

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

ODO(SA)(82) 8

COPY NO 51

8 April 1982

CABINET

DEFENCE AND OVERSEA POLICY (OFFICIAL) COMMITTEE

SUB-COMMITTEE ON THE SOUTH ATLANTIC
AND FALKLAND ISLANDS

UNITED STATES ECONOMIC PRESSURE AGAINST ARGENTINA

Note by the Secretaries

Attached for the information of the Sub-Committee is a Note by the Foreign and Commonwealth Office, commissioned at ODO(SA)(82) 2nd Meeting, in the form in which it was submitted to the Defence and Oversea Policy Committee.

Signed C H O'D ALEXANDER
G R G MIDDLETON
S SPIVEY

Cabinet Office

8 April 1982

ARGENTINA: VULNERABILITY TO US PRESSURE ON ECONOMIC AND FINANCIAL MATTERS AND MILITARY SUPPLIES

Note by the Foreign and Commonwealth Office

1. The willingness of the US Administration to take measures against Argentina will depend on their political attitude towards the dispute and the role they see themselves playing in possible mediation. Their ultimate judgement may also be influenced by the attitudes of other Latin American countries, by the effect that sanctions might have on their relations with them, by their anxieties over developments in Central America, and by their obligations as a member of the OAS and as a party to the Rio Treaty.
2. But, given a political decision to introduce measures against Argentina, the US could act on visible trade or financial relations. Military supplies (see below) have been banned since 1978.

Trade

3. Of total OECD imports from Argentina in 1980 of \$4.1 billion, the US took some \$744 million (UK \$251 million). The US share represents some 9% of total Argentinian exports but less than 1% of US trade. The most important sectors were:

Meat	\$131 million
Sugar	\$ 97 million
Mineral Fuels, Lubricants, etc	\$106 million
Leather, Leather Manufactures and Dress Furskins	\$ 78 million
Textiles	\$ 12 million
Coffee and Tea	\$ 11 million
Manufactures of Metals	\$7.5 million
Non-Ferrous Metals	\$5.6 million
Miscellaneous Manufactures	\$ 21 million

Measures taken by the US to restrict imports from Argentina would have a significant effect, especially if taken in support of Community measures. The US have a long history of imposing embargoes. Trade measures by the US, as a major trading partner of Argentina, would do economic damage and serve as a shock to the Argentine Government. In the case of a selective

ban, the most telling measure, as with the Community, would be a ban on food and animal imports. This would account for over 3% of total Argentine exports and the US would find it easy to use alternative sources of supply. A ban on US petroleum product imports (around 1% of total Argentine exports) would also have a significant effect.

4. On the export side, the major sectors are commercial aircraft, chemicals and construction equipment. The UK have not asked for US action on exports nor are we taking action ourselves. If we were to do so, the fact that the major export sectors are all suffering in the current recession would probably influence the Administration's decision.

Financial

5. Of Argentina's total external debt of \$34 billion at end 1981, some \$7.5 billion was owed to the US. This compares with US liabilities of \$2.4 billion. The US is thus in a broadly similar position to the UK in that a freeze of Argentine assets would not cover possible claims.

6. Direct investment by the US in Argentina at end 1979 totalled \$1.9 billion. However, there has been substantial US investment in the petroleum sector in the last two years and the total would now be near \$3 billion. This compares with UK direct investment of some \$400 million.

7. US export credit exposure totalled \$1.8 billion in September 1980. Our Embassy believe that the Administration might agree to a suspension of new credits, justified on economic grounds. (They may press for general support for their efforts to reduce subsidised export credits both for countries like Brazil and for the Soviet Union.)

8. At present the US authorities neither encourage nor discourage lending to Argentina. If the US Government were prepared to advise banks in the US not to undertake new lending, this could have a serious impact. The Argentine borrowing requirement for 1982 is estimated at \$17.4 billion to finance short and long term loans, mainly from commercial banks. The role of US banks in Argentina's borrowing programme is demonstrated by the fact that, of about \$10 billion of short term loans maturing this year, over one half is owed to the US.

Military

9. Military supplies to Argentina have been banned since 1978 under a Congress Resolution passed on Human Rights grounds. There are contracts in the pipeline for spare parts for US equipment currently held by Argentina (notably helicopters, armed personnel carriers and carrier-borne aircraft). But these have been frozen by the Resolution. Nevertheless, some of these spares are believed to be trickling through. But even if the supply of spares from the US dried up completely, since this is fairly old equipment, it is likely that Argentina could quite easily obtain spares from dealers and possibly from neighbouring countries.

Foreign and Commonwealth Office
7 April 1982