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## 10 DOWNING STREET

From the Private Secretary

22 December 1979

Dear Tony.

IRAN

The Prime Minister held a further meeting last evening to discuss possible measures which we might take to assist the USA over Iran. The following were present: the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary, the Secretary of State for Energy, the Attorney General, the Governor and Deputy Governor of the Bank of England, and senior officials. The meeting had before it your letter of 21 December and Stuart Hampson's letter of the same date.

The Chancellor said that the Treasury and the Bank had now agreed on a draft reply to the United States' note of 17 December and on a draft Memorandum of Understanding to be put forward for agreement between the governments of member countries of the EEC, Canada, Japan and Switzerland. These drafts (which were attached to your letter) incorporated the points which had been made at the previous day's meeting - and, in particular, the idea that a recycling operation would be more helpful than the American proposal that our banks should not accept new deposits, or increases in existing non-dollar deposits, from Iran. The paragraph on advice to oil companies had been agreed with the Department of Energy. The form of words suggested by the Secretary of State for Trade on ECGD cover could be included in the letter to the Americans. If the proposals set out in the draft letter could be agreed internationally, they would not do too much damage to our interests. But he remained anxious that if we were seen as the instigators of the measures, and other governments failed to go along with them, we would face retaliation from OPEC countries. Since it now seemed almost certain that the United States would very shortly apply for a Chapter 7 determination, it might be better not to respond to the American proposals for the time being - but, rather, rest on our assurance that we would support them in the United Nations.

The Governor reported on further talks he had had with the Governor of the Swiss Central Bank. The Swiss were prepared in principle to go along with proposals A, C and D in the American document, but they were not prepared to give advice to their banks or to give the Americans any assurances in writing. They

/would cooperate



would cooperate with the Americans, but only on a private basis. The Governor went on to say that he would prefer it if we did not respond to the American proposals prior to a decision on their application for a Chapter 7 determination; but, if we did respond, we should follow the Swiss and do it on an entirely confidential basis. He was most anxious to avoid damage to the international financial system and to sterling which would undoubtedly result from any publicised, unilateral action against Iran. The Iranians were already beginning to move their deposits out of London to Algeria, Libya and, to a lesser extent, to Austria. He agreed with the Chancellor that to the extent that we did take action against Iran, it was important to concert with other governments - and it would be helpful to try to explain to the Saudis what we were doing. In this respect, it was crucial that we link our measures solely to the freeing of the hostages. By contrast, the American position had been decidedly ambiguous: at first they had said that they had frozen Iran's assets to obtain the freeing of the hostages, but latterly the objective had been described as "to thwart Iranian-instigated disturbance to the international financial system".

The Foreign and Commonwealth Secretary said that even though the Americans were going for a Chapter 7 determination, they would still find it helpful to have a positive response to their proposals. Although they would prefer to be able to publicise our support, he agreed that, prior to international agreement on the particular measures, it would be better to give our response privately. The Prime Minister added that a further argument for keeping our response private was the fact that we still had 27 Embassy staff at risk in Tehran.

Summing up the discussion, the Prime Minister said that HMG should respond to the Americans on the lines of the draft reply attached to your letter, including an assurance on ECGD guarantees. But the reply should be given orally to Ambassador Brewster. It should be emphasised that we are already taking action privately with our banks and with the oil companies; that this action and any further action which we might take is linked solely to the freeing of the hostages; and that we do not wish there to be any publicity for what we are doing. It should also be stressed that we believe it essential that there should be concerted action. These various points should be included in a speaking note which the Foreign and Commonwealth Secretary could use for his meeting with the Ambassador.

(I enclose a copy of the speaking note which was prepared for the Foreign and Commonwealth Secretary's use and agreed with the Chancellor after the meeting.)

I am sending copies of this letter to George Walden (Foreign and Commonwealth Office), Bill Burroughs (Department of Energy), Stuart Hampson (Department of Trade), Bill Beckett (Law Officers' Department), John Beverly (Bank of England) and to Martin Vile (Cabinet Office).

*Tom*

*Tim Latham*



We understand that your Government will be making an application for a Chapter 7 determination, in order to secure the release of the hostages. As we have said already, we will give all our support to this application.

In the meantime, we have considered the proposals contained in the note handed to us on 17 December. I am glad to be able to tell you that we are already taking action which should substantially meet what the Administration is asking us to do. But we must emphasise that any action which we are taking is linked solely to the freeing of the hostages, and that as soon as they are freed, we will feel free to relax these measures. We have noticed that there has been a certain ambiguity in your own approach so far: for example, the note handed to us referred to "economic measures ..... to thwart Iranian instigated disturbances to the international financial system"; whereas earlier we had understood that any economic measures were to be aimed solely to secure the freeing of the hostages.

Furthermore, we want it clearly understood that the action we are taking must not be given publicity. This is for three reasons. First, we wish to avoid as far as possible damage to the international financial system. Second, we have very substantial deposits from Iran and other OPEC countries in London. The Iranians are already beginning to move these out, and we do not wish to exacerbate the situation. Third, we have 27 Embassy staff still in Tehran and 300 other British nationals in the country. We do not want them to be taken hostage.



## BANKING MEASURES

We are already in touch with our banks and they will not be offering new or increased credits to the Iranian Government or governmental agencies - apart from short-term credits specifically associated with commercial transactions.

