



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

Prime Minister
Yes no *Agree?*
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In my minute of 7 December I sought your agreement that officials should attend the Paris Club multilateral meeting this month to reschedule Argentine official debt. Your agreement was recorded in Mr Flesher's letter of 24 December.

2. That meeting took place on 15 and 16 January. As instructed, officials maintained a very low profile, but signed the eventual agreement. This provides for reasonable, but not excessively generous, rescheduling, over ten years, of Argentine debt to Western governments maturing up to the end of 1985. The terms are broadly comparable to those conceded by the banks, most of whom have now agreed to the parallel banking deal. Total banking exposure over the relevant period is roughly 10 times bigger than that of governments. Taken together with the IMF programme approved on 28 December, they constitute a package which resolves this phase of the Argentine debt problem.

3. We now have to decide how best to conduct the bilateral negotiations which will implement this framework agreement. These have to be completed before 30 June. In earlier Ministerial exchanges we accepted the need for this in principle, but left the details to be settled nearer the time. The Argentine side is now very anxious to make progress and their London banking agents are already pressing ECGD officials for the technical data necessary to prepare the deal. But these will be the first formal official contacts since the breakdown of the Berne talks, and both sides are aware of the sensitivities. Argentina broke the ice, by asking the French government if it would be prepared to organise a bilateral meeting on neutral ground, and were even anxious to do so last week while both sides were still in Paris. French Finance Ministry officials asked mine whether we could accept this. My officials replied that they would need Ministerial instructions, but were grateful for the French offer.



4. The Swiss government, as protecting power, had previously asked my officials if we wanted them to negotiate on our behalf or organise a similar meeting but were told, with thanks, that we were still considering our position. The Swiss Embassy here says there will be no embarrassment if we now prefer to accept the French offer instead.

5. I recommend, subject to the Foreign Secretary's views, that we accept the French offer. It would not be satisfactory to have the Swiss negotiate on our behalf a complicated technical document binding on both parties. It was recognised in Ministers' earlier decisions that at some stage we would need to engage in low-key bilateral technical talks of this kind. They will be a useful first step towards normalisation of commercial relations.

6. There is one presentational problem. The UK is alone, among Paris Club members, in treating such bilateral agreements as treaties, requiring presentation to Parliament, publication in the Treaties series, and registration at the UN. Such formality is thought to give the agreements greater status and reduce the risk of further default. In fact this protection is illusory; several debtor countries have defaulted on these agreements and later renegotiated them. Other creditor countries are content to rely on less formal but nevertheless binding agreements. The treaty process is time-consuming, and officials were already considering whether to abandon it. In this case, I believe it would give undue prominence to this relatively minor step. If the Foreign Secretary and Lord Privy Seal agree, I recommend that, starting with the Argentine agreement, we do not regard these documents as international treaties.

7. A decision is also needed on the question raised by the Minister for Trade in his minute of 14 December: how best to use the opportunity to lift the remaining trade restrictions in Argentina and in the UK. The Foreign Secretary's minute of 4 January indicates his agreement. We cannot make this an absolute precondition of a bilateral deal because the Paris Club framework agreement requires us to settle. But the talks provide a good opportunity to raise the matter. I suggest that officials pursue the various tactical options and do their best to achieve the objective proposed by the Minister for Trade.

CONFIDENTIAL



8. I am sending copies of this minute to the Foreign and Commonwealth Secretary, the Lord Privy Seal and the Secretary of State for Trade and Industry.

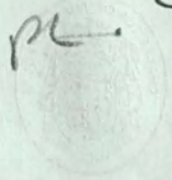
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