



If you differed from from the Chancellor's preference for option (b), I would need to tell the Treasury very quickly.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

FERS

10.9.

Michael Scholar Esq.
No. 10 Downing Street
London SW1

Agreed. 1

10 September 1982

Dear Michael,

Should make
to call through
the law
not

ARGENTINA: ECONOMIC RESTRICTIONS

Below

In his minute of 8 September the Chancellor undertook to keep the Prime Minister in touch with plans for implementing the agreement reached with the Argentine Finance Minister.

Timing

2. It has now been agreed between the Bank of England and the Argentine Central Bank that the operative time for simultaneous withdrawal of financial restrictions should be midnight London time on Monday, 13 September (8 pm on Monday in Buenos Aires). Both markets will be closed at that time. We have arranged with the Americans that they will intervene with the Argentines if we fail to get the right signal from them by midnight on Sunday; and have told them that the operation will have to be delayed if we do not get that signal at the latest by 9 am on Monday.

Action in London

3. There are two options. We could:-

(a) Leave the Control of Gold, Securities, Payments and Credits (Argentine Republic) Directions 1982 on the statute book, but issue a general Treasury permission for transactions to be made. This could be communicated by a Bank of England notice to banks etc.

(b) Make a new Order revoking the existing one. This simply requires the signatures of two Lords Commissioners, and has to be laid before Parliament.

4. The case for (a) is strict reciprocity: the Argentine military intend to leave their law in place, while making it inoperative in the financial field. The case for (b) is that it would be better for the standing of the City of London not to have the restriction remaining on the statute book, even if inoperative; and it is just possible that leaving it on the statute book might cause some Argentines who would otherwise have left their money in London to be more inclined to move it elsewhere. It would also be odd to nullify a statutory instrument by the administrative vehicle of a Bank of England



notice.

5. The Chancellor accordingly favours option (b). Once the Bank have received a confirmatory telex from the Central Bank of Argentina on 12 September, we propose to make an Order to revoke the Control of Gold, Securities Payments and Credits (Argentine Republic) Directions 1982. In practice the powers to reimpose restrictions at very short notice, should the need arise, will remain. And for the present the Secretary of Trade's formal amendment to the Open General Licence restricting trade with Argentina would also remain.

6. In fact, whether we revoke our statutory instrument or not, the reality is that we are releasing a potential flow (the Argentine short-term deposits in London), whereas Argentine performance under the Toronto understanding consists partly of removing controls on a stock of British assets in Argentina which will remain within their reach, and partly of restoring equal treatment to British lenders to Argentina, which will require action over a period, including a rescheduling. The real levers on the Argentines are their need for a rescheduling and an IMF agreement, and their engagement to the US as a result of US involvement in the Toronto deal. The real gain to us arises from the favourable effects on British banks and on the international banking system, in which we have a very strong interest; the revocation Order would be timed to take effect from midnight on Monday, and would be laid before Parliament on Monday morning. The Bank would arrange for copies to reach the principal banks and other financial institutions either on Monday afternoon or at the latest before the start of business on Tuesday.

Publicity

7. At the same time, that is on Monday morning, we propose to issue a Treasury statement. We think it essential to make clear the Government's case for dropping these controls and to do so in our own terms. A draft Statement, agreed between Departments at official level, is attached.

8. We have considered whether we should publish the Toronto Memorandum. The Argentine delegation there were however very anxious that it should not be published, and we think that to do so might increase the risk that the Argentine military would disown it. For the same reasons the Americans would certainly prefer us not to do so. It also contains a reference to rescheduling which could cause trouble because the Argentines have not yet formally proposed what they prefer to call a "restructuring". The Treasury, the FCO, the Department of Trade and the Bank agree that paraphrase is a better course than publication, at any rate at this stage.

SECRET



9. Copies of this letter, and the Statement, go to Brian Fall (FCO), John Rhodes (DoT), Tim Allen (Bank of England) and Richard Hatfield (Cabinet Office).

J. O. Kerr,
J. O. Kerr.

J O KERR

CONQUEROR

DRAFT TREASURY STATEMENT

REMOVAL OF FINANCIAL RESTRICTIONS ON THE ARGENTINE REPUBLIC

The financial restrictions imposed on Argentine residents and the Argentine Government on 3 April 1982 are to be discontinued from midnight London time on Monday 13 September. At the same time, that is 20.00 hours on Monday 13 September Buenos Aires time, the Argentine authorities will discontinue discriminatory financial restrictions against the UK including financial restrictions on UK businesses operating in Argentina.

