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FCS/88/176

CHANCELLOR OF THE EXCHEQUER

Argentina: World Bank Loans

1. I should have preferred to await the outcome of today's meeting of the EC Monetary Committee before consulting you on our vote on the proposed World Bank loans for Argentina. But the World Bank Board meets on 27 October and time is now short. I shall need to send Mr Cassell his instructions tomorrow.
2. It is common ground that Mr Conable's decision to recommend to the World Bank Board two fast-disbursing loans for Argentina in advance of an IMF programme undermines one of the pillars of the debt strategy. We should resist his attempt to get the Bank out ahead of the Fund in this area.
3. I propose that we should press Conable to bring the loans forward for approval in principle only, with disbursement conditional on approval by the Fund Board of an IMF programme. I am glad to see that Camdessus and a number of other creditors appear to endorse this approach. I shall instruct our Executive Director to support the loans if they are put forward on this basis. Provided we can preserve the main principle that IMF-sponsored macroeconomic reform must come first, I think we should be flexible about the exact form of words establishing the link. But we should avoid explicit cross-conditionality.

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4. If these efforts fail then there are encouraging signs that at least the Canadians and Australians withhold support for the loans. France, Belgium and the Netherlands may join us too. If these countries (or any of them) intend to abstain, then I believe we should do likewise. Moreover, if any G7 country is prepared to vote against them I am very prepared for Mr Cassell to do so too. But I believe that a vote against in isolation would be widely regarded as a Falklands inspired political gesture, however much we argued that we were following our usual policy of bearing <sup>as</sup> our position on economic criteria.

5. So far as the proposed Trade Policy Loan is concerned, I am very disturbed about the propriety of the Bank proceeding with a second such loan when continued Argentine trade discrimination against Britain puts them in breach of the first loan. UKDel has been pursuing this with Bank staff, and the Bank pressure on the Argentines appears to be having some success. We must in the Board on Thursday make it very clear to Mr Conable just how seriously we view it. I therefore propose to instruct our Executive Director to identify the inadequacy of Argentine trade policy as one reason for withholding support for this loan.

6. I propose that we should vote for the slower disbursing housing project loan, but abstain (in other G7 company) on the power loan, because it lacks coherent financial underpinning and because the investment in question has a bad track record.

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/ 7. I attach a draft telegram of instructions to Mr Cassell. After the EC Monetary Committee meeting today we should have a clearer idea of other EC countries' views. Subject to any new developments there, I should be grateful for your agreement to these instructions by early Wednesday 26 October, so that I can send them to Washington.

8. I am copying this minute to the Secretary of State for Trade and Industry and to Sir Robin Butler.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

FOREIGN AND COMMONWEALTH OFFICE  
25 OCTOBER 1988

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DRAFT TELEGRAM OF INSTRUCTIONS

1. In discussion of trade policy and banking sector loans, you should draw on MODEV 198 to explain need for adequate macroeconomic framework before disbursement of loans.
2. In discussion of Trade Policy Loan you should point out that Argentine trade discrimination against the UK is a breach of TPL1, drawing on FCO telno 184 and urge Bank Staff to continue pressing Argentine authorities to withdraw Central Bank circular 5389. You should stress that we are not making a bilateral point but standing up for the proper appreciation of the loan.
3. If the two fast-disbursing loans are proposed for approval in principle, with disbursement conditional on an IMF programme, you should vote in favour. The form of this linkage will be for the Board to determine, but you should avoid explicit cross-conditionality if possible. If the loans are brought forward for full approval without a satisfactory formula linking disbursement to an IMF programme you should abstain (assuming at least Canadian and Australian company). If at least one other G7 country votes against, you should do likewise. In all cases you should raise our strong objections to Argentine trade discrimination.
4. [ODA to complete instructions on housing and power sector loans)