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Prime Minister
Content that the former of the bank
should appeal the Argentine Central
bank will agree to removal of
restrictions on financial assets: ①

MS

A.S.C. 14/7

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

Prime Minister

PRIME MINISTER

I think this would be best discussed next
Tuesday at OD(FAF) which is to consider
whether any or all of our restrictions should
be lifted. Agree? A.S.C. 14/7

ECONOMIC MEASURES AGAINST ARGENTINA

Yes MS

As I mentioned at OD(FAF) on 6 July, I have been examining with the Governor of the Bank of England the question of lifting the freeze of Argentine assets. As the Foreign Secretary's minute to you of 18 June indicated, it would be natural to insist on the two conditions of cessation of hostilities and reciprocal lifting of discriminatory measures taken by Argentina against us. But we could well continue to have difficulty in extracting formal and unambiguous statements of intention from the Argentine authorities, and there are one or two special considerations which apply to the frozen assets.

2. You will remember that we were conscious, when we decided to make the Order freezing assets, of potential disadvantages to the UK. It happens that we had, and still have, very much larger UK financial claims on Argentina than the Argentine has financial assets here. There was also the risk, because of the complex multilateral arrangements in much international commercial lending, that the disruptive effects of our action would cause resentment among other leading industrial countries and financial centres, with consequent damage to the City role's in international business generally.

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3. We took great care in presenting and conducting the operation to emphasise its temporary and selective nature and wholly exceptional justification. Happily, the Governor is satisfied that any damage which may have been done to the reputation of the City is trifling. British banks have not been receiving payments due on their participations in loans, but no irreversible action against them has been taken.

4. However, the Governor and I are concerned about possible developments if we were unable to remove the freezing restrictions soon. Many other countries and financial centres have already taken the view that hostilities have effectively ceased, and this must make them less sympathetic to the maintenance of our restrictions, with the consequential inconvenience for them. And there now are reliable reports that Argentina is beginning to consider some restructuring or rescheduling of its international debt: such a move is likely to be welcomed by the international financial community as a step towards regularising future arrangements.

5. In this context, our restrictions on assets are relevant in two ways:

- a) First, a comprehensive rescheduling without our participation is hard to envisage, though it is equally hard to see how we could participate while still maintaining a freeze on Argentine assets;



b) Secondly, if others were to find ways of going ahead without us, our national financial interests could well be severely damaged (our outstanding banking claims on Argentina are of the order of \$6 billion).

6. Finally, there is no doubt that the removal of our restrictions would help our relations with Latin America generally, and would be well-received more widely, because it would help to dispose of one of the current trouble-spots in the international financial system.

7. Against this background, I would put a gloss on each of the conditions for removal of sanctions mentioned at the outset.

8. First, I hope that we could, perhaps very soon now in the light of some recent developments, conclude for this purpose that hostilities with the Argentines have effectively ceased. I would be rather reluctant to wait to extract a formal declaration to this effect from Argentina.

9. Secondly, although we would certainly want to see reciprocal removal of discriminatory restrictions, I would not want to insist on undertakings to settle outstanding payments to British banks, etc., as an immediate part of this. In practice we probably stand a better chance of getting a satisfactory move by Argentina if we make the first move, rather than insisting on formal parallel movement. The Governor has canvassed opinion among some of the main British banks affected, and it is clear that they would in general not dissent from this, and are looking forward to an opportunity of protecting their interests in future negotiations through normal banking channels.



10. I conclude that we should now positively look for an opportunity to remove the restrictions on Argentine assets.

11. If we wanted to develop a dialogue on this front, leading to reciprocal arrangements, a possible first step would be to make the initial overtures through central banks, rather than through diplomatic channels. The central banks at both ends in practice administer the financial restrictions. To use these channels could be a way of breaking the ice which would not commit either Government from the start, but might lead to relatively quick results.

12. If you and our OD colleagues agree, I would ask the Governor to proceed accordingly.

13. If an initial contact through central bank channels (about lifting the freeze on financial assets) were to produce a reasonable response, we might then consider whether to make a similar move on other economic restrictions (with the obvious exception of the arms embargo which is in a different category). The public presentation of whatever relaxation of restrictions we allow could link it to such evidence as we have of cessation of hostilities, to the arrival of a new government in Argentina, and to the prospect of rescheduling, along with the expectation of reciprocal action from Argentina.

14. I am copying this minute to OD colleagues, to the Governor of the Bank of England, and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G.H.' with a flourish.

(G.H.)

12 July 1982



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Red stamp or mark, possibly containing the number "53" and some illegible text.



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