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PRIME MINISTER

ARGENTINA

The proposals for dealing with Argentina's debts are in five parts:

(i) An IMF programme under which a standby of SDR 1.4 bn was agreed on 25 September.

is the negotiating group. Endorsement of all the lending banks is now being sought.

(ii) New money from the banks. The Advisory Committee has reached agreement on the provision of \$4.2 billion of which 40 per cent will be used to meet future interest payments to the banks. UK banks are likely to provide about 10 per cent of this.

(iii) Rescheduling old bank loans. About \$16.5 billion of loans due in 1982-85 will be rescheduled, including that to British banks.

(iv) New official money. The IMF are seeking about \$1 billion. The UK are not contributing.

(v) Rescheduling \$2.2 billion of official debts at the Paris Club, of which \$125 million is owed to HMG.

The Chancellor recommends that the UK Government should take part in the Paris Club negotiations.

Agree for discussion at Thursday's bilateral?

*Admiralty agree -
not*

AT

yes no

10 December 1984

ceJR



PRIME MINISTER

ARGENTINA: APPLICATION TO PARIS CLUB

① You had a report last month (letter of 12 November on the International Finance Scene) on the latest state of play in the negotiations between Argentina and the International Monetary Fund on a new standby agreement. The same letter mentioned the need to consider shortly the question of UK participation in a Paris Club rescheduling of existing official and officially guaranteed debts. This is, of course, a quite separate issue from our decision not to contribute to meeting Argentina's 1985 financing needs through new trade credits.

2. The Argentines submitted a formal request to reschedule some \$2.0 billion of officially guaranteed debt in June. The UK share of this would be \$125 million (roughly 6 per cent). The precondition for such a rescheduling is of course a Fund programme. ⑤

3. Latest indications are that the commercial banks will agree to the package worked out with their Advisory Committee, ie rescheduling plus some \$4.2 billion of new money in support of an IMF programme. The Managing Director of the Fund appears to have been given reasonable assurances of the availability of new officially guaranteed trade credit. ③ ④ The Argentina programme could therefore go to the Fund Board for approval at the end of this month. Assuming it is endorsed by the Board, discussion of rescheduling in the Paris Club is likely to take place at the meeting on 14-18 January.



4. For their part the Argentines seem to have dropped their earlier suggestion that the Swiss should represent us. But whatever their view, I believe that the UK should participate directly in the Paris Club rescheduling in the usual way. This would be consistent with our general line that all creditors have the right to participate in the Paris Club negotiations if they so wish, regardless of political differences. It is also the best means of effectively protecting our own considerable financial interests.

5. If successful, the Paris Club negotiations would lead to a multilateral rescheduling agreement, implemented by separate bilateral agreements between the debtor and individual creditor countries. UK agreements are usually published in the Treaty series. I understand that there are no legal obstacles to concluding such an agreement with Argentina. The agreement would be purely financial in nature and would carry no wider political implications. It would however be necessary for UK officials to meet Argentine officials directly, to negotiate the terms of the bilateral agreements, but there are now several precedents for this and it would be consistent with our attempts to return to more normal relations.

6. Subject to your views, therefore, I propose that the UK should participate in these Paris Club and subsequent negotiations in the normal way.

7. I am sending copies of this letter to Geoffrey Howe and Norman Tebbit.

N.L.

7 December 1984

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indebtedness

57 DEC 1984

CONDUCTOR