2. The Government has repeatedly made clear its desire to remove, on a reciprocal basis, all the discriminatory economic and commercial restrictions between the UK and the Argentine imposed following the Argentine invasion of the Falkland Islands in April.

3. The Government would also like to see stability restored to the Argentine economic and financial system, welcomes Argentina's current approach to the IMF and wishes to facilitate an appropriate early agreement between the Fund and the Argentine authorities.

4. Against this background, and the general uncertainties in the international financial system, the Government has therefore decided on a reciprocal removal of financial

restrictions, on the basis of understandings reached with the Argentine authorities during the course of the Toronto IMF/IBRD meetings and subsequently. These provide for removal of Argentine/^{financial}restrictions on financial services as well as other businesses.

5. At this stage the Argentine authorities for their part would go no further than a reciprocal lifting of discriminatory financial restrictions. The UK authorities will look for early progress on the reciprocal removal of discriminatory trade and other commercial restrictions, with a view to restoration of normal commercial and economic relations.

6. Other ~~main~~ points are as follows:-

- Official observers or supervisors operating in UK businesses in Argentina as a result of the discriminatory restrictions on those businesses will be withdrawn.
- There will be no discrimination against UK banks. This means that in relation to overdue payments of interest and principal UK banks will be restored to the position which they would have enjoyed if, since April 1982, they had been treated no less favourably than other non-Argentine banks.

7. The Treasury has today laid [will today lay] a Statutory Instrument before Parliament to revoke the Control of Gold, Securities, Payments and Credits (Argentine Republic) Directions 1982, of 3 April. This revocation will come into effect from midnight, 13 September 1982.

SECRET

*File K6
6*



*afro
DIT*

*Bank of England
CO*

10 DOWNING STREET

From the Principal Private Secretary

13 September 1982

ARGENTINA: ECONOMIC
RESTRICTIONS

The Prime Minister has seen your letter of 10 September to Michael Scholar and is content with the proposals it contained.

I am copying this letter to the recipients of yours.

E. E. R. BUTLER

J. O. Kerr, Esq.,
H.M. Treasury.

A

SECRET

13.9.82
Press Notice
Attached

STATUTORY INSTRUMENTS

1982 No.
EXCHANGE CONTROL

The Control of Gold, Securities, Payments
and Credits (Argentine Republic) (No. 2)
Directions 1982

<u>Made</u>	13th September 1982
<u>Laid before Parliament</u>	14th September 1982
<u>Coming into Operation</u>	14th September 1982

Whereas the Treasury are satisfied that action to the detriment of the economic position of the United Kingdom is being taken by the Government of or persons resident in the Argentine Republic;

Now, therefore, the Treasury, in exercise of the powers conferred upon them by section 2 of the Emergency Laws (Re-enactments and Repeals) Act 1964(a) hereby give the following directions:-

1. These Directions may be cited as the Control of Gold, Securities, Payments and Credits (Argentine Republic) (No. 2) Directions 1982 and shall come into operation on 14th September 1982.
2. Except with permission granted by or on behalf of the Treasury, no order given by or on behalf of the Government of or any person resident in the Argentine Republic at the time of the coming into operation of these Directions or at any later time while these Directions are in force shall be carried out insofar as the order -

(a) 1964 c.60; section 2 was amended by the Finance Act 1968 (c.44) sections 55 and 61(10) and Schedule 20, Part V.

- (i) requires the person to whom the order is given to make any payment or to part with any gold or securities; or
- (ii) requires any change to be made in the persons to whose credit any sum is to stand or to whose order any gold or securities are to be held.

Margaret H. Thatcher

John Major

Two of the Lords Commissioners
of Her Majesty's Treasury.

13th September 1982

Removal of Financial Restrictions on the Argentine Republic

Treasury Press Notice No.2, 13th September 1982

Background Briefing for Press Offices

Q. What is the hitch at the Argentine end?

We understand that to avoid the risk of challenge in the courts the Argentine Government has had to adopt a different and slightly lengthier statutory procedure than that originally envisaged.

Q. How is the delay being given effect in the UK?

A new Statutory Instrument has been made under the Emergency Laws (Re-enactments and Repeals) Act 1964 to maintain the UK freeze for the time being.

Q. When will the UK freeze end?

As soon as the Argentine Government has completed the action necessary to remove its financial restrictions.

Q. When will that be?

It is expected to be in a matter of days, perhaps only a day or so.

Q. Has there been any direct contact with the Argentine Government?

We understand the Argentine Government is making a statement.

