

OTWON 10/7

00 FCO

GRS 530

SECRET

FM OTTAWA 070400Z SEP 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 433 OF 6 SEPTEMBER

- 1 Mr Scholast
- No 10 Downing Street
- 2 Mr Hammar
- 3 Mr Franklin (ODA)
- 4 Mr Little (TSY)
- 5 Mr Balfour (B. of England)

(X4)

IMMEDIATE

ADVANCE COPY

f.a.  
AR 7/9

FOLLOWING FOR PRIME MINISTER FROM CHANCELLOR OF THE EXCHEQUER

ARGENTINE : ECONOMIC RESTRICTIONS

1. THERE HAVE BEEN FURTHER DEVELOPMENTS SUBSEQUENT TO MY REPORT ON THE WEEKEND EXCHANGE OF NOTES WITH THE ARGENTINE DELEGATION VIA MCNAMAR OF THE US TREASURY.

2. ON 6 SEPTEMBER THE ARGENTINES SOUGHT CLARIFICATION OF CERTAIN POINTS IN OUR NOTE; WE HAVE SINCE HAD A FURTHER REACTION FROM THEM. THEY ARE READY TO AGREE TO:-

(1) AN ASSURANCE OF NO DISCRIMINATION AGAINST BRITISH BANKS, WHETHER ON A RESTRUCTURING OF DEBT OR ELSEWHERE:

(11) REMOVAL OF DISCRIMINATORY FINANCIAL RESTRICTIONS AGAINST THE UK, INCLUDING FINANCIAL RESTRICTIONS ON UK BUSINESSES IN THE ARGENTINE. THEY AGREE THIS WOULD APPLY TO FINANCIAL (LAST WORD UNDERLINED) SERVICES E.G. INSURANCE, THOUGH THEY PREFER NO TO MENTION INSURANCE SPECIFICALLY.

3. ON TRADE MATTERS GENERALLY THEY SAY THAT THE REMOVAL OF RESTRICTIONS AT THIS STAGE WOULD BE LIMITED TO SPECIFICALLY FINANCIAL MATTERS. THEY ADD THE FOLLOWING HOWEVER: "NEVERTHELESS, THE POSSIBLE GOOD OFFICES OF THE AMERICAN AUTHORITIES ARE WELCOME TO CONSIDER, AT A PROPER MOMENT, AN EVENTUAL LIFTING OF RECIPROCAL TRADE RESTRICTIONS."

4. ON AIR TRAFFIC MATTERS THEY SAY THEY CAN MAKE NO OFFER, FOR THESE "FALL OUTSIDE THE COMPETENCE OF THE ARGENTINE FINANCIAL AUTHORITIES."



5. THEIR GENERAL APPROACH IS THAT WITHIN THE FINANCIAL RESTRICTIONS IMPOSED BY THE UK ON 2 APRIL AND BY ARGENTINA ON 3 APRIL, THE REMOVAL OF RESTRICTIONS ON THE ARGENTINE SIDE WOULD FOLLOW

''STEP BY STEP'' THE REMOVAL OF CORRESPONDING RESTRICTIONS ON THE UK SIDE. (IN PRACTICE THERE WOULD BE ONE STEP ONLY, AND WE COULD PROBABLY ENSURE THAT THEIR ACTION FOLLOWED OURS ON THE SAME DATE, GIVEN THE TIME DIFFERENCE BETWEEN LONDON AND BUENOS AIRES.)

6. WE ARE ATTEMPTING TO CLARIFY A POINT ABOUT ''OBSERVERS'' WHO ARE, OR CAN BE, PLACED IN BRITISH BANKS AND BUSINESSES IN THE ARGENTINE AS PART OF THEIR RESTRICTIONS. WE HAVE EXERCISED A SIMILAR RIGHT TO PLACE A BANK OF ENGLAND ''OBSERVER'' IN THE BANCO DE LA NACION IN LONDON. WE ARE TOLD THAT THEY HAVE DIFFICULTY ABOUT CHANGING THEIR LAW TO REMOVE THEIR LEGAL RIGHT TO DO THIS, BUT THAT ''THE FUNCTIONS OF THE OBSERVERS WILL BE PERFORMED USING THE CONVENTIONAL PROCEDURES OF EXTERNAL AUDITING''. THE PRACTICAL IMPORTANCE OF THIS IS OBSCURE AND PERHAPS LIMITED.

7. THE AMERICANS MAIN CONCERN IS, I THINK, THAT THE LOG-JAM OVER ARGENTINE RESTRICTIONS SHOULD BE BROKEN QUICKLY IN VIEW OF THE DIFFICULTIES OVER MEXICO MENTIONED IN MY EARLIER GENERAL REPORT. REGAN AND VOLCKER WOULD LIKE US TO END THE RESTRICTIONS, AS WOULD THE US FINANCIAL COMMUNITY GENERALLY. SOLOMON, NOW HEAD OF THE NEW YORK FEDERAL RESERVE AND WRISTON OF CITIBANK, PRESSED ME HARD TODAY, RECOGNISING THAT THERE WERE RISKS FOR US IN STRIKING A DEAL, BUT ARGUING FOR AN ACT OF LEADERSHIP BY THE UK.