We would be prepared to ask our banks not to open new demand or deposit accounts for the Iranian Government and its agencies, and we would also be prepared to ask them not in general to accept substantial increases in existing non-dollar deposits from Iran. But in fact we now regard both of these proposals as increasingly academic. The Iranians are showing no interest in bringing their funds to London. On the contrary, they are taking them out. However, to the extent that action is needed to combat switching of Iranian funds out of dollars into other currencies, we think a far better approach would be to organise a recycling operation amongst central banks. Under such an arrangement, we would ask our banks to identify and report all transactions which appear to represent switching by Iran from dollars into other currencies.

However, we do not think that we can go along with your proposal B relating to defaults. All banks expect their loans to be serviced promptly; if they were not, the loans would be technically in default. But the bank or banks making the loans then have to decide whether and how best to exercise their rights to offset or enforce payment, as specified in the loan agreements. EMG cannot oblige banks to take decisions on this which conflict with their judgment on where their financial interests lie.

We are already taking substantial actions therefore in the financial field to support your position. But we believe it is essential that there should be concerted action by the United Kingdom, FRG, Italy, France, Japan and Switzerland to secure the intended effect. We would be glad to support the Administration in approaches to these governments to get agreement on the measures outlined above. We think these represent the highest common factor.

#### Oil measures

Hitherto British oil companies have not paid for Iranian oil in currencies other than UK dollars; nor have they accepted recent Iranian attempts to sell oil in 1980 at prices sharply above those asked by other OPEC countries. HMG is prepared in principle to advise British oil companies to maintain this attitude in future as part of effective and concerted arrangements made by all major OECD and IEA countries which cover spot market transactions as well as purchases by the oil companies. HMG is ready therefore to join at short notice in international discussions designed to secure an effective common initiative by OECD and IEA countries on these lines.

#### ECCG

In addition, although this does not feature explicitly in your proposals, we can reaffirm that on official credit insurance, the Export Credit Guarantee Department are not issuing any new guarantees for new business.



DRAFTS

D

We would not contemplate blocking Iran's assets unless |constrained by gross violation of her obligations to us or by a specific United Nations Resolution requiring all nations to do so.

~~Iran grossly violated her obligations to us in the United Nations by mediating resolutions specifically requiring all nations to do so.~~

We would not contemplate blocking Iran's  
assets unless ~~constrained by gross~~ *HK has every violated*

~~violation~~ of her obligations to us or *at*

by ~~a specific United Nations Resolution~~

*specifically approved*  
requiring all nations to do so.



We understand that your Government will be making an application for a Chapter 7 determination, in order to secure the release of the hostages. As we have said already, we will give all our support to this application.

In the meantime, we have considered the proposals contained in the note handed to us on 17 December. I am glad to be able to tell you that we are already taking action which should substantially meet what the Administration is asking us to do. But we must emphasise that any action which we are taking is linked solely to the freeing of the hostages, and that as soon as they are freed, we ~~will be ready~~ <sup>will feel free</sup> to relax these measures. ~~Furthermore~~ Furthermore, we want it clearly understood that the action we are taking must not be given publicity. This is for <sup>two</sup> ~~two~~ reasons. <sup>First,</sup> First, we have very substantial deposits from Iran and other OPEC countries in London. The Iranians are already beginning to move these out, and we do not wish to exacerbate the situation. <sup>Second,</sup> Second, we have 27 Embassy staff still in Tehran and 300 other British nationals in the country. We do not want them to be taken hostage.

First, we wish to avoid as far as possible damage to the international system.





Treasury Chambers, Great George Street, S.W. 1

01-930 1234

has  
has been noticed that  
there has been a certain  
ambiguity in your own  
approach so far: for example,  
if you ~~do~~ the demand  
~~which~~ referred ~~to~~  
the ~~the~~ demand handed to us  
refers to "economic measures..."  
to about 1960 as indicated historically  
to the structural financial system.

L. A. ... (52.2001)





We don't have legal power to  
block your assets, nor are we  
~~presently~~ contemplating taking such powers.

But you must understand that we  
~~would~~ might have to ~~block~~ take  
assets if -

take  
~~such~~ ~~these~~  
powers

1/ Iran takes illegal action  
against the UK - either against  
our citizens or by failing to  
meet their obligations

2/ a Chapter 7 determination  
required us to block ~~and~~ your  
assets.

We would not contemplate blocking  
Iran's assets unless

- Iran grossly violated her obligations to us; or
- the United Nations by mandatory resolution specifically required all nations to do so. *There would*

*of course be no question of need  
action if the US hostages were  
released, as in fact a*

*none of these questions would arise if  
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We would not consider the - the day

have credit unless

continued by gross income.

be applied to us

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having all - about 70 or so.

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In addition, although this does not feature explicitly in your proposals, we can reaffirm that on official credit insurance, the Export Credit Guarantee Department are not issuing any new guarantees for new business.



There will be no question of taking over  
if the government honours  
its international obligations.

~~Any difficulty that has already arisen will~~

~~4.10.60.~~

~~By Mr. [unclear] [unclear] [unclear] [unclear]~~  
~~in [unclear] [unclear] [unclear]~~

The matter has arisen because there  
is no overriding international law.

We shall not make the credit unless  
(ii) ~~the~~ <sup>the</sup> ~~defendant~~ - the bank's obligations will

<sup>in</sup>  
(iii) ~~have~~ <sup>be</sup> on interest in Iran

~~the~~ <sup>by</sup> ~~mandating~~ <sup>revolving</sup>  
in the United States ~~contracts~~ <sup>to do</sup>  
to ~~capital~~ <sup>in the</sup> ~~to do so,~~  
refuses