EXPLANATORY NOTE

(This Note is not part of the Directions)

These Directions prohibit (except with Treasury permission) any recipient in the United Kingdom, the Channel Islands or the Isle of Man of an order from the Government of or any person resident in the Argentine Republic from carrying out that order in so far as the order:

(a) requires the recipient to make any payment or to part with any gold or securities; or

(b) requires any change to be made in the persons to whose credit any sum is to stand or to whose order any gold or securities are to be held.

The Control of Gold, Securities, Payments and Credits (Argentine Republic) Directions 1982 (SI 1982/512) were made on 3rd April 1982 and came into operation on that date. In anticipation of the simultaneous removal of similar financial restrictions imposed by the Argentine Republic, those Directions were to be revoked on 14th September 1982 and the Control of Gold, Securities, Payments and Credits (Argentine Republic) (Revocation) Directions 1982 (SI 1982/1296) were made on 13th September. As the Argentine restrictions will not be removed, on 14th September these Directions have accordingly been made in similar terms to the earlier Directions.

DRAFT PRESS NOTICE TO BE ISSUED BY THE TREASURY (LIZA MCKINNEY -
0273 594485)

Removal of financial restrictions on the Argentine Republic

The Treasury announced this morning that the financial restrictions imposed on Argentine residents and the Argentine Government were to be discontinued from midnight London time, with a simultaneous reciprocal removal of Argentine financial restrictions on the United Kingdom.

There has been an unexpected delay in Buenos Aires caused by the legal procedures which the Argentine Government need to take. These procedures will not be completed in time to enable the Argentine restrictions to be lifted at midnight.

The Government is therefore taking the steps necessary to maintain the United Kingdom's restrictions for the time being until the Argentine Government have issued a revised timetable for the removal of their restrictions. The United Kingdom restrictions will be lifted, as intended, simultaneously with those imposed by the Argentine Government.

Removal of Financial Restrictions on the Argentine Republic

Treasury Press Notice No.2, 13th September 1982

Background Briefing for Press Offices

Q. What is the hitch at the Argentine end?

We understand that to avoid the risk of challenge in the courts the Argentine Government has had to adopt a different and slightly lengthier statutory procedure ^{than} ~~to~~ that originally envisaged.

Q. How is the delay being given effect in the UK?

A new Statutory Instrument has been made under the Emergency Laws (Re-enactments and Repeals) Act 1964 to maintain the UK freeze for the time being.

Q. When will the UK freeze end?

As soon as the Argentine Government has completed the action necessary to remove its financial restrictions.

Q. When will that be?

It is expected to be in a matter of days, perhaps only a day or so.

Q Has there been any direct contact with the Argentine government.

We understand the Argentine Government is making a statement.

TELEX FROM BANK OF ARGENTINA To
BANK OF ENGLAND

We reiterate our reply to your cable dated September 12. However, due to technical and legal difficulties, we shall be able to implement the lifting of our restrictions only on Wednesday September 15 at 10 am Argentine time, coinciding with the time of opening of operations in our banking and financial markets. We regret this unforeseen and unavoidable delay. Utmost secrecy is indispensable and therefore required from you. In view of cable of

STATEMENT BY ARGENTINE JUNTA

In view of cable received from abroad with respect to a proposal from Great Britain for the lifting of financial restrictions, it is expressly stated:-

- 1) The Bank of England has sent to the Central Bank of Argentina a telex proposing the lifting of financial restriction applied on account of the conflict with Malvinas Islands.
- 2) The Bank of England requests the Central Bank of Argentina reciprocity insofar as the lifting of measures which were imposed by the Argentine Government.
- 3) This spontaneous proposal of the Government of Great Britain is not repeat not the consequence of any prior agreement with our Government.
- 4) The result of the said proposal, the Central Bank of Argentina is studying several alternatives.
- 5) These circumstances would create mitigating conditions vis-a-vis the United Nations for the problem of Malvinas, especially in the European sector. On the other hand, they would produce a positive action for the internal reactivation in this country and furthermore would ^{AMB}lock the conditions for the refinancing of the Argentine external debt.
- 6) The study of the solution on this proposal has nothing to do with the formal cessation of hostility and does not alter in absolute the maintenance of other measures.
- 7) The Argentine reply will be given considering the most convenient interest in this country.
- 8) Any other information or version of these facts has no validity. The Ministry of Economy is the only responsible source.