8. THE ARGENTINE DELEGATION WILL SEE LAROSIERE ON 7 SEPTEMBER ABOUT IMF ASSISTANCE.

9. I SHALL BE REFLECTING OVERNIGHT ON THE OPTIONS OPEN TO US.

10. PLEASE ADVANCE TO SCHOLAR (NO.10), EVANS (FCO), FRANKLIN (ODA), LITTLER (HMT) AND BALFOUR (BANK).

MORAN

NNNN



(x6)

~~Mr~~ Scholar, N°10DS (2)  
Mr Harman (in lieu of Mr Evans)  
Mr Franklin, DOT  
Mr Litter, HM Treasury  
Mr Balfour, Bank of England  
RC

ADVANCE COPY  
IMMEDIATE

WONFO 003/07

00 FCO

GRS140

SECRET

FM OTTAWA 062100Z

TO IMMEDIATE FCO

TELEGRAM NUMBER 430 OF 06 SEPTEMBER 1982

M I P T

ARGENTINE

*all financial restrictions  
and disbursements*

FOLLOWING IS TEXT OF ARGENTINE PAPER

WITH THE PURPOSE OF SOLVING THE PROBLEMS AFFECTING THE INTERNATIONAL FINANCIAL COMMUNITY, ORIGINATED BY THE FINANCIAL RESTRICTIONS RECIPROCALLY ADOPTED BY BOTH COUNTRIES, IF THE APPROPRIATE UNITED KINGDOM AUTHORITIES ARE PREPARED TO PUT AN END AND TERMINATE THE FINANCIAL RESTRICTIONS TAKEN AS OF APRIL 2 1982 COVERING OPERATIONYYW

OF ARGENTINE

NE INSTITUTIONS AND NATIONALS OR RESIDENTS, THE CORRESPONDING ARGENTINE AUTHORITIES ARE PREPARED, AS SOON AS THEY RECEIVE NOTICE OF THOSE DECISIONS, TO PUT AN END AND TERMINATE THE CORRELATIVE FINANCIAL MEASURES ADOPTED IN RETALIATION AS OF APRIL 3 1982.

MORAN

NNNN



(x6)

**IMMEDIATE**  
**ADVANCE COPY**

FCO

GRS 220

SECRET

FM OTTAWA 062050Z SEP 82

TO IMMEDIATE FCO

TELEGRAM NO 429 OF 06 SEPTEMBER 1982

M I P T

ARGENTINE

*A Scholar, N° 10 DS(2)  
Mr Hamman (in lieu of Mr Evans)  
Mr Franklin, DOT  
Mr Hittler, HM Treasury  
Mr Balfour, Bank of England  
RC*

FOLLOWING IS TEXT OF UK PAPER:

AN UNDERSTANDING ON THE RECIPROCAL REMOVAL OF ECONOMIC RESTRICTIONS

ON THE ARGENTINE SIDE THERE MIGHT BE:-

1. AN ASSURANCE OF NO DISCRIMINATION AGAINST BRITISH BANKS, WHETHER ON A RESTRUCTURING OF DEBT OR ELSEWHERE: ✓

2. REMOVAL OF DISCRIMINATORY FINANCIAL RESTRICTIONS AGAINST THE UK INCLUDING RESTRICTIONS ON UK BUSINESSES IN ARGENTINA: ✓

3. REMOVAL OF DISCRIMINATORY RESTRICTIONS ON SERVICES EG INSURANCE AND AIR TRAFFIC: *if possible*

4. AN UNDERSTANDING (NOT ANNOUNCED NOW) ABOUT THE REMOVAL OF TRADE RESTRICTIONS ON BOTH SIDES. IT MIGHT BE AGREED THAT THEY WOULD BE REMOVED AT AN AGREED POINT IN THE PREPARATIONS FOR THE GATT MINISTERIAL MEETING. *Yes*

ON THE BRITISH SIDE THERE MIGHT BE :-

(A) IMMEDIATE REMOVAL OF ALL RESTRICTIONS OTHER THAN THOSE ON TRADE: ✓

(B) REMOVAL OF RESTRICTIONS ON TRADE OTHER THAN THE TRADE IN ARMS AT THE AGREED POINT UNDER 4. ABOVE. ✓

MORAN

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(26)

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IMMEDIATE

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SECRET

FM OTTAWA 062020Z SEP 82  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 428 OF 06 SEPTEMBER

Mr. Scholar, N°10 DS. (2)  
Mr. Hannay (in lieu of Mr. Evans)  
Mr. Franklin, DOT  
Mr. Hittler, HM Treasury  
Mr. Balfour, Bank of England  
RC

