

Prime Minister

10.8.83



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

10 August 1983

W F S Rickett Esq
10 Downing Street

*A formal protest
must be made
at the highest level
not*

Sew Willie,

ARGENTINA

We have spoken about the developments last night and today which mean that the note which I enclosed with my letter of 9 August now needs updating. The Chancellor discussed these developments with the Governor today.

First, a correction of one point in my earlier note, which underlines the need for caution. It now appears that no new Law is being introduced in Argentina: there have simply been fresh, and possibly stronger, assurances to the IMF by the Argentine financial authorities that they intend to terminate discrimination forthwith.

IMF Certification

As you know, Geoffrey Littler was in touch with Dale, the IMF Acting Managing Director, yesterday to urge that time for careful consideration and appraisal be taken before any certificate was issued to the New York Advisory Group of Commercial Banks following these new Argentine assurances. Notwithstanding that conversation, and without further contact with the UK, Dale went ahead yesterday with the issue of a certificate that he was satisfied that discrimination against the United Kingdom had ceased, and that he would be so reporting to the IMF Executive Board. We heard of this, via commercial bank channels, around 11.00pm last night (our time). Littler was immediately in touch with Dale again, heard his confirmation of what he had done, and protested. Dale took the line that it was a matter for his judgment, and that he was obliged to accept the good word of the Argentine authorities. Littler expressed astonishment and dissatisfaction, and warned that we would make a more formal protest today.

/Our Executive



Flag A
 Our Executive Director is in fact now delivering a formal note of protest. I attach a copy of the main part of the text. (There will be added to it a short passage, which Wicks is drafting, recalling the conditions which we had agreed with the IMF staff would need to be fulfilled in order to dispose of the discrimination problem, before IMF lending was resumed, and seeking confirmation that those conditions are still agreed between us.)

Flag B
 It seems clear, eg from Washington telegram No 2240, which you have seen, that Dale acted under pressure from the United States as well as the Argentine authorities.

Commercial Bank Loan

There was considerable pressure yesterday afternoon and overnight for signature of the commercial bank loan on 12 August. This pressure emanated from the Argentine authorities, US banks and the US Government, and grew as knowledge of Dale's certificate spread. But, after discussions with the Bank of England, the British banks have indicated that they would find difficulty in signing so quickly.

It is still not clear what will now happen. The two main possibilities seem to be:-

- (a) that the US and other banks decide to go ahead with early signature, possibly even on 12 August, accepting that the British banks will not be prepared to do so at the same time.
- (b) that the whole arrangement for signature is deferred, at least for 3 or 4 days, and possibly until after the IMF Executive Board meeting planned for 24 August.

Deferment until after 24 August is of course what the Chancellor would prefer.

The British banks are in understandable difficulty, anxious not to appear unnecessarily negative with their international colleagues, or to jeopardise their interests in Argentina. But they accept that more time is needed to check that discrimination has genuinely been removed, and they are not anxious to sign unless they have an indication from the Bank of England or the Government that their action will not be criticised.

/As

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As a result of talks between officials of the UK and US Treasuries, the latter are trying to work for a postponement of the signature of the agreement, in the hope of finding a date when all banks will be able and willing to sign. We have warned that this is most unlikely to be before 24 August. But the US are anxious to move faster, and non-British banks may in the end go ahead with signature before then.

The Argentine authorities have been in touch with the Bank of England, urging that the British banks should come into line. The Governor and the Chancellor agreed today that the Bank's response should be that the announcement of the ending of discrimination was welcome; and that its translation into practical effect might open the door to a favourable decision in the IMF Board on 24 August; which would in turn open the door to participation in the commercial loan by all the banks involved.

The Facts on Discrimination

We have urged British banks and companies to put in applications for transfers of outstanding dividends, etc. So far, the one piece of news which has resulted has helped our arguments with the IMF and the US Treasury. BBI put in their application and have been told that, while it appears in order, the written procedure for approval will take 72 hours. We do not think this is the usual arrangement for the banks and companies of other countries, and 72 hours will of course extend beyond the 12 August planned signature date.

We shall continue to keep you informed.

I am sending copies of this letter to John Holmes at the FCO and John Bartlett at the Bank.

*Yours ever,
John Kerr*

J O KERR
Principal Private Secretary

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DRAFT

HMG has been concerned to receive a report that the Acting Managing Director on 9 August issued to certain commercial banks a certificate that, in his judgment, Argentine discriminatory restrictions had been satisfactorily terminated and that this would be his recommendation to the IMF Executive Board. It is the understanding of HMG that such a certificate could be a critical condition for signature and disbursement of a substantial commercial bank loan to Argentina.

