hard for the US Administration to understand if we did nothing tangible to assist them in their current situation. The Prime Minister said that she also

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was most concerned about our doing nothing to help. But on the face of it, we did not have the powers to freeze the assets as the US Administration would like us to do. Moreover, even if we had the powers and were to act, this would endanger the lives of UK citizens in Iran. She understood that there were some 300 non-diplomats there; and it could well be difficult to withdraw our Embassy staff except gradually. If they were to try to leave all at once, the Iranians would probably prevent it. We ought to consider what else we could do to help the Americans; and whatever our reaction to Mr. Vance, it was most important that we should concert with the French and the Germans. It would be necessary to reach an agreed position in time for the quadripartite dinner on Wednesday night.

In conclusion, the Prime Minister said that Ministers should reconvene tomorrow to reconsider the options. In the meantime, the FCO should sound out the Germans and the French on their respective positions; the Governor should obtain a report on the discussion between central bankers and Mr. Volcker which was scheduled for later this evening, and should try to obtain further information on the German position from Governor Pohl; the Attorney General should give further thought to the legal aspects; and further consideration should be given to what possible action other than freezing assets might be taken.

I am sending copies of this letter to the Private Secretaries to the Chancellor of the Exchequer, the Secretary of State for Trade, the Attorney General, the Governor of the Bank of England, and Sir Robert Armstrong.

*Now on,*

*Tim Lankesby.*

G.G.H. Walden, Esq.,  
Foreign and Commonwealth Office.

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