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3982 - 1

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FM FCO 110900Z JUL 83
TO IMMEDIATE WASHINGTON
TELEGRAM NUMBER 1140

Mr. Schola

To see.

A.S.C. 11/7

AND TO IMMEDIATE TOKYO, PARIS, BONN, STOCKHOLM, BRUSSELS, THE
HAGUE, OTTAWA, ROME, OSLO, VIENNA, CANBERRA, WELLINGTON,
LUXEMBOURG

INFO IMMEDIATE UKDEL IMF/IBRD WASHINGTON, UKREP BRUSSELS

IMF/ARGENTINA: FINANCIAL RESTRICTIONS

1. THE DEADLINE OF 31 JULY BY WHICH ARGENTINA COMMITTED ITSELF UNDER THE IMF PROGRAMME TO REMOVE DISCRIMINATORY FINANCIAL RESTRICTIONS AGAINST UK BANKS AND COMPANIES IS APPROACHING. WE SHOULD LIKE TO ENSURE THAT THE GOVERNMENTS WHICH YOU ARE ACREDITED ARE FULLY AWARE OF THE FUNDAMENTAL IMF ISSUES INVOLVED AND WILL TAKE A FIRM LINE IN DEFENCE OF IMF LEGAL PRINCIPLES AND PRACTICE IF THIS ISSUE COMES BEFORE THE EXECUTIVE BOARD.
2. PLEASE TAKE AN EARLY OPPORTUNITY TO APPROACH YOUR HOST GOVERNMENT AT THE HIGHEST APPROPRIATE LEVELS ON THE LINES OF PARAGRAPHS 3-10 BELOW. BACKGROUND MATERIAL, WHICH SUPPLEMENTS MY GUIDANCE TELEGRAM NO 76 OF 16 JUNE, IS IN PARAGRAPHS 11-15 BELOW.

LINE TO TAKE

3. ARGENTINA AND THE UK REACHED AGREEMENT IN SEPTEMBER LAST YEAR ON THE MUTUAL LIFTING OF FINANCIAL RESTRICTIONS. THE UNITED KINGDOM HAS IMPLEMENTED ITS PART OF THE ARRANGEMENTS IN FULL. ARGENTINA HAS ONLY PARTIALLY FULFILLED ITS COMMITMENTS.
4. WHEN THE IMF PROGRAMME (A STANDBY ARRANGEMENT) WAS AGREED ON 24 JANUARY THIS YEAR, ARGENTINA WAS COMMITTED AT THE EXECUTIVE BOARD MEETING TO REMOVE DISCRIMINATORY FINANCIAL RESTRICTIONS AGAINST UK BANKS AND COMPANIES BY 31 JULY AT THE LATEST. ARGENTINA HAS NOT SO FAR COMPLIED AND HAS THEREFORE NOT MET THE CRITERIA UNDER THE PROGRAMME. ARGENTINA WILL NOT BE ELIGIBLE TO MAKE FURTHER DRAWINGS ON THE FUND PROGRAMME AFTER 31 JULY UNLESS THE REMAINING RESTRICTIONS ARE REMOVED.

