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TO IMMEDIATE FCO

TELEGRAM NUMBER 284 OF 10 AUGUST

YOUR TELNO 257 OF 10 AUGUST

IMF: ARGENTINA - DISCRIMINATORY RESTRICTIONS

1. THE FOLLOWING POINTS EMERGED FROM MY MEETING THIS MORNING WITH DALE (ACTING MANAGING DIRECTOR) DURING WHICH I HANDED OVER THE MEMORANDUM IN MIFT RECORDING OUR DISSATISFACTION WITH THE ISSUE OF HIS CERTIFICATE TO THE BANKS.
2. DURING THE DISCUSSION, I EMPHASISED THAT WHILE WE NATURALLY WELCOMED THE MODIFICATIONS TO THE ARGENTINE LETTER AS A USEFUL STEP, ALL EXPERIENCE WITH THE DISCRIMINATORY RESTRICTIONS MADE US CAUTIOUS ABOUT ARGENTINE STATEMENTS. THAT WAS WHY WE ATTACHED GREAT IMPORTANCE TO THE THREE POINTS SET OUT IN MY MEMORANDUM TO DALE OF AUGUST 5 (ALREADY SENT TO LONDON). DALE'S REPLY WAS THAT HIS QUOTE BELIEF UNQUOTE, BASED ON HIS CONVERSATIONS WITH DEL SOLAR AND THE TELEX FROM DEL SOLAR AND WEHBE IN MY TELNO 283 OF 8 AUGUST WAS THAT ARGENTINA WOULD NOW TREAT UK COMPANIES IN EXACTLY THE SAME WAY AS OTHER COUNTRIES' COMPANIES. IT WAS UP TO THE UK TO GIVE FUND MANAGEMENT EVIDENCE THAT THIS WAS NOT THE POSITION. HE ALSO QUOTE BELIEVED UNQUOTE THAT THE LIBERLISATION OF THE PAYMENTS REGIME PLANNED FROM AUGUST 15 WOULD EXTEND TO BRITISH COMPANIES. IF IT WAS DEMONSTRATED THAT DISCRIMINATION CONTINUED, HE WOULD AMEND HIS RECOMMENDATION TO THE EXECUTIVE BOARD.
3. ON THE THREE POINTS, DALE SAID THAT HE HOPED THAT THE SUBSTANCE OF CONDITION C (SUSPENSION OF FURTHER IMF DRAWINGS IF DISCRIMINATORY RESTRICTIONS WERE REIMPOSED) SHOULD NOT CAUSE DIFFICULTY. THIS OUGHT EFFECTIVELY TO BE THE POSITION IN ANY CASE SINCE REINTRODUCTION OF THE DISCRIMINATION WOULD AUTOMATICALLY RULE OUT FURTHER DRAWINGS. BUT THIS NEEDED TO BE CONSIDERED FURTHER BY THE FUND'S LEGAL DEPARTMENT. DALE ADVISED ME IN ANY EVENT TO HAVE THE POINT CONFIRMED ON THE RECORD BY ASKING AN APPROPRIATE QUESTION IN THE BOARD DISCUSSION AND SEEKING TO PROCURE INCLUSION OF THE ANSWER IN THE CHAIRMAN'S UMMING UP. (LEGAL DEPARTMENT'S PRELIMINARY VIEW IS THAT THE TERMS OF THE STAND-BY WOULD LEAD TO THE SUSPENSION OF FURTHER DRAWINGS IF THE EXISTING DISCRIMINATORY RESTRICTIONS WERE REIMPOSED, BUT NOT IF DISCRIMINATION WAS INTRODUCED BY LIBERLISATION NOT EXTENDING TO THE UK. I AM FOLLOWING THIS UP WITH THE FUND LAWYERS. ) ON CONDITION B (AN IMF REQUIREMENT ACCEPTED BY ARGENTINA IN WRITING THAT DISCRIMINATORY RESTRICTIONS

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WOULD NOT BE REIMPOSED AND FUTURE LIBERALISATION WOULD BE EXTENDED IN A NON-DISCRIMINATORY WAY), DALE SAID THIS WOULD RAISE DIFFICULTIES SINCE ARGENTINA HAD ALREADY RECORDED THEIR INTENTION TO TERMINATE THE DISCRIMINATORY RESTRICTIONS (PARA. 10 OF THE ATTACHMENT EBS/83/143 AS AMENDED) AND HE, DALE, REGARDED QUOTE TERMINATE UNQUOTE AS A STRONG WORD IN THIS CONTEXT. I SAID THAT ARGENTINA'S UNWILLINGNESS TO BE EXPLICIT ABOUT THEIR FUTURE INTENTION WAS BOUND TO MAKE US SUSPICIOUS. DALE REPLIED THAT IT MIGHT BE POSSIBLE TO INCLUDE IN THE STAFF PAPER THE STAFF'S BELIEF THAT THE RESTRICTIONS WOULD NOT BE REINTRODUCED AND THAT FUTURE LIBERALISATION WOULD BE NON-DISCRIMINATORY. I PRESSED HIM FURTHER AND HE AGREED TO ASK THE FUND'S EXCHANGE AND TRADE RELATIONS DEPARTMENT TO CONSIDER WHETHER THERE WERE ANY APPROPRIATE PRECEDENTS FOR THE FUND MANAGEMENT SEEKING AN UNDERTAKING FROM A MEMBER COUNTRY IN SUCH TERMS. IF NO PRECEDENT COULD BE FOUND, THE ARGENTINES COULD, HE ARGUED, BE ON GOOD GROUNDS IN ARGUING THAT THEY SHOULD NOT BE ASKED FOR SUCH UNDERTAKINGS. ON CONDITION A (EVIDENCE THAT DISCRIMINATORY RESTRICTIONS HAVE CEASED ETC) DALE REPEATED THAT IT WAS UP TO THE UK TO PRODUCE EVIDENCE REBUTTING ARGENTINA'S CONTENTION.

