



~~Duty Clerk No 10~~
Subject filed with
briefs on USA: Nov 79
Visit to US: PWay

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D J S Hancock
Under Secretary

14 December 1979

M O B Alexander Esq
Private Secretary
No 10 Downing Street
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Dear Alexander,

PRIME MINISTER'S VISIT TO WASHINGTON: LATEST MOVES ON IRANIAN ASSETS

I attach a brief on the latest US proposals for action in support of their freeze on Iranian assets.

2. Copies of this letter go to the Private Secretaries to the Foreign and Commonwealth Secretary, the Secretary of State for Trade, the Secretary of State for Energy, the Governor of the Bank of England, the Secretary to the Cabinet and Sir M Palliser.

Yours sincerely,

David Hann.

D J S HANCOCK

CONFIDENTIAL

PRIME MINISTER'S VISIT TO WASHINGTON

IRAN - LATEST DEVELOPMENTS

After the Foreign Secretary's dinner in Brussels on 12 December with Messrs Vance, Francois-Poncet and Genscher, representatives of the Foreign Ministries of the UK, US, France and Germany met to consider next steps. Following discussion about the possibility of securing a Chapter VII resolution in the United Nations, the US representative put forward suggestions for four voluntary steps that might be taken by America's allies independently of any action in the UN. They were that official guidance should be given to the commercial banks in each country to the following effect:-

- (i) No new credits should be given to Iran.
- (ii) Banks should refuse to accept any new non-dollar accounts for the Iranian Government or the Central Bank and should also refuse to accept massive enlargements of existing non-dollar accounts.
- (iii) Prompt action by banks to declare default against Iran whenever there were justification e.g. if any payments were overdue in whatever currency.
- (iv) Oil companies should not pay Iran in non-dollar currencies.

2. We are examining these proposals. They all present considerable problems which are explained below. It would be advisable for the Prime Minister to avoid detailed discussion. We have undertaken to give the Americans our answer next week through diplomatic channels.

No new credits

3. We would expect that the only new credits given to Iran at present will be short-term of the sort normally associated with commercial transactions. It is highly unlikely that longer-term credit is being contemplated; but we are checking on this. The Bank of England could not give formal guidance to commercial banks to refrain from giving credit. That would be to interfere with the commercial judgement of the individual banks. If such a bank could

show that it had lost business which it might have secured but for the guidance, they could sue the Bank of England for compensation.

No new deposits

4. The effect of telling British banks not to accept new deposits would be to divert the business to other banks. The problem cannot be solved by agreement between a small group of countries such as the United States, Germany, France and Japan (for example). In the City of London alone, there are over 300 banks coming from every corner of the globe. It is inconceivable that the United States will be able to persuade the authorities in all these countries to persuade their banks to comply with guidance of the sort that the Americans have suggested. Once again, the Bank of England have no powers under which they can require banks to give up business and, if they gave informal guidance which caused an individual bank to lose money, they could be sued. We have no evidence that there have been substantial shifts in Iranian official deposits - but no figures are at present available for the relevant period.

Prompt action to declare defaults

5. Our understanding is that the Iranians are trying hard to meet their obligations and that, for the most part, they are succeeding. It is not unusual for some payments to be in arrears. The question whether a default be declared when a payment is late is one for the commercial judgement of the individual banks. The view taken by British banks is that, so long as Iran is making the maximum effort to service debt, it would not be in the commercial interests of the banks to enforce default. If they did judge it to be in their commercial interest they would do so. For the reasons explained in the above paragraphs, the Bank of England cannot override the commercial judgement of the individual banks.

Payments for oil

6. We understand that neither Shell nor BP have yet made any payment for Iranian oil in any currency other than dollars. But we do know that the Iranian authorities have asked certain oil companies to make payments in other currencies, finally deciding to take dollars only at the last moment. BP and Shell are both anxious to obtain more supplies of Iranian oil provided that they can get it on reasonably terms and in reasonable quantities. It might be possible to persuade them to agree to pay only in dollars if they were assured that all their competitors, and in particular the Japanese, were similarly committed. This idea could be followed up,

if there were to be further discussions about combined resistance to Iranian demands for excessive prices - see separate brief from the Department of Energy.

Line to Take

7. I understand that four specific suggestions for voluntary action - independent of the question of a Chapter VII determination - were put to British officials last week. These suggestions are now being examined in London. We shall let the US authorities have our response as soon as possible.