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5 April 1982

CABINET

DEFENCE AND OVERSEA POLICY (OFFICIAL) COMMITTEE

SUB-COMMITTEE ON THE SOUTH ATLANTIC

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Note by the Secretaries

Attached for background information is a copy of a Note by the Treasury summarising a meeting held to consider economic and financial relations with Argentina.

Signed G R G MIDDLETON  
C H O'D ALEXANDER

Cabinet Office

5 April 1982

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2 April, 1982

G Litter CB  
Deputy Secretary

The Lord Bridges, CMG.,  
Foreign and Commonwealth Office,  
London, SW1.

*Jim Gorn*

ARGENTINA

I held a meeting this afternoon, as you know, of the main interested departments, to consider economic and financial relations with Argentina, both to establish facts and to consider possibilities of action.

I attach a very brief note of our conclusions. The essential point is that unilateral/bilateral action in the economic and financial field does not appear to be either promising, or particularly dangerous. Our real focus of attention needs to be on what we can do through alliances.

As far as the basic facts are concerned, we did not establish anything significantly different from the sketch your South America Department prepared yesterday for the Prime Minister. As far as immediate action is concerned, Nicholas Bayne, who was present at my meeting, will be arranging a message to caution the Ministry of Defence, Department of Industry and any others involved against some of the more obvious exports and provisions of spares, aid and comfort, which might otherwise flow.

I am copying this to John Hagestadt (Department of Trade), Kit Farrow (Department of Industry), Neil Jagers (Bank of England), Jerry Breach (ECGD) and Nicholas Bayne, and to Wade-Gery, (Cabinet Office).

*Yours*  
*Staff*

cc Mr. J. Hagestadt Dept. of Trade  
Mr. K. Farrow Dept. of Industry  
Mr. N. Jagers (Bank of England)  
Mr. J. Breach (ECGD)  
Mr. N. Bayne (FCO)  
Mr. Wade-Gery (Cabinet Office) ✓

ARGENTINA: ECONOMIC AND FINANCIAL CONSIDERATIONS

The following conclusions were reached at a meeting held in the Treasury on 2 April with representatives of the Departments of Trade and Industry, the Foreign and Commonwealth Office, ECGD, and the Bank of England present in addition to Treasury.

Facts

2. The meeting noted the summary (copy attached for convenience) prepared by the FCO South America Department on 1 April. It was agreed that this gave a broadly correct picture. The only omission, not a significant one was that there is a liability from the UK authorities to investors in Argentina in respect of overseas investment insurance amounting to some £8 million, with some additional applications in the pipeline.

Possible Unilateral Action by the UK

3. It was agreed that, irrespective of possible counter-action, there was no action which could be taken by the UK which would have serious damaging effect on the Argentine economy.

4. At the same time, as a matter of prudence and avoidance of obvious criticism, the following was agreed to be sensible:

- provision of spare parts for aircraft and ships and any other major and sensitive industrial operations in the Argentine from UK suppliers should be suspended where possible for the time being (Mr. Bayne of FCO to write accordingly to the Ministry of Defence and Department of Industry);

- in general, ECGD would continue to withhold action on the extension of additional credits or other increase of UK exposure to Argentina for the time being.

5. Other action could be taken, although without expectation of serious effect on the Argentine economy. The most obvious example would be the freezing of Argentine assets. If such action was necessary to satisfy UK public opinion, it could be taken without calamitous damage to the United Kingdom. It must be pointed out, however, that UK assets in the Argentine were greatly in excess of Argentine assets

in the UK. Moreover, action to freeze assets could be unsettling more widely in the international banking scene, so that the value of the gesture in terms of public opinion would have to be weighed against its lack of effects on the target, the risk of retaliation, and some risk of wider repercussions.

6. It was noted that, while action to freeze assets might be taken unilaterally and independently, different and perhaps more helpful action, including joint action, might be possible under the umbrella of a resolution by the UN Security Council. There was doubt, however, whether that would be obtainable.

Risks of Damage by Argentina to the UK

7. Apart from the problem that UK net assets in Argentina exceed those of Argentina in the UK, the meeting reviewed other areas in which disruption of economic relations might damage the UK. The conclusion was that, although loss of export markets would be modestly damaging, there would be no particularly severe damage to any one sector or geographical region of industry, and that interruption of Argentine exports to the UK (most importantly meat and meat products) would be readily replaceable.

Possibilities of Joint Action

8. Considerable effect on Argentina could be obtained if there were a possibility of joint action by the UK, the Community, and particularly Spain and the United States, in preventing exports of goods, services and capital. This was a matter which the Foreign Office would be considering further, but indications so far were that assistance from the United States was unlikely to be obtained, while assistance from the Community might be difficult to achieve, and might disrupt current UK negotiations in the Community over the budget and other matters.

9. In considering joint action of a partial kind (i.e. involving a selection of countries only), it must be borne in mind that the Argentine economy happens at the moment to be less dependent on external support than at some other periods. Complete interruption of trade would no doubt be very damaging. Interruption of financing, however, might be much less effective, since Argentina is at present enjoying something near to, or even better than, current account

balance, and might readily offset any loss of cash flow from investment and banking facilities by denying repayment of past capital and debt interest.