CONFIDENTIAL

CONFIDENTIAL

3982 - 1

5. ARGENTINA'S COMMITMENT WAS RECORDED IN THE MANAGING DIRECTOR'S SUMMING UP OF THE DISCUSSION (IMF BUFF PAPER 83/32), AND WAS CLEARLY UNDERSTOOD BY ALL THE COUNTRIES AT THE MEETING.
6. SINCE THEN ARGENTINA HAS INTRODUCED LAW 22820 (SEE GUIDANCE TELEGRAM NO 76) WHICH MODIFIED LAW 22591 SO AS TO ALLOW RESTRICTIONS AGAINST UK BANKS AND FIRMS TO BE LIFTED AT THE DISCRETION OF THE AUTHORITIES. ARGENTINA HAS IN PRACTICE LIFTED RESTRICTIONS AGAINST BANKS BUT HAS DELIBERATELY RETAINED THE DISCRIMINATORY RESTRICTIONS AGAINST UK NON-BANKING COMPANIES. THE AIM OF THIS MANOEUVRE WAS OBVIOUSLY TO ENCOURAGE BRITISH BANKS TO SIGN THE DOLLARS 1.5 BILLION COMMERCIAL LOAN AGREEMENT CURRENTLY UNDER DISCUSSION WHILE LEAVING THE OTHER RESTRICTIONS UNCHANGED. IT SHOWS THAT ARGENTINA IS PREPARED TO TAKE ACTION WHEN IT IS IN ITS OWN INTERESTS.
7. THIS IS NOT A BILATERAL MATTER BETWEEN ARGENTINA AND THE UNITED KINGDOM THOUGH THE UK IS OF COURSE DIRECTLY AFFECTED. ARGENTINA IS IN BLATANT VIOLATION OF A FUNDAMENTAL IMF PRINCIPLE (NON-DISCRIMINATION AGAINST A FELLOW MEMBER) AND OF CLEAR COMMITMENTS MADE TO OBTAIN IMF FUNDS UNDER AN IMF PROGRAMME.
8. ARGENTINA IS BRINGING POLITICS INTO THE IMF BY MAINTAINING THE RESTRICTIONS FOR PURELY POLITICAL REASONS ARGENTINA'S EFFORTS TO EXTRACT POLITICAL CONCESSIONS FROM THE UNITED KINGDOM IN ENTIRELY UNRELATED AREAS IS A CLEAR ILLUSTRATION OF THIS AIM.
9. THE IMF'S MANAGING DIRECTOR AND STAFF ARE IN NO DOUBT ABOUT ARGENTINA'S FAILURE TO HONOUR ITS COMMITMENTS AND TO MEET THE PROGRAMME CRITERIA. THEY HAVE MADE THIS CLEAR TO THE ARGENTINES IN NO UNCERTAIN TERMS.
10. IF ARGENTINA REQUESTS A WAIVER FROM THIS ASPECT OF THE PROGRAMME, MEMBER STATES SHOULD STAND FIRMLY BY IMF PRINCIPLES AND PRACTICE BY INSISTING THAT ARGENTINA FULFILS ITS OBLIGATIONS AND COMMITMENTS BEFORE FURTHER IMF DRAWINGS CAN BE MADE. THIS IS NOT A TECHNICAL BREACH OF A PARTICULAR ECONOMIC PERFORMANCE TARGET: IT IS A BASIC MATTER OF IMF DOCTRINE. FAILURE TO INSIST ON FULL COMPLIANCE WOULD BE VERY DAMAGING TO THE IMF IN ITS FUTURE OPERATIONS. ARGENTINA HAS HAD AMPLE TIME TO TAKE

CONFIDENTIAL

CONFIDENTIAL

3982 - 1

ACTION AND AMPLE WARNINGS FROM THE IMF STAFF.

BACKGROUND

11. THE UK EXECUTIVE DIRECTOR HAS TAKEN STEPS IN WASHINGTON TO KEEP HIS PRINCIPAL COLLEAGUES POSTED ON ARGENTINA'S FAILURE TO REMOVE THE RESTRICTIONS. WE HAVE ALSO PROVIDED REGULAR EVIDENCE TO THE IMF STAFF OF ARGENTINA'S NON-COMPLIANCE. THE IMF MANAGING DIRECTOR AND HIS STAFF HAVE BEEN COMMENDABLY FIRM AND HAVE MADE CLEAR TO ARGENTINE REPRESENTATIVES ON NUMEROUS OCCASIONS THAT UNLESS THE RESTRICTIONS ARE REMOVED BY 31 JULY THE REVIEW OF ARGENTINA'S PERFORMANCE, WHICH MUST BE DISCUSSED AND APPROVED BY THE EXECUTIVE BOARD IF ARGENTINA IS TO MAKE ANY FURTHER DRAWINGS, CANNOT GO AHEAD.

