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CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

6 September 1982

*Dear Sir,*

Call by Senor Tello on 7 September 1982

You have kindly agreed to receive Senor Manuel Tello in response to the request contained in Mexico City telno 715.

/ I enclose a copy of the brief prepared for Senor Tello's call on Mr Onslow.

*Your ever*

(J E Holmes)  
Private Secretary

A J Coles Esq  
10 Downing Street

CONFIDENTIAL

CALL BY SENOR MANUEL TELLO, DEPUTY MINISTER OF FOREIGN AFFAIRS OF MEXICO AND EMISSARY OF PRESIDENT LOPEZ PORTILLO ON MR ONSLOW AT 1115 AM ON 7 SEPTEMBER 1982

POINTS TO MAKE

1. Welcome initiative of President Portillo to explain Mexico's policies to friends such as UK. Grateful for opportunity to hear Mexican Government's views. Make sure that they are known to all those concerned in HMG.
2. How do Mexicans see next few months. What steps will be necessary?
3. While Mexico must take those measures that seem best fitted to meet problems must remember that important element in resolution of problems is confidence. Hope will take every opportunity to confirm to international banking community (to whom two-thirds of debt owed) Mexico's resolve to deal with problems.
4. In particular the overseas branches of the Mexican banks now nationalised may find themselves in a difficult position. We believe it is important for the Mexican authorities to indicate their support for these branches.
5. In our view negotiations with respect to Government guaranteed debt should take place in the established multilateral forum, the Paris Club.
6. International action to help Mexico swift and substantial. UK played its part. Important to bring next stage - negotiations with IMF to a successful conclusion. Meanwhile, hope to see continuing efforts in Mexico to deal with causes of crisis.

/7.

7. The economic crisis will present the incoming administration with considerable constraints on its policies particularly those of social and industrial development. How do you see the situation? Is there likely to be a dangerous degree of popular discontent?

8. Looking forward to my first visit to Mexico. I plan to be there 22-24 September for a Heads of Mission Conference.

CALL BY SENOR MANUEL TELLO, DEPUTY MINISTER OF FOREIGN AFFAIRS OF MEXICO AND EMISSARY OF PRESIDENT LOPEZ PORTILLO ON MR ONSLOW AT 1115 AM ON 7 SEPTEMBER 1982

ESSENTIAL FACTS

1. Copies of Mexico City telegram numbers 715, 720 and 726 are attached. In 715 is described Señor Tello's visit and its purpose.

2. Telegram 720 describes the effect of the nationalisation of the banks and the imposition of exchange controls. The main difficulty/arising from the exchange controls is their effect on the operation of British companies in Mexico whose remittances and essential imports will be affected.

3. Telegram 726 describes the Government's domestic presentation of the economic measures. Noteworthy are comments in paragraph 6 that there must be considerable doubt about the outcome of the IMF negotiations and paragraph 8 which envisages the possibility of a default.

4. Further comment is contained in ERD's paper of 2 September, copied to PS/Mr Onslow of which a further copy is annexed and in a copy of Treasury briefing for the Prime Minister describing the action by the international community to help in the Mexican financial crisis.

5. There are four branches/of the Mexican banks now nationalised, two of which are recognised banks and two licenced deposit takers. There is in addition a consortium bank.

6. A copy of a personality report on Señor Manuel Tello is attached. He is the brother of the newly-appointed Governor of the Central Bank.

## MEXICO

1. The Mexican Government yesterday announced the imposition of full exchange controls and the nationalisation of private Mexican banks. These measures form part of Mexico's response to the continuing liquidity crisis. This note briefly examines the implications of the latest moves for the Mexican economy and for British interests. Mexico City telegrams No 711 and 713 are attached.
2. The response to the economic and financial crisis that broke in Mexico in mid-August were swift and substantial. Emergency action by the Mexican Government has been supported by massive international assistance. The US Government has made \$2 billion available bilaterally, plus access to a swap arrangement for \$700 m from the Fed. A bridging loan of \$1850 million (half of it put up by the US) has been put together through the BIS. Private banks have agreed to roll over payments on Mexican public debts maturities for 90 days. Moves have begun to allow Mexico to draw up to 450% of her quota with the IMF, although this money cannot be made available immediately.
3. Nevertheless, problems still remain. The financing gap, even in the short-term, is still substantial. Even if the short-term problems can be solved, longer-term<sup>problems</sup> will persist. Mexico's highly ambitious economic policies, founded on what has proved to be an over-optimistic forecast of oil prices, will need to be adjusted, and such adjustment will be socially and politically painful.
4. The most recent measures represent emergency action to stem continued capital flight. But the nationalisation of private banks is bound to damage international banking confidence in Mexican policies. Exchange controls, however severe, will be circumvented because of Mexico's long land frontier with the United States. These measures, on top of those already taken, are leading to economic and commercial confusion within the country.

