



10 DOWNING STREET

Prime Minister ⁽¹⁾

To note the Chancellor's report and agree no offer at this stage of further export credit?

Yes
ms.

AT
28/11

But we need to take seriously his comment that the funds must be got across in Brazil. I see that is what the Germans & the French gave in.

Andrew

N.B. the PM



question on the
note attached to
the minute below. We
need a reply to this

10 DOWNING STREET

Prime Minister (2)

for Questions
on Thursday.

FRB

News of an Argentine drawing^{30.11}
on the \$1.5 billion bank loan
did not, as feared, break
before Treasury questions on
Thursday.

It appears that telexes
have been sent out to the
banks seeking agreement to
a drawing on 30 November
- see Guardian cutting.

The line being taken by
Treasury is as attached.

AT

28/11

P.S. A note on the \$300 million
drawing you remembered
is also attached.

MS

file

Government attitude to bank loans to Argentina

This is a matter for the banks themselves. International banks, including British banks, are committed to shares in a \$1.5 billion international loan to Argentina.

2. The loan was signed last August after Argentina had removed their discriminatory financial measures against the UK in response to IMF requirements.

3. It might have been better for the banks to wait until the newly-elected government had taken office and come to grips with their economic and financial policies.

Will the loans be used to buy arms?

4. No. We understand \$500 million is to be disbursed and this will all come straight back to the banks. \$350 million will be used immediately to pay an instalment of an earlier bridging loan. The other \$150 million will be used to pay off other arrears.

Argentine loan going ahead

By ANNE SEGALL

THE first \$500 million instalment of the controversial \$1.1 billion international bank loan for Argentina will be paid over tomorrow in spite of Argentina's failure to settle the question of its outstanding debts to banks.

Confirmation that the payout will go ahead was provided yesterday by Lloyds Bank, acting as agent for the British banks in the loan. Between them the British banks are providing roughly 10 p.c. of Argentina's new money demands.

Banks had originally insisted that Argentina should first reach agreement with its international bank creditors on re-scheduling roughly \$6 billion of public sector debts before new funds were made available.

But they have since agreed to waive this demand under pressure from Argentina's incoming economy minister, Sr Bernardo Grinspun, who wants the question left open until the

newly-elected government takes office on December 10.

Banks were relieved when Argentina's first elections for eight years produced a victory for the Radical party early in November. But Sr Grinspun's recent comments have raised some concern among the country's bank creditors because of the emphasis he has placed on seeking better terms on rescheduled debts.

The \$1.1 billion medium-term loan for Argentina unleashed a storm of protest in Britain when it was first announced last December.

Concern has continued to be expressed over the inability of Argentina's creditors to prevent the country using outside finance to support a programme of heavy arms purchases.

By making the new money available now banks are hoping to help Argentina clear existing interest arrears.

From: P Mountfield
Date: 25 November 1983

MR TOWERS IDT

cc -

PS/Chancellor
Mr Littler
Mr Unwin
Mr Lavelle
Mrs Case
Mr Denison

Mr Balfour Bank of England
Mr Appleyard, FCO

ARGENTINA

I attach some defensive briefing (agreed with Mr Littler and cleared with Bank and FCO) on the points raised in the Guardian story this morning.

RM

P Mountfield

ARGENTINA: NEW BANK LOAN AND ARMS SALES

PRESS LINE (DEFENSIVE ONLY)

1. Is the Guardian report correct?

We have no direct knowledge of these negotiations, which are nothing to do with HMG. But we have no reason to doubt the report.

2. Was HMG aware of the new loan?

Yes, although we are not familiar with the details; but HMG's approval is not needed, and we did not need to be consulted.

3. Does HMG approve?

The banks appear to be acting under an existing contractual commitment (signed in August). So far as we know, the conditions of the contract have been met in general terms. Our understanding is that the conditions allow for waiver in certain respects and this is the point which the banks are now considering.

The IMF standly remains technically in existence but no further disbursements are being made or contemplated at present. We believe that the IMF expect to resume discussions when the new government is in office in the hope of establishing a satisfactory revised programme. For this purpose ~~it is questionable whether it would have been better to wait~~ ^{it might have been better to wait} until the new government was in office and had begun the programme of economic recovery which has been promised. This would have provided a basis for a revised IMF programme, and that in turn would have given the banks greater assurance.

