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Prime Minister

To note

A. & C. 5/5

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

*MB*

4 May 1982

B.J.P. Fall, Esq.,  
Foreign & Commonwealth Office

*New Brain,*

FALKLAND ISLANDS : US MEASURES AGAINST ARGENTINA

*with Asc?*

Thank you for your letter earlier today enclosing a copy of a draft message from the Prime Minister to President Reagan. As I have already told Francis Richards, the Chancellor is entirely content with the terms of this draft.

The point which he had in mind, in raising the matter in Cabinet today, relates to pressure for US action in the banking field. He is not convinced that it would be right for us to urge the United States to take action to freeze Argentine assets, parallel with the action we have taken. It might well be tempting to argue that such action would isolate Argentina completely in the financial world, but she is already pretty severely isolated and the considerable risk might arise that further action of this kind by the United States could do more damage to the international banking community generally than the extra damage to Argentina would be worth. It is against this background that, in implementing our own freeze on Argentine assets here, we have deliberately and carefully tried to minimise the direct damage to banking operations in other countries.

There would not be the same objection against urging the US Administration to prevent new loans being offered to Argentina, but there are other reasons why it seems hardly worth pursuing this at present: banks themselves are in common prudence unwilling to extend their exposure to Argentina, and the US Administration might be expected to take the view that it was unnecessary for them to embark on the awkward process of legislating to control their banking system in this respect.

/I understand

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I understand that officials of our two Departments are in touch about these issues, and that they are largely in agreement. And your draft message today of course contained nothing relevant to the Chancellor's concern.

I am sending copies of this letter to Michael Scholar at No.10 and to David Wright in the Cabinet Office.

*Juss-wes,*

*J. O. Kerr*

J. O. KERR

25 MAY 1982

