

CONFIDENTIAL

Sr



10 DOWNING STREET

From the Private Secretary

17 December 1982

Dear John,

LLOYDS BANK INTERNATIONAL AND ARGENTINA

The Prime Minister was grateful for the Chancellor's minute of 16 December about Lloyds Bank's participation in a financing package for Argentina.

If this matter had arisen at Prime Minister's Questions yesterday or on Tuesday, the Prime Minister had it in mind to say that the Government supports the IMF, both generally and in its operations in Argentina, and that it would be absurd to support the IMF on the one hand, and on the other to undermine them by requesting Lloyds to withdraw from the financing package, which was being arranged under the auspices of the IMF, and as a measure designed to lead to an IMF facility.

The Prime Minister was not content with the draft Answer to Mr. Vivian Bendall's Question which was attached to the Chancellor's minute. I attach a revised draft, on which I would be grateful for your comments by 4.15 pm this afternoon. Meanwhile, the Prime Minister has agreed that if you or the Bank of England need to say something today, it could be to the effect that Lloyds are, for their own commercial reasons, participating in this package, that this is all being done with the approval of the IMF, and that it is not the Government's policy to interfere; and that the Bank have said this to Lloyds, in the course of discussions on these matters with them.

I am sending copies of this letter to Brian Fall (Foreign and Commonwealth Office), Tim Allen (Bank of England) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Michael Scholar

John Kerr, Esq.,  
HM Treasury

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BTC

MR VIVIAN BENDALL (C) ILFORD NORTH: To ask the Prime Minister if she will introduce legislation to prevent any British bank from lending money to Argentina, if it appears to HMG that the money may be used for, or diverted to arms purchases and if she will make a statement.

DRAFT ANSWER

We do not intend to take powers to reintroduce financial restrictions between the UK and Argentina.

The International Monetary Fund has been negotiating with Argentina an economic programme to accompany access to drawings on the Fund's facilities. In parallel, with the support of the IMF, negotiations have been taking place on two loans to be provided by a group of international banks, including British banks. These loans will <sup>not</sup> ~~not~~ be used for arms purchases, ~~nor can they be diverted to finance arms purchases.~~ They are, rather, to help Argentina to continue paying its debts, many of which are to residents of this country. We support the IMF in its efforts to maintain the stability of the international financial system.

Monday 20 December 1982

PA

See notes  
attached to  
page 10

(Answered by the Prime Minister on Monday 20 December 1982)

UNSTARRED Mr Vivian Bendall: To ask the Prime Minister, if she will introduce legislation to prevent any British bank from lending money to Argentina if it appears to Her Majesty's Government that the money may be used for, or diverted to, arms purchases; and if she will make a statement.

We have no present plans to take powers...

*in present circumstances*  
*take no- proposals at present*  
[We do not intend] to take powers to reintroduce financial restrictions between the United Kingdom and Argentina.

The International Monetary Fund has been negotiating with Argentina an economic programme to accompany access to drawings on the Fund's facilities. In parallel, with the support of the IMF, negotiations have been taking place on two ~~temporary~~ loans to be provided by a group of international banks, including British banks. These loans are not <sup>intended</sup> for arms purchase, they are, rather, to help Argentina to continue paying its debts, many of which are to residents of this country. We support the IMF in its efforts to maintain the stability of the international financial system.

One of these is a bridging loan; the other is a medium-term loan which is conditional on approval of an IMF standby agreement.

Note - what -  
I remember how  
we did this

Suchly these loans are not only not not  
bridging loans not not not  
the IMF not not not  
could not not not

PRIME MINISTER

LLOYDS BANK AND ARGENTINA

Please see the Chancellor's minute (attached).

The Treasury and the Bank, it seems to me, are making a great meal of this. I do not think the suggested written answer will do at all.

I will have a go tomorrow at a revised draft answer. But there is an urgent point, on which I would be grateful for your decision.

If the question had come up at Questions today or on Tuesday the line was going to be that we support the IMF, both generally and in its operations in Argentina, and it would be absurd to support the IMF on the one hand and on the other hand to undermine them by requesting Lloyds to withdraw from this loan which was being arranged under the auspices of the IMF, and as a measure designed to lead to an IMF facility.

The Bank of England need to say something tomorrow if Lloyds come under a lot of pressure to quit the loan. Can the Bank say that Lloyds are, for their own commercial reasons, in the loan, that this is all being done with the approval of the IMF, and that it is not the Government's policy to interfere; and that the Bank have said this Lloyds, in the course of discussions with them?

*J. S. Collins C.*

*mb*

pp. MICHAEL SCHOLAR  
16 December 1982

*Look forward to revised reply*

10 DOWNING STREET

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We

~~The Government~~ ~~has~~ does not intend to  
introduce ~~legislation~~ take powers to  
reintroduce financial restrictions between the UK  
and Argentina.

The International Monetary Fund has been negotiating  
with Argentina <sup>an</sup> ~~an~~ economic programme to accompany  
access to drawings on the Fund's facilities. In  
parallel, with the support of the IMF, negotiations have  
been taking place on <sup>can</sup> two loans to be provided by a group  
of international banks, including British banks.

~~That purpose is not~~ These loans will not be used  
nor can they be diverted to finance arms purchases; they are, rather,  
for arms purchases ~~to~~ to help Argentina to

10 DOWNING STREET

continue paying its debts, many of which are  
to residents of this country. ~~It is the government's~~  
<sup>we</sup> ~~policy~~ to support the IMF in its efforts to  
maintain the stability of the international financial  
system. }