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DESKBY 030900Z
FM UKDEL IMF/IBRD WASHINGTON 030225Z AUG 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 278 OF 2 AUGUST 1983

YOUR TELNO 244 OF AUGUST 2

IMF: ARGENTINA

1. IN ACCORDANCE WITH PARA. 2 OF TELEGRAM UNDER REFERENCE, I EXPLORED WITH DALE (DEPUTY MANAGING DIRECTOR, IMF) WHAT THE IMF REQUIREMENTS WOULD BE TO ESTABLISH THAT THE PAYMENTS DISCRIMINATION HAD ENDED IN PRACTICE, EMPHASISING TO HIM THAT OUR POSITION REMAINED THAT WE WANTED FOR DE JURE REMOVAL AND THAT OUR DISCUSSION WAS ENTIRELY WITHOUT COMMITMENT.
2. DALE BEGAN BY EMPHASISING WHAT HE SAID WAS THE FUND'S LONG STANDING CUSTOM OF LOOKING AT WHAT HAPPENED IN PRACTICE RATHER THAN WHAT WAS ON THE STATUTE BOOKS. I POINTED OUT THAT WE HAD MADE A DE JURE REMOVAL OF OUR RESTRICTIONS AND THAT WERE THE ARGENTINES TO RETAIN THEIRS, THE RISK OF THEIR REINTRODUCTION WOULD BE INCREASED.
3. WE THEN DISCUSSED, ON AN INTERROGATIVE BASIS, THE CONDITIONS LISTED IN PARA. 4 OF YOUR TELNO 245 OF JULY 29. DALE THOUGHT THAT (B) (AN UNDERTAKING AGAINST FURTHER DISCRIMINATION ETC) AND (C) (SUSPENSION OF FURTHER DRAWINGS IF DISCRIMINATORY RESTRICTIONS WERE REIMPOSED) WERE ENTIRELY REASONABLE. (A) (EVIDENCE THAT BLOCKED PAYMENTS HAD BEEN ALLOWED THROUGH BEFORE RELEASE OF IMF LOAN MONEY) WAS MORE DIFFICULT. FOR THE IMF TO STIPULATE POINT A AS A CONDITION WOULD IMPLY DISBELIEF THAT THE ARGENTINES WOULD NOT DO WHAT THEY SAID THEY WOULD DO. WHATEVER THE PAST HISTORY, THIS WAS A DIFFICULT POSITION FOR THE FUND TO TAKE. HE THEN WONDERED WHETHER THIS CONDITION WOULD PROVE A DIFFICULTY IN PRACTICE IF THE BRITISH FIRMS CONCERNED LODGED THEIR APPLICATIONS TO REMIT FUNDS DIRECTLY THE ARGENTINES ANNOUNCED THAT THE DISCRIMINATORY RESTRICTIONS HAD BEEN LIFTED. A FEW DAYS WOULD THEN HAVE TO ELAPSE BEFORE THE IMF COULD CONSIDER A BOARD PAPER WHICH MIGHT ALLOW TIME FOR THE PAYMENTS TO BE MADE.
4. DALE THEN SAID THAT THE BEST PROCEDURE FOR SEEKING TO TRANSLATE THESE POINTS INTO FIRM CONDITIONS WOULD BE FOR THE UK TO INFORM FUND MANAGEMENT, AS EARLY AS POSSIBLE, THAT WE WOULD EXPECT TO SEE THEM IN ANY FUND UNDERSTANDINGS WITH ARGENTINA. THIS WOULD PERMIT THOSE CONCERNED IN THE FUND TO SEEK TO INCORPORATE THEM INTO THE RELEVANT DOCUMENTS AT AN EARLY STAGE.

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5. I ALSO DISCUSSED WITH DALE THE DETERIORATION OF ARGENTINA'S ECONOMY, DESCRIBED IN YOUR TELNO 246 OF AUGUST 1. DALE AGREED THAT THERE WAS A GOOD CHANCE THAT THE PROGRAM WOULD FALL TO PIECES LATER IN THE YEAR SO THAT PERFORMANCE CRITERIA WOULD NOT BE MET. HE DID NOT KNOW WHEN THIS WOULD HAPPEN. BUT AS TIME WENT BY ARGENTINA WAS OBVIOUSLY LIKELY TO FIND HERSELF IN DIFFICULTIES WITH THE FUND PROGRAM ON MATTERS OTHER THAN THE PAYMENTS DISCRIMINATION.

6. IF YOU DECIDE THAT DE FACTO REMOVAL IS ACCEPTABLE, I SHOULD BE GLAD TO KNOW WHETHER YOU WOULD WANT ME TO TELL THIS TO FUND MANAGEMENT, IN STRICT CONFIDENCE, AND SEEK TO HAVE ACCEPTED THE SORT OF CONDITIONS REFERRED TO IN YOUR TELNO 245.

7. FCO PLEASE ADVANCE TO PS/SECRETARY OF STATE, PUS, THOMAS AND APPELYARD (ERD), PS/CHANCELLOR OF THE EXCHEQUER, LITTLER AND LAVELLE (TREASURY), AND TO PS/GOVERNOR, LOEHNIS AND GILCHRIST (BANK OF ENGLAND).

WICKS

[ADVANCED AS REQUESTED]

MONETARY

ERD

FID

MR URE

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MR LAVELLE, TREASURY

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