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Prime Minister 2

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ARGENTINA

The Chancellor had a word with the Prime Minister last week about financial relations with Argentina, and has asked me to let you know that he proposes to raise this matter with Larosiere in Washington later this week. He has discussed it with the Governor, who is of course in touch with Lloyds Bank, and who will similarly be raising it with Macnamar (US Treasury), who has recently returned from a visit to Argentina.

The Argentine agreement with the IMF in January was on the clear understanding that the elimination of discriminatory financial restrictions (notably those preventing the remittance of profits and dividends by UK companies) would be a pre-condition for concluding the mid-term review which is due in May, and for continued access to the Fund facility thereafter. All the evidence suggests that discrimination is continuing. The situation is posing acute difficulties for Lloyds, and no doubt for other British firms as well.

The understanding about removal of discrimination is basic Fund doctrine. Larosiere has made it clear to the Argentine Alternate Director to the IMF that if the restrictions have not been eliminated before then, there will be no May review. This is helpful as far as it goes, but the Chancellor believes it right to remind Larosiere of the importance which we attach to resolution of this problem, and to tell him that, since discrimination is continuing, we assume that there can be no question of any further Argentine drawing on the IMF facility, or any moves in that direction, and that we would vote against continuation of the Fund programme while discrimination persists. The Governor will be speaking to Macnamar in a similar sense.

The Chancellor also has very much in mind the question of reports of possible Argentine purchases of Soviet arms. He recognises that if these reports were to be confirmed, our posture on financial relations would need to be re-assessed. The practical steps that might then prove necessary are under consideration.

I am copying this letter to John Holmes (FCO) and to Tim Allen at the Bank.

Yours ever,
J O Kerr

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Principal Private Secretary