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TO IMMEDIATE F C O  
TELEGRAM NUMBER 254 OF 17 JULY

*Dr. whole*  
*To see, esp. last para.*  
*A 10.7*

IMF : ARGENTINA--FINANCIAL RESTRICTIONS

1. I HAD DISCUSSIONS ON FRIDAY WITH THE MANAGING DIRECTOR, DALE (DEPUTY MANAGING DIRECTOR) AND WHITTOME (DIRECTOR, EUROPEAN DEPARTMENT), AND WITH A GROUP OF G10 COLLEAGUES (ERB (UNITED STATES), HIRAO (JAPAN), DE MAULDE (FRANCE), LASKE (GERMANY), POLAK (NETHERLANDS), CASEY (IRELAND REPRESENTING CANADA), GOMEL (ITALY), COENE (BELGIUM) TVEDT (NORDICS) AND MORRELL (NEW ZEALAND)).

MEETING WITH MANAGING DIRECTOR

2. THE MD REMAINS FIRM IN HIS SUPPORT FOR OUR POSITION THAT THE DISCRIMINATORY FINANCIAL RESTRICTIONS MUST BE REMOVED BEFORE ARGENTINA CAN MAKE FURTHER DRAWINGS FROM THE FUND. DALE REPORTED THAT TEIJEIRO (ARGENTINE ALTERNATE DIRECTOR) WAS CONSIDERING SEEKING APPROVAL FOR A WAIVER WHICH WOULD PERMIT THE RETENTION OF THE RESTRICTIONS FOR A FURTHER 6 MONTHS (BUT WHICH WOULD NOT (REPEAT NOT) COMMIT ARGENTINA TO REMOVE THEM WITHIN THAT PERIOD). THE STAFF HAVE PROVISIONALLY RESERVED AUGUST 1 FOR A BOARD DISCUSSION IF (UNDERLINE LAST WORD) THE ARGENTINES PROPOSE SUCH A WAIVER. DALE'S VIEW IS THAT, ON PRESENT INDICATIONS, THE ARGENTINES WOULD NOT SECURE THE NECESSARY BOARD MAJORITY FOR THE WAIVER. HE SAID THAT THIS WAS ALSO TEIJEIRO'S ASSESSMENT, THOUGH THE LATTER STILL HAD TO COMPLETE HIS DISCUSSIONS. DALE WAS AWARE THAT THE ARGENTINES WERE LINKING THEIR RETENTION OF THE DISCRIMINATORY FINANCIAL RESTRICTIONS WITH THE EXCLUSION OF THEIR SHIPS FROM THE EXCLUSION ZONE. HE SAID THAT THE IMF WOULD NOT ACKNOWLEDGE SUCH A LINK BUT WE OUGHT TO BE READY TO ANSWER QUESTIONS ON WHETHER THE EXCLUSION ZONE ARRANGEMENTS WERE OPERATED IN A NON-DISCRIMINATORY WAY BETWEEN NATIONS.

MEETING WITH G10

3. EARLIER ON FRIDAY MORNING I CALLED A MEETING OF G10 COLLEAGUES TO EXPLAIN TO THEM OUR POSITION ON THE EXCLUSION ZONE (YOUR TELNO 217) STRESSING THAT THIS WAS OF COURSE NOT A FUND ISSUE AND THAT I WAS ONLY RESPONDING TO COLLEAGUES' EARLIER QUERIES. I STRESSED IN PARTICULAR THAT THE U.K. HAD NOT IMPOSED A COMMERCIAL RESTRICTION ON ARGENTINA. THERE WAS VERY LITTLE COMMENT. NO-ONE SUGGESTED THAT OUR OPERATION OF THE EXCLUSION ZONE WAS UNREASONABLE IN THE CIRCUMSTANCES.

4. AS FOR OTHER ASPECTS, MY COLLEAGUES WERE VERY UNCERTAIN WHEN AND HOW FAR THE ARGENTINES WOULD PRESS THE MATTER OF A WAIVER. LASKE (GERMANY) SAID THAT TEIJEIRO HAD NOT ASKED FOR GERMAN SUPPORT FOR A WAIVER IN SO MANY WORDS, BUT SUCH A MESSAGE COULD BE READ BETWEEN THE LINES. TVEDT (NORDICS ETC) ASKED WHETHER WE WOULD BE SATISFIED WITH A COMMITMENT TO ELIMINATE THE RESTRICTIONS BY, SAY, 31 DECEMBER. I SAID NO: WE HAD FULFILLED OUR PART OF THE BARGAIN AND WE WANTED THE ARGENTINES TO MEET THEIR'S. THE WORDING IN THE LETTER FROM DEL SOLAR

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AND WEHBE WAS VERY NON-COMMITTAL AND I QUOTED THE RELEVANT PASSAGE. I ALSO REFERRED TO STRONG PARLIAMENTARY CRITICISM IN LONDON OF THE PARTICIPATION BY BRITISH BANKS IN THE LOAN TO ARGENTINA. HAD OUR NPS BEEN AWARE OF THE CONTINUING DISCRIMINATORY RESTRICTIONS, THERE IS NO DOUBT THEY WOULD HAVE BEEN SIMILARLY IF NOT MORE CRITICAL OF U.K. SUPPORT FOR FUND ASSISTANCE.

