

TOP filed with PPS

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THE GOVERNOR

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* ARGENTINA

The Chancellor wishes to discuss Argentina this afternoon in the context of a question from the Prime Minister whether, in the light of Argentina's apparent intention to purchase arms from the Soviet Union, it would be right for HMG to permit British banks to continue to participate in the \$1.5 bn loan.

I understand from Littler that the general Whitehall view is that it is unlikely that the Argentine junta would in fact take so drastic a step as to shift its defence procurement - which is already heavily oriented towards US equipment - towards the Soviet Union, and that in this sense the US fears that have been expressed may well be exaggerated. Nevertheless, Littler tells me that he is inclined to be hawkish about the Argentine loan.

I think our line should be that no hasty decisions should or need be taken. Regardless of whether the rumour about Soviet arms purchases prove justified (and it is in the nature of this sort of thing that it may remain in doubt for a considerable length of time), there are a number of factors which may well make bringing the loan to consummation very difficult: the banks' concerns about Argentine bankruptcy law, making good arrears etc (NJ's note of 21 April refers), as well as the IMF trip-wire in relation to Law 22591. In these circumstances it seems much better for HMG and British banks to seek to avoid as long as possible taking any action which could attract to them the blame for non-consummation of the loan, which might happen anyway.

For the rest, I too am inclined to be hawkish to the extent that the Argentines failed to deliver some reasonable response to the discrimination question. This is both because of the political implications in this country, and the fact that we are supported by both IMF and non-UK banks themselves. The really difficult decision will be if the Argentines deliver something on this, but the rumours about Soviet arms purchases continue. In such circumstances, logic would seem to dictate that the Bank continue to take the line that arms purchases are fungible, and were always a possibility at the time that we argued that British banks should participate in the loan because of the risk of systemic damage if the Argentine rescue floundered. Nevertheless, it might be very difficult to ignore the political storm that opponents of British bank participation could raise if Soviet arms purchases are in question. This would probably dwarf other difficult considerations:

- (a) would the US Government want to keep alive the possibility of collapse of the loan negotiations as a weapon to prevent the Argentinians buying Russian; or
- (b) would the collapse of the loan negotiations make it more likely that the Argentinians would be driven into the arms of the Russians doing a grain/arms barter deal.

ADL

22 April 1983

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