4. Will the loans be used to buy arms?

No. Of the \$500m which we understand is to be disbursed at the end of November, \$350m is to be used immediately to repay an earlier bridging loan, while the remaining \$150m will go into an escrow account to be used to pay off other arrears.

5. US resuming arms sales?

[Ask the FCO.]

withholding loans to pay for arrears?

6. Will HMG join in a rescheduling of official public sector debt?

No request has been received for any debt restructuring.

7. Past Government statements?

See attached Hansard extracts.

Argentina to get \$500m aid

By Peter Rodgers,
Financial Correspondent

Argentina is expected to get a \$500 million cash injection by next Wednesday from British and other banks, in a rushed deal which it is hoped will pre-empt any attempt by the new civilian government to fundamentally renegotiate terms with foreign creditors.

The arrangement, put together late on Wednesday night at the headquarters of Citibank in New York, is also designed to allow the Argentines to catch up with some of the overdue interest payments. Otherwise American banks will be forced by their auditors to make huge and damaging loan write-offs at the year end.

Some banks have had reservations about handing over the \$500 million by the end of this month, because the new civilian government does not take over from the military until December 10. The money will also have to be paid over before a series of rescheduling

deals with Argentine public sector bodies is signed, which until now has been a condition of payment.

The \$500 million is part of a \$1.5 billion medium-term loan first mooted over a year ago but continually delayed. Argentina has indicated that it wants better terms from the banks next year but has been ambiguous about whether it will try and change the terms of the present loan. Argentine central bank officials at the Citibank meeting in New York were suggesting however that they have agreed the proposal to go ahead next week.

So far 90 per cent of the several hundred banks involved have agreed to payment by next Wednesday, and the leading banks are now trying to whip the rest into line.

Yesterday telexes went out from Citibank and from the steering group of banks organising the loan.

The Citibank telex said that Argentina will be drawing \$500

million by or on November 30. It said banks were asked to waive two loan conditions — that interest on bank debt should be up to date and that public-sector reschedulings should be "in place" by December 15. The new economy minister, Mr Bernardo Grinspun, has indicated that he wants to revise some of the terms of the rescheduling and it now looks as if signature could be delayed past the year end.

A second telex from the steering group confirmed that with the new government coming in on December 10, it would be impossible to finish the rescheduling deals by December 15, which had been the original target date.

The \$500 million will be instantly recycled to the banks to repay a bridging loan and interest arrears to the end of September, and possibly into October. The British banks, led by Lloyds, appear to be in favour of this scheme.

extract Hansard

24 3 83

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Argentina (Bank Loan)

7. Mr. Newens asked the Chancellor of the Exchequer whether he has given any advice to British banks about their involvement in a consortium of foreign banks which is seeking to negotiate the new medium term loan to Argentina following the Argentine decision to suspend repayment on nearly £1,000 million of its foreign debt.

Mr. Bruce-Gardyne: No, Sir. This must be a matter for the individual banks concerned. The swap facilities, to which I assume the hon. Gentleman refers in the latter part of his question, form part of the foreign debt obligations of Argentina which are the subject of negotiations currently in progress between that country and international banks.

Mr. Newens: Will the hon. Gentleman confirm that there are no conditions attached to the loan to prevent the

Argentine Government from using it to purchase arms, and that recently the Almirante Brown has been delivered, replete with British components, along with 70 Mirage III or Dagger jet fighters? Numerous other items are on order. Is it not a disgrace that the Government are prepared to finance the rearming of Fascist Argentina?

Mr. Bruce-Gardyne: The part of the hon. Gentleman's question relating to Argentina's recent acquisition of frigates is not a matter for the Treasury— [HON. MEMBERS: "Oh".] There is no shortage of arms sellers around the world. We would not deny the Argentines the opportunity of purchasing arms by driving Argentina into default.

Mr. Newens: Really. What a disgrace.

Mr. Bruce-Gardyne: It is clear that this loan is an integral part of the IMF programme for Argentina which puts tight controls on Argentina's public finances. If Argentina diverted money to buy more arms that could jeopardise the IMF programme and hence Argentina's ability for future drawings.

Mr. James Lamond: Disgraceful.