5. Mexico is rich in natural resources and its medium-term prospects are reasonably good, provided the confidence of its creditors can be restored. But the economic crisis has come at a time of political hiatus. The new President, De la Madrid, does not formally take over until December. Meanwhile, President Lopez Portillo is completely discredited. Fortunately, the Finance Minister and the Governor of the Central Bank are among the few members of the Administration whose reputation remains untainted.
6. British banks are not directly affected by the latest measures, since they have no branches in Mexico. But the total exposure of British banks is very large - some \$6 billion. Our commercial interests are substantial and include the major steel project at Sicartsa, agreed during the Prime Minister's visit last October. Our trade is bound to be affected by the immediate economic troubles. But we will want to stay well placed to profit from Mexico's eventual recovery.
7. Politically, our interest is in the stability of Mexico as a large and strategically placed Latin American country. The persistence of attempts by the Soviet Union, through Cuba, to expand its influence in Central America adds to the importance of a stable Mexico.

Economic Relations Department

2 September 1982

\* replaced 2 SchV  
by Carlos Tello  
Macías, brother of  
the Def. F. M.

GRS 495

UNCLASSIFIED

DESKBY 020800Z SEPTEMBER

FM MEXICO CITY 020210Z SEPT 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 712 OF 2 SEPTEMBER

INFO PRIORITY WASHINGTON, HAVANA, SAN JOSE, TEGUCIGALPA,  
BELMOPAN

NIPT (NOT TO ALL): PRESIDENT LOPEZ PORTILLO'S STATE OF THE  
NATION ADDRESS: FOREIGN POLICY

1. IN HIS SPEECH TO THE MEXICAN CONGRESS THE PRESIDENT REVIEWED HIS GOVERNMENT'S FOREIGN POLICIES AND ACHIEVEMENTS. HE SAID THAT DURING HIS ADMINISTRATION THERE HAD BEEN A DANGEROUS REVIVAL OF THE COLD WAR. MEXICO HAD DECIDED TO ADOPT AN ACTIVE AND DYNAMIC ATTITUDE, INSTEAD OF WATCHING PASSIVELY THE DETERIORATION OF INTERNATIONAL RELATIONS. IT HAD TAKEN A NUMBER OF IMPORTANT INITIATIVES AIMED AT IMPROVING NORTH/SOUTH RELATIONS, NOTABLY THE WORLD ENERGY PLAN AND THE CANCUN SUMMIT CONFERENCE. THE DECISION TAKEN BY THE SEVEN INDUSTRIALIZED COUNTRIES AT VERSAILLES ON GLOBAL NEGOTIATIONS WAS IN PART DUE TO THE SPIRIT OF CANCUN.
2. THE PRESIDENT SAID THAT HE HAD GIVEN PRIORITY TO MEXICO'S RELATIONS WITH THE COUNTRIES OF CENTRAL AMERICA AND THE CARIBBEAN, TO WHICH IT HAD GIVEN SUBSTANTIAL ECONOMIC AID. IT HAD PROVED DIFFICULT TO COMBINE GOOD RELATIONS WITH THE UNITED STATES WITH SYMPATHY AND SUPPORT FOR THE NOBLE STRUGGLES OF THE PEOPLES OF THE REGION. FOR GOOD OR ILL MEXICO HAD MAINTAINED ITS FRIENDSHIP WITH THE PEOPLE OF NICARAGUA, THREATENED BY INCOMPREHENSION, BLINDNESS AND THE ARBITRARY AND UNRESTRAINED USE OF FORCE. ITS PROPOSAL FOR A NEGOTIATED SOLUTION TO THE CONFLICT IN EL SALVADOR, MADE JOINTLY WITH FRANCE, WAS THE ONLY REALISTIC ALTERNATIVE TO FURTHER BLOODSHED AND REGIONALIZATION. IT HAD SUPPORTED THE INDEPENDENCE AND ECONOMIC DEVELOPMENT OF BELIZE. IT HAD STRENGTHENED ITS HISTORIC LINKS WITH CUBA AND HAD TRIED TO PERSUADE THE AMERICANS THAT THEIR TRADITIONS OF LIBERTY AND TOLERATION WERE NOT COMPATIBLE WITH THREATS, OSTRACISM AND THE REFUSAL TO ACCEPT A REALITY WITH 23 YEARS OF EXISTENCE.