CONFIDENTIAL

FROM: DAVID PERETZ
DATE: 14 September 1982

NOTE FOR THE RECORD

cc Sir K Couzens
Mr Littler
Mr Carey
Mr Lavelle
Mr Perfect
Mr Donnelly
Mr Hosker - T. Sol
Mr Appleyard - FCO
Mr Titchenor - D/Trade
Mr Balfour } - Bank of England
Mr Dawkins }

REMOVAL OF FINANCIAL RESTRICTIONS ON THE ARGENTINA

The events of last night have been fairly fully reported in the newspapers, and no doubt there will be a record from No 10 of the Prime Minister's meeting yesterday evening at which, apart from the Prime Minister, the Governor and myself, the Secretary of State for Energy and Mr Walters were also present.

2. The Prime Minister had no doubts at all that we should hold up our lifting of restrictions until the Argentines were ready to move, and the Governor agreed. I had previously established with Mr Hosker that the only way that could be done was by laying a new Statutory Instrument which, with his help, we drafted on the spot. The Prime Minister also agreed that we should take a low key approach in public, giving the impression of mainly technical problems at the Argentine end.

3. Attached to this note are the following documents:-

- (a) The Statutory Instrument made last night, and signed by the Prime Minister and Mr Selwyn Gunner.
- (b) The press notice put out around 10.20 p.m. last night.

(c) The Q and A briefing prepared last night for press offices.

(d) A press statement put out by the Argentine authorities yesterday (as dictated on the telephone by McNamar to Mr Butler last night).

(e) A secret telex sent to the Bank yesterday at US request (according to McNamar) to try to reassure us about (d) (again, as dictated on the telephone by McNamar, though I assume this has now been received by the Bank).

Mr Butler read our press notice over the telephone to McNamar, and we made some minor changes as a result. It was subsequently approved by the Prime Minister.

4. The background to events yesterday in Buenos Aires is a little confused, but as reported by McNamar to the Governor (and by the Governor to the Prime Minister) it was as follows. Possibly as a result of a garbled Reuters report of our announcement a factor in Buenos Aires first had the impression that the arrangements covered trade sanctions; and then subsequently threatened to challenge the proposed Presidential decree lifting the Argentine financial sanctions, in the Courts. The Central Bank took legal advice; concluded they could not be sure of winning; and decided therefore that they needed to legislate through the Argentine Parliament rather than rely on a decree. This, they told the Americans, would take until Wednesday.

5. The Argentine official press notice looks on close reading as if it is meant to prepare the way for that. And the telex sent to the Bank (which we may not reveal) gives a clear undertaking.

CONFIDENTIAL

6. This morning, I have agreed with Mr Appleyard that FCO will send a further telegram to posts with our statement and background. Mr Appleyard is also considering seeking a separate report from BIS in Buenos Aires, via the Swiss, on how things stand at that end; and whether it would be helpful on Wednesday to use the same route to supplement the US link in confirming that the Argentines actually have acted (I said there is advantage in continuing US engagement).

7. Mr Hosker is drafting a revised Revocation Directions, for use tomorrow if necessary.

8. I understand the Bank are ^{this morning} circularising banks etc to cancel yesterday's notice of the end of our restrictions.

DLCP

D L C PERETZ

PRESIDENTIAL DECREE

Article 1

The Ministry of Economy is empowered to leave without effect the financial restrictions covered by Decree No 683 in reciprocity to the measures that the British authorities shall adopt in equal sense.

Article 2

The Ministry of Economy shall adopt the measures conducive to give effectiveness to the provisions of Article 1.

RESOLUTION OF THE MINISTRY OF ECONOMY

The Central Bank of Argentina is hereby empowered to lift the financial restrictions imposed by Decree No 683 in reciprocity to the measures which effectively have been adopted by the Bank of England.

PROPOSED TEXT OF COMMUNIQUE TO BE ISSUED BY ARGENTINE MINISTRY
OF ECONOMY AT 1900 HOURS (BUENOS AIRES TIME)
ON TUESDAY 14 SEPTEMBER 1982

On 12 September the Central Bank received a communication from the Bank of England announcing its intention of lifting the measures of financial character taken in relation to our country and asking reciprocity. The Argentine Government has studied such proposals and considers that the reciprocal lifting of the financial restrictions is convenient for the interest of the country. [Furthermore the international financial community has reiteratedly expressed its preoccupation with the consequences arising from the reciprocal financial restrictions adopted by the British and Argentine authorities.]

Therefore, taking into account the proposal of the Bank of England, the Ministry of Economy has decided to ^{revert the lifting} lift the said financial restrictions as from 2000 hours today and to instruct the Central Bank to put them into effect at the opening of the exchange operations of Wednesday 15 September through the issuance of the corresponding communication to the financial entities.

In accordance with what has been on several occasions pointed out this action is limited to the strictly financial and does not alter other measures which remain effective.

*and show that when national
dignity coincide with national interest
solutions can be found*