

SUBJECT

CONFIDENTIAL



PLB
Chaste

10 DOWNING STREET

From the Private Secretary

7 September 1982

Argentina : Economic Restrictions

The Chancellor of the Exchequer rang the Prime Minister from Toronto at 1230 our time today to discuss the current state of negotiations with the Argentine delegation, as described in Ottawa telegram No. 433 of 6 September.

The Chancellor explained that the Argentine delegation would be holding discussions with the IMF later today. There was a general feeling that, given the seriousness of the situation in Mexico, it would be helpful if steps could be taken during the Toronto meeting to alleviate the Argentine situation.

As far as the Argentine/UK economic restrictions were concerned, the main problem was air traffic questions since those Argentines currently in Toronto had no authority to negotiate about these matters, and could not obtain it from Buenos Aires.

The Prime Minister commented that it was clear that we could not at present obtain our requirements with regard to British Caledonian operations. If we declined to reach agreement on lifting the other restrictions, would our own interests suffer? The Chancellor stated that British banks wanted agreement to be reached. There was a certain amount of speculation which he did not necessarily believe, that in the absence of an agreement the Argentines might discriminate against British banks in any general rescheduling arrangements.

Turning to the contents of Ottawa telegram No. 433, the Prime Minister observed that the wording relating to trade matters in paragraph 3 was not very helpful. In particular, it was unsatisfactory to have both the phrase "at a proper moment" and the word "eventual". But her main concern was the reference in paragraph 5 to the "step by step" removal of financial restrictions. She was not prepared to contemplate an arrangement whereby the UK undertook to lift restrictions on one day and Argentina undertook to follow suit the next day. The two actions should be simultaneous. The Chancellor thought it might be necessary to agree to the lifting taking place at different hours on the same day. The Prime Minister emphasised that, whatever the published terms, the lifting of the

/ restrictions

CONFIDENTIAL

CONFIDENTIAL

- 2 -

restrictions must in practice be simultaneous, i.e. not a penny should move from the accounts we had frozen until Argentina had lifted its own restrictions. The Chancellor said that officials would attempt to reach agreement in the light of the Prime Minister's observations. He would let her know if any problem developed.

I am sending copies of this letter to John Holmes (Foreign and Commonwealth Office), and John Rhodes (Department of Trade).

A. J. COLES

Peter Jenkins, Esq.,
H.M. Treasury.

S

CONFIDENTIAL