

GR 1000

CONFIDENTIAL

CONFIDENTIAL

FM WASHINGTON 150402Z JUL 83

TO PRIORITY FCO

TELEGRAM NUMBER 1995 OF 15 JULY

MIPT: MEETING WITH REGAN
INTERNATIONAL DEBT ISSUES

*Read in full
mb*

ARGENTINA

1. REGAN SAID THAT THE US POSITION WAS THAT THE ARGENTINES WOULD NOT RECEIVE FURTHER IMF MONEY IF THEY DID NOT LIFT THE DISCRIMINATORY FINANCIAL RESTRICTIONS. MCNAMAR SAID THAT THOUGH THE LEGAL POSITION WAS QUESTIONABLE, HE HAD ALREADY TOLD THE ARGENTINES THAT THE UNITED STATES WOULD NOT SUPPORT ANY REQUEST FOR A WAIVER AND WOULD VOTE WITH THE UK IN THE FUND BOARD. THE ARGENTINES WERE IN A DIFFICULT TRANSITIONAL PERIOD. THE PERONISTA PARTY, SUPPORTED BY 29 PERCENT OF THE ELECTORATE, WERE APPARENTLY CATCHING UP THE RADICAL PARTY, WHICH HAD 37 PERCENT SUPPORT. THE US FEARED THAT A PERONISTA GOVERNMENT WOULD ALIGN WITH THE SOVIET UNION AND CREATE DESTABILISATION IN SOUTH AMERICA. THE US THEREFORE WANTED TO PROVIDE A FRAMEWORK FOR A STABLE TRANSITION OF POWER TO THE RADICALS. THE ARGENTINE ECONOMIC MINISTERS NEEDED A GESTURE IF THEY WERE TO PERSUADE THE AIR FORCE OFFICER ON THE CAL TO AGREE TO THE LIFTING OF THE PAYMENTS RESTRICTIONS. THE US REGARDED THE DISCRIMINATORY MEASURES AS A BILATERAL ISSUE BETWEEN THE UK AND ARGENTINA. ALL THE SIGNALS RECEIVED IN WASHINGTON WERE THAT THE ARGENTINES WANTED SOME RATIONALE FOR LIFTING THEM. YOU RECALLED THAT IN LIFTING OUR RESTRICTIONS LAST YEAR, THE UK HAD FULFILLED OUR PART OF THE BARGAIN. THE ARGENTINES HAD REFUSED TO MEET THEIR PART. YOU REFERRED TO THE OPPOSITION TO ARGENTINA'S LOAN DURING MONDAY'S DISCUSSION OF THE IMF LEGISLATION IN THE HOUSE OF COMMONS.

2. MCNAMAR ASKED IF IT WOULD HELP IF THE ARGENTINES DECLARED A CESSATION OF HOSTILITIES. YOU SAID THAT OF COURSE THIS WOULD BE A MOVE IN THE RIGHT DIRECTION. THE PUS ADDED THAT THE UK HAD PUBLICLY STATED THAT IT WANTED A PROGRESSIVE NORMALISATION OF ITS RELATIONSHIP WITH ARGENTINA. THIS NECESSITATED BOTH A CESSATION OF HOSTILITIES AND AN UNDERTAKING THAT ARGENTINA WOULD NOT PURSUE THEIR FALKLANDS CLAIM THROUGH FORCE. MCNAMAR WONDERED ABOUT THE US REACTION IF ARGENTINA UNDERTOOK TO RENOUNCE THE USE OF FORCE WHILE BARGAINING AND NEGOTIATIONS WERE PROCEEDING. YOU EMPHASISED STRONGLY THAT THAT APPROACH WOULD NOT BE ACCEPTABLE. THE ESSENTIAL POINT WAS ARGENTINA'S RELUCTANCE TO TAKE EVEN THE FIRST STEPS IN RESTORING RELATIONS. THE UK THEREFORE HAD TO PROCEED VERY CAUTIOUSLY. EVEN IF THE DISCRIMINATORY PAYMENTS RESTRICTIONS WERE ABOLISHED, THERE WOULD STILL BE CRITICISM IN THE UK ABOUT BRITISH BANKS AND THE IMF MAKING LOANS TO ARGENTINA. MCNAMAR ASKED WHETHER THE GOVERNMENT'S RECENT ELECTION VICTORY WOULD NOT MAKE IT POSSIBLE FOR THE UK "TO GO THE EXTRA MILE" IN DISCUSSIONS WITH ARGENTINA. YOU AGAIN REMINDED HIM THAT THE ARGENTINES HAD NOT RENOUNCED THE USE OF FORCE. WHEN THEY DID, THERE WOULD NEED TO BE A PERIOD DURING WHICH THEIR CREDIBILITY COULD BE ESTABLISHED. THE PUS EMPHASISED THAT IT WAS QUITE