/ 3. THE

3. THE PRESIDENT SAID THAT LITTLE PROGRESS HAD BEEN MADE IN BILATERAL US/ MEXICAN RELATIONS, BUT THAT AN IMPORTANT DEVELOPMENT WAS THAT FOR THE FIRST TIME IN HISTORY MEXICO HAD BECOME AN ACCEPTED INTERLOCUTOR OF THE UNITED STATES OVER MATTERS NOT DIRECTLY BILATERAL.
4. A NOTABLE OMISSION FROM THE PRESIDENT'S SPEECH WAS ANY SUBSTANTIVE REFERENCE TO THE FALKLANDS CONFLICT. THIS WAS MENTIONED ONLY AS ONE OF A NUMBER OF TOPICS ON WHICH THE MEXICAN GOVERNMENT HAD HAD DISCUSSIONS WITH THE US GOVERNMENT.
5. FURTHER REPORT FOLLOWS WITH FULL TEXT OF REMARKS ON CENTRAL AMERICA AND THE CARIBBEAN WHICH WILL BE RELEVANT TO THE FORTHCOMING HEADS OF MISSION CONFERENCE.  
PLEASE SEE MIFT.

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UNCLASSIFIED [CULL]  
DESKBY 020800Z  
FM MEXICO CITY 020210Z SEPT 82  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 711 OF 2 SEPTEMBER  
AND TO IMMEDIATE TREASURY, DOT, ECGD, BANK OF ENGLAND  
INFO WASHINGTON

PRESIDENT LOPEZ PORTILLO'S STATE OF THE NATION LECB: NEW  
ECONOMIC MEASURES

1. IN AN EMOTIONAL STATE OF THE NATION ADDRESS TO THE MEXICAN CONGRESS TODAY, PRESIDENT LOPEZ PORTILLO ANNOUNCED THE IMMEDIATE INTRODUCTION OF FULL EXCHANGE CONTROLS AND THE NATIONALISATION OF ALL MEXICAN PRIVATE BANKS. HE ALSO SAID HE WOULD INTRODUCE A BILL TO MAKE THE BANK OF MEXICO FULLY GOVERNMENT CONTROLLED.
2. MUCH OF THE PRESIDENT'S FOUR-HOUR SPEECH WAS DEVOTED TO A DEFENCE OF THE ECONOMIC POLICIES PURSUED DURING THE SIX YEARS OF HIS ADMINISTRATION. HE SAID THAT HIS GOVERNMENT HAD SEIZED THE OPPORTUNITY PROVIDED BY MEXICO'S OIL RESOURCES IN ORDER TO PROMOTE THE COUNTRY'S FURTHER INDUSTRIALISATION, TO CREATE JOBS AND TO IMPROVE THE WELFARE AND EDUCATIONAL STANDARDS OF THE MEXICAN PEOPLE. THE PRESENT ECONOMIC AND FINANCIAL CRISIS DID NOT REPRESENT A FAILURE OF THE POLICY OF GROWTH, BUT WAS DUE TO AN UNFORSEEABLE COMBINATION OF ADVERSE EXTERNAL AND INTERNAL DEVELOPMENTS.
3. THE PRESIDENT DEMONSTRATED THE ECONOMIC POLICIES OF SOME INDUSTRIALISED COUNTRIES WHICH, IN SEEKING TO REDUCE INFLATION, HAD IN FACT ACHIEVED ONLY HIGH INTEREST RATES AND RECESSION. THERE WAS A FINANCIAL PLAGUE WHICH WAS DOING GROWING DAMAGE THROUGHOUT THE WORLD. MEXICO HAD BEEN SERIOUSLY AFFECTED BY HIGH INTEREST RATES IN THE UNITED STATES, FALLING PRICES OF RAW MATERIALS AND A DECLINE IN EXPORTS AND EARNINGS FROM TOURISM. BY JULY ITS FOREIGN DEBT HAD REACHED US DOLLARS 76 BILLION, 80 PERCENT ATTRIBUTABLE TO THE PUBLIC SECTOR AND 20 PERCENT TO THE PRIVATE SECTOR. THE POTENTIAL OF THE COUNTRY WOULD HAVE ENABLED IT TO OVERCOME THE DIFFICULTIES CAUSED BY A HOSTILE WORLD, BUT IT HAD BEEN DEFEATED BY SPECULATION AGAINST THE PESO AND THE FLIGHT OF CAPITAL. MEXICANS HELD AT LEAST US DOLLARS 14 BILLION IN US BANK ACCOUNTS, THEY OWNED PROPERTY ABROAD WORTH AN ESTIMATED US DOLLARS 30 BILLION OF WHICH ONLY 8.5 BILLION HAD BEEN PAID, AND US DOLLARS 12 BILLION WERE HELD IN DOLLAR ACCOUNTS IN MEXICO. IN THE PAST TWO TO THREE YEARS US DOLLARS 22 BILLION HAD LEFT THE COUNTRY AND MEXICANS HAD INCURRED A FURTHER US DOLLAR 20 BILLION IN UNREGISTERED FOREIGN DEBTS. TAKEN TOGETHER, THE MOVEMENT INTO DOLLARS TOTALLED US DOLLARS 54 BILLION, EQUIVALENT TO HALF THE CURRENT ASSETS OF THE MEXICAN BANKING SYSTEM OR TWO THIRDS OF THE COUNTRY'S FOREIGN DEBT.