12. THE NEXT TACTICAL MOVES ARE STILL NOT ENTIRELY CLEAR. THE IMF STAFF ARE LIKELY SOON TO CIRCULATE A STAFF PAPER ON THE EXCHANGE SYSTEM WHICH WILL POINT OUT THAT THE DISCRIMINATIONS REMAIN. THE IMF MIGHT THEN DECIDE TO TAKE NO FURTHER ACTION UNTIL THE RESTRICTIONS ARE LIFTED, THUS PREVENTING ARGENTINA FROM MAKING FURTHER DRAWINGS AFTER 31 JULY IN THE ABSENCE OF EXECUTIVE BOARD APPROVAL OF ITS PERFORMANCE. IN THAT CASE ARGENTINA MAY REQUEST A WAIVER FROM THIS ASPECT OF THE PROGRAMME. ARGENTINA WOULD HAVE TO CALL FOR AN EXECUTIVE BOARD MEETING TO DISCUSS THIS. AT PRESENT THIS LOOKS LIKE THE MOST LIKELY CONTEXT IN WHICH THE ISSUE WILL BE PRESENTED.

13. FROM THE UK STANDPOINT, IT IS ESSENTIAL THAT A MAJORITY OF COUNTRIES AT THE EXECUTIVE BOARD SHOULD STAND FIRMLY BY IMF PRINCIPLES BY REFUSING A WAIVER AND INSISTING THAT ARGENTINA ABIDE BY IMF PRINCIPLES UNDER THE IMF ARTICLES OF AGREEMENT. THERE IS NO RECENT PRECEDENT FOR THE EXECUTIVE BOARD TAKING A FORMAL VOTE, WHICH INVOLVES WRITTEN PROCEDURES, BUT THE MANAGING DIRECTOR'S SUMMING UP AT THE END EMBODIES THE DECISIONS TAKEN AND REFLECTS THE SENSE OF THE DISCUSSION. IT IS MOST IMPORTANT THAT G10 COUNTRIES IN PARTICULAR SHOULD SPEAK OUT CLEARLY AND FIRMLY AT THE EXECUTIVE BOARD.

14. IN APPROACHING GOVERNMENTS, THE MAIN POINTS TO GET ACROSS ARE THOSE IN PARAGRAPHS 7-10, IE THAT ARGENTINA IS IN BREACH OF IMF PRINCIPLES AND COMMITMENTS TO THE IMF, THAT THIS IS NOT A

CONFIDENTIAL

3982 - 1

BILATERAL UK/ARGENTINA ISSUE AND THAT IT IS ARGENTINA WHICH IS BRINGING POLITICS INTO THE IMF. ARGENTINA MAY WELL TRY TO PLACE THE ISSUE IN THE FALKLANDS CONTEXT AND SUGGEST THAT THE UK MUST MAKE CONCESSIONS ELSEWHERE (EG IN THE FALKLAND ISLAND PROTECTION ZONE). THIS IDEA SHOULD BE SCOTCHED STRAIGHTAWAY.

L5. SOME COUNTRIES MAY ARGUE THAT THE RISKS TO THE INTERNATIONAL FINANCIAL SYSTEM OF AN ARGENTINE DEFAULT IF THE IMF PROGRAMME IS SUSPENDED OUTWEIGH THE NEED TO STICK TO IMF PRINCIPLES. THE ANSWER IS THAT ALL THAT ARGENTINA IS REQUIRED TO DO IS TO TAKE SOME RELATIVELY LIMITED FURTHER ADMINISTRATIVE ACTION TO END DISCRIMINATION. PRESSURE SHOULD BE PUT ON ARGENTINA TO DO THIS RATHER THAN ON FINDING WAYS OF ENABLING ARGENTINA TO ESCAPE THE CONSEQUENCES OF ITS OWN ACTIONS.

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