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## SCOPE FOR ECONOMIC RETALIATORY MEASURES AGAINST THE ARGENTINES

Bilateral Trade

1. Argentina is our third largest market in Latin America, but only ranks 42nd in our world table. Exports to Argentina in 1980 (full figures for 1981 not available) were worth £173 million including:

Machinery	- £28 million
Power generating machinery	- £18 million
Road vehicles	- £17 million

Imports from Argentina in 1980 were worth £114 million including:

Meat and meat preparations	- £51 million
Textile fibres	- £10 million
Oil seeds	- £9 million
Metal ores	- £8 million (we do not rely on Argentina for any strategic metals)

invisible earnings increased the favourable balance in our favour.

Argentina would be able to find other suppliers and other markets if we were to cut off trade. We have just over 3% of their market and take 3% of their exports. (We should have to take Community law into account if we were to consider interrupting trade; and legally we would have to honour existing contracts.)

ECGD have firm commitments for £290 million worth of business and have made offers on a further £60 million. No immediate prospect of major project business. ECGD are considering applications for:

(a) Methanol plant (Davy)	- £130 million
(b) PVC project (Davy)	- £197 million

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EC Trade

4. Any attempt to impose sanctions on this trade would come up against Community controls: and we would undoubtedly have great difficulty in persuading our Community partners to agree to common action against Argentina.

5. The EEC Treaty does allow for particular measures in extreme circumstances by individual member states. These would however be rendered ineffectual by the provisions on the free circulation of goods within the Community. It is possible for these provisions to be suspended, but the decision on such action would rest with the Commission. A further complication is Argentina's membership of the GATT, which also imposes obstacles to trade restrictions (this is a major point of contrast with the issue of trade restrictions against the Soviet Union, which is not a GATT member). There are provisions in the GATT for actions to protect national security etc, but these are very rarely invoked, and the traditionally unpoliticised nature of the GATT's operation would make them highly controversial. The Commission usually speak for all member states in GATT.

6. Defence Sales are not restricted by Community or GATT controls. Our defence sales to Argentina are already limited on human rights and Falklands grounds. Sales in 1981 were only £12 million, but a further £50 million of sales are in prospect in 1982. These could be cancelled.

Aid

7. We have no aid programme with Argentina.

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British Financial Involvement with Argentina

8. The UK has about 8% of Argentina's foreign investment. Latest book value of our investments is about £200 million but we believe the actual value may be higher. Investors include ICI, Unilever, Shell, Bank of London and South America (Lloyds), Dunlop, EMI, Black & Decker, Burroughs Wellcome, Coats Paton, Gestettner, Tube Investments, Rank, Pilkington Reckitt & Coleman, GEC, Babcocks, British Caledonian and John Brown Engineering.

9. Argentina's external debt was estimated at \$34 billion in 1981, of which \$21 billion was owed to OECD countries. UK banks have claim to US\$3 billion of this debt. Argentina makes extensive use of the City of London, as she ranks fifth in the league of developing country borrowers on the Euro-dollar market after Mexico, Venezuela, Brazil and South Korea. Argentina raised \$3.5 billion on the Euro-dollar market last year.

10. British banks are particularly well represented in Argentina: Lloyds International (Bank of London and South America), Barclays, Midland, all have branches. The Bank of London and South America have a particularly important stake with 24 branches in Buenos Aires itself and 13 provincial branches. They are the third largest foreign-owned bank in Argentina and rank No 13 amongst Argentine banks with deposit totalling the equivalent of US\$315 million.

Argentine Investment in the UK

11. We are unaware of any Argentine investment in the UK: if it exists it would be very small.

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### Air Links

12. The UK has an air services agreement with Argentina dating from 1966. The designated British airline British Caledonian Airways operates scheduled services twice a week to Buenos Aires and earns almost £9 million a year from these services, compared with Argentine Airlines' £7 million a year from a similar twice-weekly operation. Twelve months' notice would have to be given for the agreement to be denounced, but a quicker way to end air services would be for the Secretary of State for Trade to use his powers under the Air Navigation Order 1980 to suspend temporarily the Argentine Airlines' operating permit with immediate effect. Such action could put us in breach of the Air Services Agreement unless it could be shown that this was justified as a retaliatory measure to an illegal act by Argentina. During the period of the permit's suspension, the airline would not be able to operate commercial flights to or from the UK. In retaliation the Argentine authorities would be bound to withdraw British Caledonian's permit. The commercial effects of this would not just be limited to a direct loss of earnings on services to Buenos Aires but would also have an effect on BCAL's network of services to Chile and Brazil, which are served on the same route as Buenos Aires.

### Shipping

13. Under Argentine Government legislation the shipping of goods between the UK and Argentina is divided on 50/50 basis between the UK carriers (four UK lines) and two Argentine national shipping lines. The earnings would be roughly the same for both parties. Relations are currently good and there are no problems which would justify our taking any discriminatory action under the Merchant Shipping Act. There is at present only one Argentine merchant vessel in a UK port, but two more are due on 4 April.