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TO IMMEDIATE BIS BUENOS AIRES

TELEGRAM NUMBER 130 OF 05 AUGUST 1983

AND TO INFO EC POSTS, UKDEL IMF/IBRD WASHINGTON, WASHINGTON,

UKMIS NEW YORK

YOUR TELNO 659, ARGENTINA: COMMERCIAL RELATIONS

1. WE ARE SORRY THAT WE HAVE NOT BEEN ABLE TO KEEP YOU INFORMED ABOUT IMF DEVELOPMENTS. YOU SPOKE WELL, AND IN FUTURE CONTACTS WITH EC COLLEAGUES MAY DRAW ON THE FOLLOWING.
2. ARGENTINA HAS TWICE ENTERED INTO A COMMITMENT TO REMOVE FINANCIAL RESTRICTIONS ON BRITISH COMPANIES. IN SEPTEMBER 1982, WE REACHED AN AGREEMENT ON THE MUTUAL LIFTING OF SUCH RESTRICTIONS. WE IMMEDIATELY FULFILLED OUR UNDERTAKINGS: ARGENTINA HAS ONLY PARTIALLY IMPLEMENTED ITS PART OF THE AGREEMENT. THEN AS PART OF THE STANDBY ARRANGEMENT WITH THE IMF CONCLUDED IN JANUARY, ARGENTINA WAS REQUIRED TO REMOVE REMAINING DISCRIMINATORY FINANCIAL RESTRICTIONS BY 31 JULY. FAILURE TO COMPLY MEANS THAT ARGENTINA IS UNABLE TO MAKE FURTHER DRAWINGS FROM THE IMF, AND THEREBY ALSO PUTS AT RISK THE 1.5 BILLION DOLLAR MEDIUM-TERM LOAN BEING NEGOTIATED WITH THE COMMERCIAL BANKS. WHILE RESTRICTIONS ON BANKS HAVE IN PRACTICE BEEN LIFTED FOLLOWING ENACTMENT OF LAW 22820, ARGENTINA HAS MAINTAINED RESTRICTIONS AGAINST BRITISH NON-BANKING COMPANIES.
3. WE ESTIMATE THAT ABOUT EIGHTY BRITISH COMPANIES ARE AFFECTED. THE SUMS INVOLVED ARE MORE LIKELY TO BE IMPORTANT FOR THE COMPANIES CONCERNED THAN FOR ARGENTINA ITSELF. MOREOVER, ALTHOUGH THE AMOUNTS MAY BE SMALL, THIS MERELY POINTS TO THE EASE WITH WHICH ARGENTINA COULD REMOVE THE REMAINING RESTRICTIONS.
4. ARGENTINA'S FAILURE TO COMPLY WITH ITS COMMITMENT TO THE IMF REPRESENTS A VIOLATION OF A FUNDAMENTAL IMF PRINCIPLE AND A DELIBERATE ATTEMPT TO INTRODUCE POLITICAL FACTORS INTO THE

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WORK OF THE IMF. IT IS NOT, REPEAT NOT, A TECHNICAL BREACH OF A PARTICULAR ECONOMIC PERFORMANCE TARGET, AND THERE ARE NO GROUNDS FOR GRANTING ARGENTINA A WAIVER.

5. THE IMF STAFF ARE WELL-PLACED TO ASSESS THE DANGER THAT A DEBT CRISIS IN ARGENTINA WOULD HAVE AN IMPACT ON THE INTERNATIONAL FINANCIAL SYSTEM AS A WHOLE. BUT THEY ARE TAKING A VERY FIRM STAND ON THE MATTER OF IMF PRINCIPLE INVOLVED. IT IS IMPORTANT THAT THE PRINCIPLES OF THE FUND SHOULD BE FOLLOWED BY ALL MEMBERS BECAUSE OF THE FUND'S CENTRAL ROLE IN DEALING WITH DEBT PROBLEMS. IT IS PERFECTLY WITHIN THE POWER OF THE ARGENTINE AUTHORITIES TO TAKE THE MEASURES NECESSARY TO REMOVE THE RETAINING RESTRICTIONS, AS THEY HAVE DEMONSTRATED BY REMOVING IN PRACTICE THE RESTRICTIONS ON THE BANKS.

6. THE ARGENTINES HAVE ALSO ALLEGED THAT THERE ARE POLITICAL DIFFICULTIES IN REMOVING THE REMAINING DISCRIMINATION AGAINST BRITISH COMPANIES. BUT THE REMOVAL OF RESTRICTIONS AGAINST BRITISH BANKS DEMONSTRATES THAT, IF THERE ARE ANY POLITICAL DIFFICULTIES, THEY CAN BE OVERCOME WHEN IT SUITS THE JUNTA. TO ARGUE THAT THE POLITICAL RISK OF REMOVING RESTRICTIONS AGAINST COMPANIES IS GREATER THAN THAT OF ECONOMIC COLLAPSE IS CLEARLY NONSENSE.

7. SHOULD THE ARGENTINES RAISE THE COMPLETELY SEPARATE QUESTION OF TRADE RESTRICTIONS (AND THEY HAVE REFERRED ELSEWHERE TO OUR REFUSAL OF AN EXPORT LICENCE FOR A FLIGHT SIMULATOR), YOU MAY WISH TO REMIND EC COLLEAGUES THAT SINCE OCTOBER 1982, THE PRESIDENCY AND THE COMMISSION HAVE REPEATEDLY INVITED THE ARGENTINES TO ENTER INTO DISCUSSION ABOUT THE MUTUAL LIFTING OF REMAINING ECONOMIC RESTRICTIONS BETWEEN THE UK AND ARGENTINA. THE OFFER WAS REPEATED AS RECENTLY AS EARLY JULY BY THE GREEKS. BUT THE ARGENTINES HAVE REFUSED TO AGREE TO SUCH DISCUSSIONS. IT IS THE ARGENTINES WHO ARE BEING INTRANSIGENT IN THIS MATTER.

8. WE ARE REPEATING YOUR TUR TO EC POSTS.

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