



Prime Minister ①

5.1.80
9.1.80

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

9th January, 1980

Dear Michael,

IRAN: MESSAGE FROM PRESIDENT CARTER

We have seen and agreed the draft reply to President Carter's message enclosed with Denis Walker's letter to you today.

The reply does not refer to what President Carter says in his second paragraph about withdrawing banking deposits. We think this is right. It is true that some British banks do face a problem. As the Prime Minister knows, those holding time deposits for Iran received telexes just before Christmas asking them to transfer the funds to other banks in Paris and elsewhere. The British banks resisted this on the grounds that the deposit contracts had not matured. But the telexes from Iran have not been withdrawn and the first large deposit matures next Monday, 14th January. The relevant bank's legal advisers are doubtful whether the bank would be on sound legal grounds in offsetting the deposit against claims on Iran, since depositor and lender would not necessarily be one and the same. Even more importantly, a deposit made in London is a contract under English law and should be paid when due. Failure to pay it would not only have legal repercussions, but would cause grave concern to other foreign depositors with British banks. So far the confidence of other OPEC countries has been maintained, but it is a very delicate matter.

The Prime Minister will recall that over the last few weeks we have been resisting American attempts to put, first into the voluntary measures and next into the draft resolution for the United National Security Council, a provision that would oblige British banks to enforce any rights that they might have in loan agreements once the Iranians were technically in default whether they judged it to be in their commercial interest or not. Although this

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issue is not directly relevant to the problem faced by the bank referred to in paragraph 2 above, it would be better for the Prime Minister to avoid any comment on the banking aspect in her reply in view of the delicacy of our relationships with the United States authorities over the banking issues in general and the genuine difficulties confronted by British banks at the present time. The second paragraph of President Carter's message is not phrased in such a way as to require a reply.

I am sending copies of this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, the Secretary of State for Energy, the Governor of the Bank of England and the Secretary to the Cabinet.

Yours ever,

A.M.W. Battishill

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