CONFIDENTIAL

UNREASONABLE

CONFIDENTIAL

UNREASONABLE FOR ARGENTINA TO USE THEIR FAILURE TO LIVE UP TO THEIR ORIGINAL UNDERTAKINGS AS A BARGAINING WEAPON FOR EXTRACTING WIDER CONCESSIONS. THERE WERE ALSO DANGERS IN OPENING TALKS WHEN IT WAS CLEAR THAT THEIR PURPOSE IN DISCUSSIONS WOULD BE SO DIFFERENT FROM OURS. TO THE UK, THE TALKS WOULD BE ABOUT THE NORMALISATION OF RELATIONSHIPS. ARGENTINA BELIEVED TALKS SHOULD BE ABOUT THE MEANS OF TRANSFERRING SOVEREIGNTY. THIS WAS TOTALLY UNACCEPTABLE TO THE FALKLAND ISLANDERS AND THE BRITISH PARLIAMENT AND PEOPLE. YOU EMPHASIZED THE DANGER OF ENGAGING IN TALKS WHEN BOTH SIDES HAD SUCH DIFFERENT OBJECTIVES.

3. MCNAMAR THEN ASKED ABOUT THE POSSIBILITY OF A FORMULA TO PERMIT ARGENTINE REGISTERED FISHING VESSELS ACCESS TO THE PROTECTION ZONE, FOR EXAMPLE, BY MAKING ARRANGEMENTS WITH THE SWISS EMBASSY IN BUENOS AIRES. YOUR REPLIED IT WAS ESSENTIAL TO AVOID ANY INCIDENT. THE PROTECTION ZONE HAD ALREADY BEEN REDUCED FROM 200 MILES TO 150 MILES. THE ARGENTINES HAD NOT APPLIED FOR FISHING VESSEL ACCESS BECAUSE THIS MIGHT BE REGARDED AS RECOGNITION OF BRITISH SOVEREIGNTY. THE PUS RECALLED THAT DURING THE HOSTILITIES, THE ARGENTINES HAD USED THEIR FISHING VESSELS FOR NEFARIOUS PURPOSES. IT WAS OPEN TO ARGENTINA TO MAKE AN APPLICATION FOR ACCESS. BUT ANY REGISTRATION SCHEME WOULD REQUIRE ADEQUATE ARRANGEMENTS FOR RECOGNITION AND VERIFICATION. MCNAMAR SAID THAT HE HAD NOT APPRECIATED THAT IT WAS OPEN TO THE ARGENTINES TO MAKE APPLICATION FOR ACCESS. HE SYMPATHISED WITH BRITISH CAUTION.

4. MCNAMAR SAID THAT HE WOULD NO DOUBT HAVE FURTHER DISCUSSIONS WITH THE ARGENTINE AUTHORITIES AND WOULD KEEP YOU IN TOUCH WITH DEVELOPMENTS.

BRAZIL

5. SECRETARY REGAN REPORTED THAT PRESIDENT FIGUEIREDO HAD ANNOUNCED ON TELEVISION LAST NIGHT ABOUT AN 80 PERCENT DE-INDEXATION. THIS SHOULD PASS THE BRAZILIAN CONGRESS SINCE IT HAD THE SUPPORT OF THE MILITARY. CHAIRMAN VOLCKER WOULD NO DOUBT HAVE TO LEAN ON THE BIS NOW THAT THE BRAZILIANS HAD BITTEN THE BULLET.

POLAND

6. YOU SAID THAT NOW SOME POLITICAL RELAXATION LOOKED IMMINENT, PROGRESS SHOULD BE MADE WITH RESCHEDULING POLISH DEBT. SECRETARY REGAN REPLIED THAT THIS WAS REGARDED MORE OF A POLITICAL THAN ECONOMIC QUESTION IN WASHINGTON, AND DECISIONS WOULD BE TAKEN BY THE NATIONAL SECURITY COUNCIL. THEY WOULD NEED TO EXAMINE CAREFULLY ANY SIGNS GIVEN BY THE POLISH GOVERNMENT IN IMPROVING HUMAN RIGHTS BEFORE PROCEEDING GENERALLY TO DEBT NEGOTIATION. THE US TREASURY WOULD WANT TO ENSURE THAT NO NEW MONEY WAS GRANTED TO POLAND BEFORE SOME OLD MONEY HAD BEEN REPAYED.

CONFIDENTIAL

7.FCO

CONFIDENTIAL

7. FCO PLEASE REPEAT AS APPROPRIATE AND ADVANCE TO PS/CHANCELLOR,
LITTLER (TREASURY), APPELYARD (ERD), AND PS/GOVERNOR AND GILCHRIST
(BANK OF ENGLAND).

WRIGHT

(ADVANCED AS REQUESTED)

STANDARD

ERD

ESID

SAMD

FID

EESD

NAD

MR THOMAS

MR HAYES

COPIES TO

PS/CHANCELLOR, TSY

MR LITTLER, TSY

PS/GOVERNOR
BANK OF ENG

MR GILCHRIST
BANK OF ENG.

NO 10 DST

COPIES SENT TO
No. 10 DOWNING STREET

3
CONFIDENTIAL