5. DE MAULDE (FRANCE) ASKED WHETHER THE BRITISH GOVERNMENT COULD NOT OFFER A FACE-SAVING DEVICE. I SAID I DID NOT KNOW WHAT SUCH A DEVICE WOULD AMOUNT TO OR WHAT IT WOULD ACHIEVE. CASEY (FOR JOYCE, CANADA) ASKED WHAT MCNAMAR'S MEDIATION IN LONDON AMOUNTED TO (HE HAD EVIDENTL

Y PICKED THIS UP FROM TEIJEIRO, WHO HAS BEEN TELLING PEOPLE THAT MCNAMAR IS IN LONDON NOW). ERB (US) JUMPED IN QUICKLY TO SAY THAT MCNAMAR WAS NOT IN THE BUSINESS OF MEDIATION. HIS AUTHORITIES WERE MERELY OFFERING A CHANNEL OF COMMUNICATION. I SAID THAT IN ANY CASE MCNAMAR, TO MY KNOWLEDGE, HAD NOT VISITED LONDON. MAKING A COMMENT WHICH IS IN SEVERAL COLLEAGUES' MINDS, TVEDT OBSERVED THAT IF THE ARGENTINES DID NOT OBTAIN THE WAIVER IT WOULD JEOPARDISE THE WHOLE SEQUENCE OF MOVES LEADING TO AGREEMENT WITH THE BANKS, ELIMINATION OF ARREARS, AND RELEASE OF THE NEXT FUND DRAWING. I SAID THAT MATTERS NEED NOT COME TO THAT: THE ARGENTINES COULD RECTIFY THE SITUATION THROUGH MINIMAL ADMINISTRATIVE ACTION AND WE HOPED THEY WOULD. FUND MANAGEMENT WERE FULLY AWARE OF THE POSSIBLE CHAIN OF EVENTS BUT THEY HAD NEVERTHELESS NOT PROPOSED A WAIVER: THIS WAS INDICATIVE OF WHAT THEY THOUGHT OF THE RESTRICTIONS.

6. LASKE ASKED, AS HE HAD DONE AT MY PREVIOUS MEETING ON ARGENTINA, WHETHER WE INSISTED THAT THE DISCRIMINATORY LAWS HAD TO BE REPEALED OR WOULD BE SATISFIED WITH AN END TO THE PRACTICE. I SAID THAT I HAD NO INSTRUCTIONS BUT WOULD RELAY THE QUESTION BACK. (IN MY VIEW, WE MAY HAVE SOMETHING TACTICALLY TO GAIN BY ALLOWING OTHER DIRECTORS TO THINK AT THIS STAGE THAT WE ARE UNYIELDING ON THIS POINT EVEN THOUGH THOSE FAMILIAR WITH THE FUND WILL KNOW THAT IT IS REALLY WITH PRACTICE THAT THE FUND ARE CONCERNED).

ASSESSMENT

7. YOU MAY LIKE TO HAVE MY ASSESSMENT OF THE POSITION AS IT APPEARS FROM HERE. IT IS THAT PROVIDED THE MANAGING DIRECTOR REMAINS FIRM, AS I THINK HE WILL, THAT HE WILL NOT SUPPORT ANY ARGENTINE PROPOSAL FOR A WAIVER, PROVIDED THAT THE U.S. MAINTAIN THE POSITION WHICH THEY DESCRIBED TO YOU AT SECRETARY REGAN'S BREAKFAST ON JULY 14, AND PROVIDED THAT THE FRENCH, ITALIANS AND JAPANESE AT WORST ABSTAIN, THE EXECUTIVE BOARD WOULD NOT GRANT ARGENTINA A WAIVER. MY FIRM RECOMMENDATION IS THAT WE SHOULD CONTINUE TO MAINTAIN OUR LINE. IT WOULD, HOWEVER, BE PRUDENT TO CONSIDER THE OPTIONS IN CASE IT APPEARS IN THE EVENT THAT THE BOARD WILL NOT SUPPORT US.

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