Mr. McCrindle: On the more general point, is it the Government's view that no one economy can be allowed to disintegrate without a substantial knock-on effect on its neighbours and, ultimately, on the whole international economic scene? In those circumstances, does my hon. Friend agree that the Government have no alternative but to pursue their policies irrespective of their views of the regime in Buenos Aires?

Mr. Bruce-Gardyne: My hon. Friend is entirely right. We are a major trading nation and we depend upon exports for a larger proportion of our total output than do most other major trading nations and upon a steady expansion of international trade. A default that was triggered in Argentina by a failure to resolve the immediate problems of Argentina's indebtedness could have repercussions in other countries and serious implications for international trade that would be seriously to our disadvantage.

Mr. Dalyell: To borrow the Minister's graphic phrase of last year, is not this a mug's game?

Mr. Bruce-Gardyne: No, Sir. It would be a mug's game to perform otherwise.

Mr. Eggar: If Argentina were to default, would that not mean that British banks would have to write off considerable loans. [Interruption.] Before the Opposition jump for joy will my hon. Friend confirm that the effect would be a reduction in their capital base which would mean that they would find difficulty in lending to domestic companies? Would not that mean a reduction in jobs?

Mr. Cryer: I think that the hon. Gentleman is a merchant banker.

Mr. Bruce-Gardyne: My hon. Friend is entirely right. The propositions advanced by the Opposition would be damaging to international trade and to the structure of international banking and would ultimately have repercussions on employment.

Mr. Robert Sheldon: Is the hon. Gentleman aware of Tuesday's report in the *Financial Times*, that despite Argentina's reduction in interest arrears, the conditions for the \$1.5 billion loan have not yet been settled? As the

Prime Minister has stated categorically that the money is not being lent to purchase armaments, why is that not to be a condition of the loan?

Mr. Bruce-Gardyne: As the right hon. Gentleman knows well, international arms trading is conducted on credit which is not necessarily pervious to the consequences of such banking negotiations. All the arrangements that are being conducted by the IMF are designed to ensure that Argentina, like other countries with debt problems, pursues correction policies that will enable it to settle its debts and not involve itself in additional outgoings that it could not meet.

Mr. Newens: On a point of order, Mr. Speaker. In view of that disgraceful Pontius Pilate-like reply, I shall seek to raise the matter on the Adjournment.

Mr. Dalyell: Further to that point of order, Mr. Speaker.

Mr. Speaker: Order. There can be no further point of order on that point of order except to the extent that it was not expressed in the usual language.

Mr. Dalyell: Further to that point of order, Mr. Speaker. I give notice that I intend to raise this matter tonight on the Consolidated Fund (No. 2) Bill.

Pratts Bottom

Q2. Mr. Stanbrook asked the Prime Minister if she will pay an official visit to Pratts Bottom.

The Prime Minister: I have at present no plans to do so, although I know Pratts Bottom well because I used to live within walking distance. Will my hon. Friend please give my warm regards to the people there?

Mr. Stanbrook: Is my right hon. Friend aware that her reply, notwithstanding her good wishes, will be deeply disappointing to the villagers of Pratts Bottom? Is she aware that they seek an early opportunity to express to her their appreciation of the benefits of the Budget—*[Interruption.]*—in which they are keenly interested, especially the raising of the tax threshold and the further relief given to mortgagors?

The Prime Minister: I am grateful for my hon. Friend's warm and fully justified praise for my right hon. and learned Friend's Budget. I am especially grateful for his praise of the extra relief on mortgages. In the Greater London area, about 23 per cent. of first-time house purchasers, and about 30 per cent. of those not buying for the first time, have mortgage loans above the former tax relief limit. The extra relief is well deserved.

Mr. Christopher Price: Is the Prime Minister aware that, were she to visit Pratts Bottom, she would be in P district of the Metropolitan police area and that, to get there, she would have to drive through my constituency down the Bromley road? Is she aware that if she happened to stop on Bromley road, get out of her car and talk to my constituents about the Police and Criminal Evidence Bill, she would find them enormously encouraged by the remarks of her right hon. Friend the Home Secretary from the Dispatch Box on Tuesday—when she was unhappily away—to the effect that the Government intend to withdraw two clauses from the Bill because they know that it will be rubbished by the bishops and the judges in the House of Lords? Will she tell us about the Government's exact intentions in respect of that Bill now that it has fallen into such contempt on both sides of the House?

