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10 DOWNING STREET

From the Private Secretary

1 September, 1982

SANCTIONS AGAINST ARGENTINA

The Prime Minister had a word this morning with the Chancellor about the continuation of sanctions against Argentina.

The Prime Minister said that she was concerned that we should not make a concession without counter-concessions from the Argentinians, particularly as regards British Caledonian flights to Buenos Aires and over-flying rights for their services elsewhere in Latin America. The Chancellor acknowledged the force of this point, and said that British Caledonian were losing £1 million a year as a result of flight diversions around Argentina and £5-6 million in lost revenue as a result of the loss of their route into Buenos Aires. This was a powerful consideration, in view of British Caledonian's difficult trading situation at present. But against this had to be balanced the effect on the Argentine re-scheduling operation, and therefore on international banking confidence generally, of our continuing freeze on Argentine assets in London. He did not wish the UK to be blamed as the only obstacle to an Argentine re-scheduling settlement.

The Prime Minister said that in his forthcoming discussions in Toronto the Chancellor would clearly do all he could to obtain the agreements from the Argentinians which we were seeking on British Caledonian and the other commercial matters. She was, however, ready to give him discretion to end the freeze on Argentine assets in London without obtaining these other agreements, if he judged it necessary to make this move in the context of the discussions about the Argentine re-scheduling settlement.

I am sending copies of this letter to Brian Fall (FCO), John Rhodes (Department of Trade), Tim Allen (Governor of the Bank of England's Office), and Richard Hatfield (Cabinet Office).

M. C. SCHOLAR

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