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Handwritten initials: L.S. and a signature.

CABINET OFFICE

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From the Secretary of the Cabinet: Sir Robert Armstrong KCB, CVO

11th December, 1979

Ref. A0914

Dear Michael,

I was rung up at 10.00 am this morning by Dr. Manfred Schtler, State Secretary in the Federal Chancellor's Office in Bonn. The purpose of the call was to try to find out what the United States Secretary of State had talked to British Ministers about, and what he could be expected to talk to German Ministers about.

I said that Mr. Vance was mainly concerned with the possibility of measures to be taken in support of the financial freeze on Iranian assets in the United States banks. Though most of the United States financial claims on Iran arose in the United States, many of the Iranian assets were held in branches of United States banks outside the United States. Mr. Vance was concerned with the possibility of measures which would deny access to Iranian balances so held. Dr. Schtler said that he understood that the proposal went beyond Iranian assets in branches of United States banks, and extended to Iranian balances in British banks. I said that this was so, and that what was proposed by Mr. Vance was strictly related to the release of the hostages: it was part of the suggestion that whatever was done should be on the basis that it would be removed as soon as the hostages were released.

Dr. Schtler asked whether the British Government had made any decision. I said that it had not done so. There had been some discussion of the legal position. We did not think that existing powers were available to do what had been proposed, and there were obvious difficulties about introducing new legislation. Apart from the implications for the financial system, one had to have regard to the possible impact in Iran: if we were not careful, the result could be an increase rather than a diminution in the number of hostages. Ministers here, however, would very much like to find some means of supporting the Americans at this difficult time, and we would continue to study the matter. We thought that it would be very important that the Nine should act in concert and not singly. We had it in mind that it might well be the subject of discussion on Wednesday evening at dinner in Brussels.

/Dr. Schuler

M. O'D. B. Alexander, Esq.

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Dr. Schtler said that the Federal Chancellor had had a long meeting with some of his colleagues yesterday evening. They were not by any means convinced that what the Americans proposed was the right way of going about it or would be effective. They had arrived at similar conclusions to those which I had described, by many of the same arguments. In addition, they saw some signs that support for the Ayatollah Khomeini was beginning to be undermined, and they feared that measures on the lines proposed would simply reconsolidate the support which he had enjoyed. I said that our understanding was that the Germans also saw technical and legal difficulties about operating on the financial side. Dr. Schtler said that that was so, and that these points had been made by the representatives of the Bundesbank at the Chancellor's meeting yesterday evening. But he said that it was in the end a political decision. They would like to be able to demonstrate solidarity with the Americans. He said that they very much shared our view that it was important for the Community countries concerned to act together.

I concluded by saying that I welcomed the contact that he had made. There would no doubt be discussions in Brussels tomorrow. If before that he wanted a further word, I should be at his disposal; and equally I hoped that I might feel free to ring him, if it seemed useful to do so. I added that, if the Federal Chancellor thought that it would be useful for him to talk to the Prime Minister, I was sure that the Prime Minister would be glad to have the opportunity of talking with him.

I am sending copies of this letter to George Walden and Tony Battishill.

Yours ever
Robert Armstrong

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