

PRIME MINISTER

IRAN AND THE DOLLAR

If the Chancellor has not told you already, you should be aware that President Carter has made an order aimed at freezing all official Iranian assets held in the United States, including deposits in US banks and their foreign branches and subsidiaries. This was in response to the announcement from Iran earlier today that they intended to withdraw all their assets - estimated at \$12 billion - from US banks around the world.

The Administration's reaction is probably the least they could have done. But it is none the less a worrying development. The danger now is that other oil producers will try to withdraw their funds; or if not, that they will stop putting their funds into dollars. There is bound to be a period of considerable uncertainty in the currency markets ahead.

Even if the Iranians could take out their deposits from US banks, it does not follow that they would switch out of dollars. They might very well move their deposits into Euro dollars with European banks, since there is no obvious alternative for holding their reserves. To the extent that they did move out of dollars, the Treasury seem reasonably confident that other central banks would provide compensating support to the FED.

There is also the question of the Administration's jurisdiction over US banks operating in London. The Bank of England's preliminary advice is that, if an Iranian were refused the withdrawal of his deposit from an American bank in London and if he were to take this to a UK court, the judgement would go in his favour. In addition, under UK law, British banks are obliged to accept deposits: in other words, if an Iranian were to write a cheque to his account at Barclays

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drawn on an American branch in London, Barclays would have to accept that cheque. Thus, it seems unlikely that the Administration's order will have effect here in London. We do not know the volume of Iranian funds held here.

In these circumstances, the Administration may put pressure on us to take action to make their order effective here. The Bank would almost certainly strongly resist this.

The one certainty from today's developments is that the price of gold will go up.

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