

SECRET

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

OD(SA)(82) 52

COPY NO:

14 May 1982

00013

CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

SUB-COMMITTEE ON THE SOUTH ATLANTIC AND  
THE FALKLAND ISLANDS

---

FALKLAND ISLANDS: CONSEQUENCES FOR BRITISH INTERESTS  
AND BRITISH SUBJECTS IN LATIN AMERICA

Memorandum by the Foreign and Commonwealth Secretary

---

1. If negotiations break down and there is a sharp escalation in hostilities, we could expect retaliation against British interests and British subjects in Latin America. The demands of Latin American solidarity would outweigh the reservations of certain countries on the Argentine invasion.

2. Action might be taken bilaterally on an individual basis. But Argentina would be likely to invoke Article 3 of the Rio Treaty which provides for 'measures of a collective nature' to be taken by all in the event of an attack against any member state. We must expect such a resolution to be passed by the necessary two-thirds majority. The 'measures', that might be taken would fall into the three broad categories described below.

British diplomatic missions

3. We have Embassies in 13 capitals (with 136 DS staff at post) in Central and South America (plus an Interests Section in Buenos Aires and a First Secretary in the Swiss Embassy in Guatemala) and two

SECRET

/Consulates-

THIS IS A COPY. THE ORIGINAL IS  
RETAINED UNDER SECTION 3 (4)  
OF THE PUBLIC RECORDS ACT

SECRET

Consulates-General. Retaliatory action might be limited to requests for withdrawal of Ambassadors: or might extend to a total break in diplomatic relations. We would hope to retain a British Interests Section (BIS) in the Embassy of the protecting power though its role would be severely limited. But our staff and premises would be the target for demonstrations: and there would be a risk of more direct violence. Our posts have been warned of the need to prepare themselves against such a situation. This warning would need to be reinforced if negotiations were to break down.

#### British Subjects

##### 4. (a) Argentina

So far the Argentine authorities have kept anti-British feeling under control. But there have been that in certain circumstances up to 500 members of the British community (which numbers about 100,000 of British descent, of whom up to 17,000 are British citizens, many being dual nationals) would be under threat of 'removal' (ie murder) by Argentine special forces. The recent abduction of the 'TV Eye' team illustrates the vulnerability of British subjects. If there was a sharp upsurge in hostilities, popular feeling would be intensified, and the ability and will of the Argentine authorities to exercise control over demonstrators and groups intent on violence would be eroded.

##### (b) Elsewhere in Latin America

There are about 32,000 British citizens elsewhere in Latin America. There have already been anti-British demonstrations in Venezuela, Peru, and Ecuador; and there have been of threats against members of the British community in Uruguay. In the event of a sharp escalation of hostilities, the threat of

SECRET

/harassment

harassment of British subjects would increase. This would be less likely to come from deliberate action by the authorities than from their inability or unwillingness to restrain activity by violent groups. In some countries, for example Brazil, Chile and Colombia, British subjects are unlikely to be under any significant threat. In others, such as Venezuela, the risk of violence would be greater.

British economic, financial and trade interests

5. (a) Argentina

The abrogation of export contracts and the confiscation of British investments in Argentina (about £250 million, book value) would lead to claims against ECGD (who have given cover on export business and investment amounting to £300 million). Despite the losses there should not be serious damage either to UK total exports, industry and employment, or to most of the British companies and banks investing in Argentina. The repudiation of Argentine debts to British banks (about \$3.6 billion) would be more of a setback. But Argentina would have strong reasons for avoiding such action, even in the event of all-out war.

(b) Other Latin America

British exports to Latin America as a whole were just over £1,000 million in 1980 (2% of total UK exports) and ECGD cover outstanding is in excess of £2,000 million. We stand to gain from valuable public sector contracts in several countries. Brazil, Mexico and Venezuela are the most important markets and Brazil has over 50% of our total investment in Latin America (which is in excess of £1,000 million at book value). Loans outstanding by UK banks amount to some \$32.5 billion, with Mexico, Brazil and Venezuela again the most important. Action in the economic field would most likely take the form of

excluding Britain from public contracts or banning imports from Britain. Venezuela, Panama and Peru might implement such measures strictly; others - including Mexico and Brazil - might do so slackly; but we would certainly lose ground in competitive markets. Prolonged and bitter hostilities would lead on to harsher measures, such as cancelling existing contracts or expropriating investments.

Repudiation of debts can be virtually excluded, since these countries depend on external borrowing. But some shift of deposits away from London is likely, especially by Venezuela. Union boycotts of British ships and aircraft, already imposed in Peru and Venezuela, could well spread. A shipping boycott could be circumvented fairly easily but an airline boycott throughout Latin America would be very serious for British Caledonian.

#### Conclusions

6. Most Latin American governments would feel compelled to demonstrate their solidarity with Argentina. But the reactions of individual states would vary widely. Some (eg Venezuela, Panama and Peru) would be likely to participate fully in all measures; others (eg Colombia and Mexico) would probably do the minimum necessary to avoid criticism in Latin America. We might hope that Brazil, the most important Latin American state, would fall into the latter category.

7. The short term consequences of the retaliatory action would be serious, but not critical, for British interests. There would however be damaging long term consequences for our commercial interests in this large and expanding market and for our political relations, to which we have devoted considerable effort in recent years.