FOLLOWING FOR PRIME MINISTER FROM CHANCELLOR OF EXCHEQUER

MIPT ARGENTINE: ECONOMIC RESTRICTIONS

1. FOLLOWING A MEETING WITH THE ARGENTINE FINANCE MINISTER US TREASURY MINISTER MCNAMAR, WHO IS DON REGAN'S IMMEDIATE DEPUTY HAS APPROACHED US ABOUT RECIPROCAL REMOVAL OF RESTRICTIONS BY THE THE UK AND ARGENTINA. MCNAMAR SUGGESTED THAT THE TWO SIDES MIGHT EXCHANGE PROPOSALS. I HAD ALREADY MADE IT CLEAR TO REGAN THAT WE FAVOURED A COMPLETE RECIPROCAL REMOVAL OF RESTRICTIONS ON BOTH SIDES.

2. MY TWO I F TS CONTAIN TEXTS OF NOTES WHICH WE AND THE ARGENTINES GAVE TO MCNAMAR. THEIRS WAS OF COURSE WRITTEN BEFORE RECEIPT OF OURS.

3. AS YOU WILL SEE OUR NOTE PROPOSED THAT THE UNDERSTANDING SHOULD COVER THE FULL RANGE OF SERVICES. IN VIEW OF NEWSPAPER REPORTS THAT A SEPARATE RESCHEDULING DEAL WITH US BANKS MIGHT BE IN THE MINDS OF SOME IN ARGENTINA, WE ALSO SOUGHT A 'NO DISCRIMINATION' ASSURANCE FOR BRITISH BANKS. ON TRADE OUR PROPOSAL TOOK UP A SUGGESTION BY MCNAMAR. (YOU WILL RECALL THAT WE DID NOT ASK FOR THE RENEWAL OF TRADE RESTRICTIONS GENERALLY IN THE LAST ROUND OF EXCHANGES. WE AWAIT AN ARGENTINE REACTION (VIA THE US).



4. MEANWHILE THE ARGENTINES HAVE TOLD THE AMERICANS THAT THEY INTEND TO APPROACH THE IMF FOR A STANDBY AND TO SEEK A RESCHEDULING. THEY BEGAN DISCUSSIONS WITH THE IMF YESTERDAY AFTERNOON. THEY ARE NOW SAID TO HAVE 2 BILLION DOLLARS OF ARREARS ON INTEREST AND REPAYMENT OBLIGATIONS.

5. THE US AUTHORITIES ARE CLEARLY ANXIOUS FOR US TO REMOVE OUR FINANCIAL RESTRICTIONS AND WOULD INDEED LIKE TO TAKE CREDIT FOR HAVING ARRANGED AN AGREEMENT. LEUTWILER IS ALSO VERY ANXIOUS THAT WE SHOULD REMOVE RESTRICTIONS. THE GENERAL CONCERN ABOUT THE BANKING SYSTEM ADDS TO THE PRESSURE ON US AND OF COURSE WE SHARE THIS CONCERN.

6. THE ARGENTINES HERE APPARENTLY SAY THEY ARE ABLE TO TALK ONLY ABOUT FINANCIAL RESTRICTIONS - THEY SPECIFICALLY CLAIM THAT THEY CANNOT SPEAK FOR THE AIR FORCE - BUT WE HAVE URGED MCNAMAR TO PRESS THEM ON THE SERVICES AND TRADE ISSUES. UNLESS WE GET A MOVE FROM THEM I SHALL MAKE NO FURTHER MOVE TODAY: BUT I THINK IT POSSIBLE THAT IF THE PRESSURES BUILD UP I MAY NEED TO USE TOMORROW THE DISCRETION YOU GAVE ME TO MAKE AN AGREEMENT ON THE FINANCIAL ASPECTS ONLY. AS YOU KNOW I AM CONCERNED THAT WE SHOULD NOT FIND OURSELVES IN A POSITION WHERE THE ARGENTINES DEFAULT AND WE ARE BLAMED BY THE INTERNATIONAL COMMUNITY FOR DRIVING THEM TO THIS OR AT LEAST GIVING THEM A PLAUSIBLE EXCUSE. I SHALL REPORT FURTHER.

7. SEE MY TWO I F TS

8. PLEASE ADVANCE TO SCHOLAR (NO 10) FRANKLIN (DOT) EVANS (FCO) LITTLER (HMT) AND BALFOUR (BANK).

MORAN

NNNN

*\$ 800 m frozen -  
and their  
debt is  
\$35 billion. We  
could hardly cause  
a default.*



10 DOWNING STREET

Prime Minister

The first 3 telegrams are  
about Argentina. The Chancellor  
would like to telephone you at  
12.30 today to discuss them.

Agree?

Yes

2. The 4<sup>th</sup> telegram is about  
the progress of the Toronto meeting.

A. J. C.  $\frac{7}{9}$ .