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Prime Minister

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r f.a.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

14th November, 1979

Dear Michael,

IRANIAN DOLLAR BALANCES

As the Prime Minister knows, the Iranian Government announced this morning that Iran's foreign currency holdings, said to be "around $12 billion", would be withdrawn from American banks, both in the United States and in other countries, and placed with banks of countries more favourable to Iran such as France and West Germany. In response to this move, President Carter signed an order blocking all official Iranian assets in the United States including deposits in US banks and their foreign branches and subsidiaries. The value of these assets is thought to be not much more than half the $12 billion figure mentioned by Iran. The White House announcement said that the purpose of the order was to ensure that claims on Iran by the United States and its citizens were provided for in an orderly manner.

Earlier this afternoon the Chancellor received a telephoned call from Mr. Carswell (Deputy Secretary of the US Treasury) to say that the President had just signed this order. Mr. Carswell said that the US Treasury had tried to notify the Chancellor before the order was signed but had been unable to contact him. The United States saw the seriousness of the implications of this decision for the Euro-markets; they would consider all possible avenues of mitigating them.

The Chancellor thanked Mr. Carswell for contacting him so promptly. He said that he would, of course, have counselled caution had the conversation taken place before the President's decision. But he certainly understood the special difficulties of the situation; in the circumstances

/he noted

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he noted the importance of what Mr. Carswell had said, and looked forward to further discussions of the ramifications of this sequence of events.

Secretary Miller subsequently telephoned. He apologised for having been unable to warn the Chancellor in advance. He said that blocking would not be total; transactions deemed appropriate by the US Government could be permitted. He trusted that our authorities will remain in touch, so that disruptive action could be avoided. The Chancellor said we would do our best to be helpful. We understood the Americans' reasons for this action and would consider each issue which arose in this uncharted terrority as and when it arose.

There are grounds for doubting whether it would be possible for the United States to enforce their order in London in all cases. If a branch or subsidiary of a United States bank in London refused to act on an order by Iran to release a deposit, the Iranian Government could take the bank to an English Court. The Court would have to consider which law applied and the answer would depend on the precise circumstances in which the deposit came to be placed with the bank in question. If the decision was that the deposit was held under UK law, the Court would presumably rule in favour of the Iranian Government. If the decision was that the deposit was held under US law, the deposit would presumably not be released. Further consideration is being given to the legal aspects of the matter including whether there is likely to be any difference of view between the British and US Governments on which jurisdiction applies in any particular case.

The Americans have not asked us to take any action to reinforce the effect of their order in London. The language used by Mr. Carswell - and subsequently by Mr. Miller - in speaking to the Chancellor quoted in paragraph 2 above suggests that the United States authorities do not wish us to take any Draconian steps in their support.

To do so would severely damage the reputation of the City of London and banking relationships all over the world. It would also, we think, be against the interests of the United States. So long as the deposits remained in dollars and were simply switched from United States banks to other banks in the Euro-markets, this action in itself would bring no downward pressure on the dollar (although of course it might affect confidence to some degree). But any action on our part in support of the United States could create doubt in the minds of holders of dollars all over the world about whether dollar deposits were safe either in the United States or in the centre of the Euro-dollar market here in London. The incentive to switch out of dollars would in such circumstances be greatly increased and the interests of the United States, as well as the UK, adversely affected.

/A note

A note on the effect of the days events on the foreign exchange markets is attached.

I am sending copies of this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, the Secretaries of State for Energy, Industry, Defence and Trade, the Attorney General, the Governor of the Bank of England and Sir Robert Armstrong.

Yours ever,

MH

(M.A. HALL)
Private Secretary

ANNEX

EFFECT ON FOREIGN EXCHANGE MARKETS

The news about the US freeze on Iranian balances unsettled the foreign exchange markets today and there were wide fluctuations in rates. The dollar weakened generally this morning on news that the Iranians proposed to withdraw their balances but strengthened when the Americans announced that the balances would be blocked. The UK trade figures did not seem to have had any marked impact. Markets generally were nervous and volatile.

2. Sterling opened at $2.1072 and then fell to below $2.09 on the miners' rejection of the NCB pay offer. It rose to $2.11 on the news that the Iranians would withdraw their dollar funds and fell back to $2.10 when the Americans made their announcement. The closing rate was $2.1072, i.e. unchanged from the opening. The effective rate for sterling fell from 67.94 to 67.67 during the day. The dollar fell during the day against the deutschemark and the Swiss franc; but the gold price did not rise as sharply as might have been expected.

3. Euro-dollar rates were a little firmer than at the opening but, at 15 per cent, lower than last night's close. Sterling inter-bank rates rose to over 16 per cent because the market expects a rise tomorrow in the MLR.

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HM Treasury
14th November, 1979