The Prime Minister: My right hon. Friend the Home Secretary has audibly dissented from the hon. Gentleman's interpretation of his remarks when I was away on Tuesday. The hon. Gentleman will accept that the Bill was based on the findings of a Royal Commission. He will also accept that we wish to fight crime with every possible legitimate weapon, and it is important that we should be denied neither the means of identification nor the means of proof for fighting those crimes.

Engagements

Q3. Mr. Heddle asked the Prime Minister if she will list her official engagements for Thursday 24 March.

The Prime Minister: This morning I presided at a meeting of the Cabinet and had meetings with ministerial colleagues and others. In addition to my duties in the House I shall be having further meetings later today. This evening I shall be attending a dinner given by President Kaunda.

Mr. Heddle: Does my right hon. Friend agree that for far too long teacher training courses have contained too many irrelevant and spurious subjects such as sociology

and psychology? Does she agree that the timely announcement earlier this week by my right hon. Friend the Secretary of State for Education and Science will better equip teachers to teach children real subjects that will be of practical benefit to them in the real world? Will she undertake to bring forward the White Paper proposals as early as possible?

The Prime Minister: I welcome my right hon. Friend's White Paper on the training of teachers. There is an opportunity to improve teaching in our schools, to secure a match of teachers' qualifications with the shortage subjects, which is most important, and to assess what really matters, which is their competence in the classroom. Those things will be done and will be warmly welcomed in the country.

Mr. Foot: Perhaps the Prime Minister can help us by clearing up the confusion created by some answers we heard earlier this afternoon from Treasury spokesmen about loans to Argentina. Can she confirm that talks on the legal conditions of the loan have proved difficult, as was reported in a newspaper a few days ago? Have those difficulties been created by the British Government because they are trying, at last, to lay down conditions about the expenditure of that money on arms?

The Prime Minister: I remember the right hon. Gentleman saying from that Dispatch Box that it was no earthly good trying to lay down such conditions, but his question now is completely different. We supported the loans from the IMF to Argentina on certain stringent conditions. There are two commercial loans to which different conditions apply. We supported the loans for two reasons. First, in the absence of either an IMF loan or commercial loans there was a possibility that Argentina would default. If it did so, it would have far more money to spend on arms than if it met the debt. *[Interruption.]* I am afraid that is a fact of life. Furthermore, unless Argentina receives some help, it could default to third countries and, therefore, trigger off the collapse of the difficult and delicate packages that were agreed between the IMF and those countries. Therefore, it was in our interests to do what we did, both through the IMF and through the agreement of two commercial loans under different circumstances.

Mr. Foot: Does the right hon. Lady stand by her statement of 27 January that the money has not been lent for arms? Is it not the case that, under the plans that she is now apparently allowing to go ahead, the money may be spent on arms? Does she take account of the fact that, according to recent reports, up to £6 million of Argentina's £38 million foreign debt is believed to have been spent on defence? Is she aware that Argentina has greatly increased its arms supplies, some of which may have been paid for with British money?

The Prime Minister: The right hon. Gentleman has still not taken note of my first point. The alternative was that Argentina may default. *[Interruption.]* The right hon. Gentleman may not like it, but if a country defaults on all its debts, much more money is released that could pay for arms than would have been the case if that country was held to repaying its debts. That is obvious.

Mr. David Steel: Has the Prime Minister had time to see the study by the Association for the Conservation of Energy, which suggested that 150,000 new jobs could be

EXTRACT FROM HANSARD 20.7.83

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Argentina (Arms Purchases)

Mr. Dalyell asked the Prime Minister what evidence Her Majesty's Government have for the statement by the Economic Secretary to the Treasury, *Official Report*, 11 July, c. 617, that International Monetary Fund loans will make Argentina less likely to purchase arms.

The Prime Minister: The International Monetary Fund cannot lay down the detailed public expenditure programmes. It requires a disciplined financial policy which limits the level of public expenditure and which sets other performance targets. To the extent, therefore, that Argentina is forced to give priority to paying debt, controlling public expenditure and limiting borrowing, its ability to purchase arms should be constrained.