4. THE PRESIDENT SAID THAT MUCH OF THE COUNTRY'S FINANCIAL DIFFICULTIES WERE THUS DUE TO THE LACK OF SOLIDARITY SHOWN BY A RELATIVELY SMALL NUMBER OF PRIVILEGED MEXICANS AND BY THE PRIVATE BANKS. FOLLOWING THE BRUTAL ATTACK ON THE PESO IN FEBRUARY, THE GOVERNMENT HAD ADOPTED A RANGE OF PAINFUL MEASURES OF IMPECCABLE FINANCIAL ORTHODOXY TO RECTIFY THE SITUATION. BUT THE SPECULATORS WERE INSATIABLE. A FEW MEXICANS ADVISED AND SUPPORTED BY THE PRIVATE BANKS, HAD TAKEN MORE OUT OF THE COUNTRY THAN HAD THE FOREIGN EMPIRES WHICH HAD EXPLOITED MEXICO FROM THE BEGINNING OF ITS HISTORY.
5. THE PRESIDENT SAID THAT HE HAD NO WISH TO CONDUCT A WITCH HUNT. BUT THE TIME HAD COME TO TAKE DRASTIC MEASURES TO REDUCE THE COUNTRY'S VULNERABILITY. HE HAD SIGNED TWO DECREES, ONE INTRODUCING EXCHANGE CONTROLS AND THE OTHER NATIONALISING ALL PRIVATE BANKS. THESE MEASURES WOULD CAUSE MANY PROBLEMS AND SOME HARDSHIP, ESPECIALLY IN THE FRONTIER AREAS. BUT THESE WOULD BE DEALT WITH. THE MEASURES WERE JUSTIFIED BY THE NATIONAL INTEREST.
5. THE PRESIDENT SAID THAT ALL BANKS WOULD BE CLOSED UNTIL 6 SEPTEMBER TO ALLOW TIME FOR THE MEASURES TO BE IMPLEMENTED. PEOPLE WITH BANK ACCOUNTS HAD NO CAUSE FOR APPREHENSION AND THE BANK SERVICES TO THEM WOULD NOT BE CHANGED. THE ONLY CHANGE WOULD BE THAT OWNERSHIP OF THE BANKS WOULD PASS TO THE NATION FROM THOSE WHO HAD BETRAYED IT.
6. FCO PLEASE ADVANCE TO ATKINSON (TREASURY), OWEN (DOT), HALL (ECGD) AND GILCHRIST (BANK OF ENGLAND).

TICKELL

(ADVANCED AS REQUESTED)

FINANCIAL  
MCAD  
NAD

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