4. DALE THEN SAID THAT THE EXECUTIVE BOARD DISCUSSION WOULD PROBABLY SLIP FROM AUGUST 24 TO THE END OF THE MONTH OR POSSIBLY INTO EARLY SEPTEMBER FOR A VARIETY OF REASONS. THE DISCUSSION COULD THEN TAKE ACCOUNT OF CERTAIN ECONOMIC MEASURES WHICH THE ARGENTINES MIGHT (UNDERLINE LAST WORD) SOON INTRODUCE, BRACHET (MISSION LEADER) WOULD NOT BE RETURNING FROM SOUTH AMERICA UNTIL AUGUST 28, AND PERHAPS , MOST IMPORTANT, THE DELAY WOULD PERMIT THE POSITION ON ARREARS TO BE CLARED UP. THE STAFF'S PAPER BRINGING EBS/83/143 UP TO DATE WOULD PROBABLY NOT BE CIRCULATED BEFORE WEEK COMMENCING AUGUST 22. I SAID THAT WE WOULD HAVE HAD NO OBJECTION TO A DISCUSSION ON AUGUST 24. WE THOUGHT IT IMPORTANT FOR THE BOARD TO HAVE COMPLETED THE REVIEW BEFORE THE COMMERCIAL BANKS SIGNED THE LOAN AGREEMENTS. WHILE WE DID NOT THINK THERE COULD BE A DISCUSSION BEFORE AUGUST 24 (BECAUSE THIS WOULD NOT PERMIT TIME TO CHECK THAT THE DISCRIMINATORY RESTRICTIONS HAD BEEN REMOVED), POSTPONE-  
MENT FOR MORE THAN A DAY OR SO MIGHT CAUSE DIFFICULTIES WITH THE COMMERCIAL BANK LOAN.

5. I HAVE ALSO BROUGHT MY G10 AND AUSTRALIAN COLLEAGUES UP TO DATE WITH THE POSITION, EMPHASISING THAT WHILE THE MODIFICATIONS TO THE ARGENTINE LETTER TO THE IMF APPEARED TO BE A STEP IN THE RIGHT DIRECTION, IT WAS ONLY NATURAL, IN VIEW OF PAST HISTORY, FOR THE UK TO PROCEED CAUTIOUSLY BEFORE ACCEPTING THAT ALL DISCRIMINATIONS HAD ACTUALLY BEEN REMOVED. I ALSO BRIEFLY MENTIONED THE THREE CONDITIONS, REFERRED TO IN PARA. 4 ABOVE, TO WHICH WE ATTACHED IMPORTANANCE. THE ONLY QUESTION OF SUBSTANCE CAME FROM DE MAULDE (FRENCH EXECUTIVE DIRECTOR) WHO ASKED WHETHER THE UK WAS STILL INSISTING THAT ARGENTINA REPEAL THE DISCRIMINATORY LAWS. WHEN I REPLIED THAT

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THAT WAS NATURALLY STILL OUR POSITION SINCE WE HAD REPEALED OUR DISCRIMINATORY LAW, HE SAID THAT HE WISHED TO GIVE ME QUOTE THE IMPORTANT CAUTION UNQUOTE THAT IF WE CONTINUED TO INSIST THAT THE LAW BE REMOVED, FRANCE WOULD NOT BE ABLE TO SUPPORT US IN THE FUND SINCE IT WAS HIS UNDERSTANDING THAT THE FUND WAS ONLY CONCERNED WITH WHAT HAPPENED IN PRACTICE, NOT WITH NATIONAL STATUTE BOOKS.

6. FCO PLEASE ADVANCE TO PS/S OF S, PS/CHANCELLOR, LITTLER AND LAVELLE (TREASURY), GILCHRIST (BANK OF ENGLAND), APPELYARD (ERD), AND OWEN (OTS,DTI).

WICKS

## MONETARY

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PUSD  
PS  
PS/MR RAISON  
PS/PUS  
MR GIFFARD  
MR LURE

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MR LITTLER		
MR LAVELLE		
MR GILCHRIST	}	B/ENGLAND
MR LOEHNIS		
MR OWENS		OTS DTI