

10-12
SUBJECT

NOTE FOR THE RECORD

Copied to Madhav Set
and to Argentina
Relations
Part 28

Following her lunch yesterday with Herr Leutwiler, President of the Swiss National Bank, the Prime Minister had two telephone conversations with Sir Douglas Wass.

Mexico

Mexico

The Prime Minister said that Herr Leutwiler was concerned about the financial situation in Mexico. It would be very serious if the Mexican Government were to repudiate or to default on any of its loans. Herr Leutwiler had wondered whether President Lopez Portillo, and President-designate De La Madrid, appreciated the seriousness of the situation. The Prime Minister suggested that a political demarche to the Mexican Government might be timely. After talking to Sir Antony Acland and the Chairman of the US Federal Reserve, Sir Douglas Wass came back to the Prime Minister and told her that a political demarche of this sort could be counter-productive. The Americans considered that the Mexicans were determined to avoid even a rescheduling of their debt, and the thought of default or repudiation had not even entered their minds. It would not be wise even to hint at these possibilities at this stage. The Mexicans were seeking help from the IMF, and were likely to announce this shortly. Repudiation or default would then be quite out of the question. President Reagan was in touch with President-designate De La Madrid, but it was unlikely that he would make the sort of demarche suggested by Herr Leutwiler. The Prime Minister said that she was content not to press this suggestion.

Argentina

The Prime Minister told Sir Douglas that Herr Leutwiler shared the Bank of England's eagerness to lift financial restrictions on Argentina. She had explained to him that this was the last card that might enable us to achieve the lifting of restrictions on air service operators such as British Caledonian, and that we could not afford to throw away this opportunity lightly. She agreed

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with Sir Douglas that it would have been absurd to have conceded the lifting of financial restrictions when we had not even received a reply to the conditions that had been put to the Argentines.

In the second telephone conversation, Sir Douglas explained that the Bank of England had now had a formal reply from the Argentines to the conditions that we had put forward; that is to say, to the suggestion that we would lift financial restrictions if the Argentines were willing to agree to lift restrictions on all invisible trade, including air services. The Argentines were not willing to accept this suggestion. The US State Department had told us that the control of Argentine air space was in the hands of the air force, and that it was not within the power of the present government to persuade the air force to lift its restrictions, except on terms unacceptable to us. It seemed that the Argentines were not even inclined to promise us parallel terms to those European air service operators at present subject to Argentine restrictions. Lufthansa and Air France, for instance, were confident of negotiating a lifting of restrictions by the end of September; at present it seemed unlikely that we would be able to achieve the same for British Caledonian. Sir Douglas recommended that we should at present make no further move in the negotiations. There was no point in conceding the lifting of financial restrictions to the Argentine at the first set-back. We should simply make no move. The Prime Minister agreed.

LM

17 August 1982