2. There has been an unsatisfactory history in recent months of failure by the Argentine authorities to implement undertakings which they have repeatedly given on this matter.

3. In the circumstances, it is the view of HMG that a more proper and prudent course would have been for the IMF to await confirmation of the action promised by the Argentine authorities, including confirmation by the member country directly affected by the discriminatory measures.

4. HMG has conveyed to British commercial banks its judgment that a little more time is needed to obtain adequate confirmation that discriminatory restrictions have indeed been terminated and will not be reimposed.

10 AUG 1983



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GRS 250
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DESKBY 100830
FM WASHINGTON 092236Z AUG 83
TO IMMEDIATE FCO
TELNO 2240 OF 9 AUG 83

YOUR TELNOS 254 AND 256 IMF/ARGENTINA : FINANCIAL RESTRICTIONS

1. LELAND (US TREASURY) TELEPHONED ME IN SOME AGITATION THIS EVENING TO SAY THAT HE HAD JUST LEARNED THAT THE BRITISH BANKS HAD SAID THEY COULD NOT APPROVE SIGNATURE OF THE BANK LOAN ON 12 AUGUST. HE COULD NOT UNDERSTAND THIS. DALE WAS READY TO RECALL THE BOARD AND TELEXES WERE ABOUT TO SSUE. COULD I EXPLAIN THE HOLD UP?

2. I DREW ON YOUR TELEGRAMS UNDER REFERENCE TO EXPLAIN THAT THIS HAD BEEN LOOKED AT VERY CAREFULLY TODAY IN LONDON AND THAT HE WOULD SURELY UNDERSTAND THAT WE HAD TO OBTAIN SPECIFIC EVIDENCE FROM THE COMPANIES CONCERNED THAT THEY HAD BEEN ABLE TO REMIT PROFITS BEFORE WE COULD ACCEPT THAT THE DISCRIMINATORY RESTRICTIONS HAD ACTUALLY BEEN REMOVED. WE WERE URGENTLY ASKING THE COMPANIES TO PURSUE APPLICATIONS. BUT WE BELIEVED THAT SIGNATURE OF THE BANK LOAN ON 12 AUGUST WOULD BE PREMATURE. I TOLD LELAND THAT WICKS WOULD BE EXPLAINING THE SITUATION ON THESE LINES TO DALE AS SOON AS POSSIBLE TOMORROW.

3. LELAND SIMMERED DOWN ON HEARING THIS EXPLANATION. BUT HE MAY TELEPHONE LITTLER FIRST THING TOMORROW TO SEE WHETHER THERE IS ANY POSSIBILITY OF SPEEDING THINGS UP. HIS CONCERN WAS THAT DEL SOLAR AND OTHERS HAD PUT THEIR CREDIBILITY ON THE LINE IN BUENOS AIRES AND NOW RISKED ARRIVING IN WASHINGTON ON 12 AUGUST IN AN EMPTY ROOM. HE WONDERED WHETHER THE BEST THING MIGHT BE TO URGE THEM TO DELAY THEIR ARRIVAL BY A WEEK. I AGREED THAT THIS WOULD BE BETTER THAN ARRIVING TOMORROW, BUT SUGGESTED THAT THE BEST COURSE WOULD BE TO PLAN SIGNATURE SHORTLY AFTER THE IMF PROGRAMME HAD BEEN AGREED. LELAND'S REACTION INDICATED THAT THE AMERICANS WOULD STRONGLY RESIST SUCH A LONG DELAY.

FCO PLEASE ADVANCE DESKBY 100830 TO LITTLER, TREASURY
THOMAS [ADVANCED AS REQUESTED]

MONETARY
ERD
FID
NEWS D
MR GIFFARD
MR URE

COPIES TO
MR LITTLER)
MR LAVELLE) TREASURY
MR CRAWFORD BANK OF ENGLAND
MR OWEN OT5 DTI

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Top copy below.

*Personal copy
10-8-83*

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

10 August 1983

W F S Rickett Esq
10 Downing Street

A formal

at

*1) message from Hanson to Lawrence.
2) cc to Dale & [unclear]
3) discussed with PM [unclear]
4) separate letter to Regan (at Mr's request)
"at a time when IMF is seeking more funds"
1) try to stop
2) documentary evidence
Any UK bank who complies: at our disapproval*

New Willie,

ARGENTINA

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/Our Executive

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Red discount rate?