

CABINET

DEFENCE AND OVERSEA POLICY (OFFICIAL) COMMITTEE

SUB-COMMITTEE ON THE SOUTH ATLANTIC AND THE FALKLAND ISLANDS

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ARGENTINA: THREAT TO BRITISH ECONOMIC INTERESTS  
IN OTHER SOUTH AMERICAN COUNTRIES:  
DEVELOPMENTS TO 22 APRIL

Note by Foreign and Commonwealth Office

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1. This paper amplifies ODO(SA)(82) 23, which considered the scope for possible economic measures against us by other South American countries plus Mexico. It takes account of recent developments and comments by posts in some of the major countries.
2. On 17 April declarations supporting Argentina and deploring the EC import ban were issued by the Andean Pact, the Latin American Integration Association (ALADI) and the Latin American European System (SELA). The Andean Pact also offered assistance on trade. These were apparently achieved with ease and the moderates - and even Chile - were unwilling to swim against the tide. This reflects considerable readiness to give verbal support to Argentina; and adverse reactions to the measures taken by other Community countries who are seen as not directly involved in the dispute. But these statements have no economic impact and we see little scope for significant direct help to Argentina by the other Latin American countries that have offered it.

3. Argentina has now also achieved the activation of the Rio Treaty. The OAS Permanent Council has agreed that 'the Organ of Consultation' of the Treaty will be convened on Monday 26 April to consider the grave situation that has arisen in the South Atlantic. It is extremely difficult to forecast Argentina's objectives for this meeting or its outcome. But Argentina could seek a Resolution imposing a range of measures, including diplomatic and economic action, to be applied against the UK. Such measures would be taken under Article 8 of the Rio Treaty (text at Annex B) and require a two-thirds majority, ie 14 'Yes' votes out of 21. We hope that the moderate members of the OAS will work against the imposition of collective economic measures and we are lobbying OAS posts to this end. The Americans, as OAS members, are also working energetically against such an outcome.

4. Reports from our South American posts (and Mexico City) on local attitudes to economic measures are summarised in Annex A. Only from Venezuela (the most hostile throughout) have we had indications of economic measures which they might take in practice, especially if hostilities begin. These might include a decision to exclude British companies from tendering for public sector projects and the withdrawal of Venezuelan funds from London. But even in Venezuela it is 'business as usual' so far and there is no mention yet, here or elsewhere, of more radical measures such as banning imports from the UK; breaking existing contracts; or restricting the operations of locally established British companies.

5. On the other wing, Mexico has confirmed that they will neither support nor participate in economic sanctions. If military action were prolonged and caused growing casualties, the Mexicans might in time have to join in collective disapproval, but would probably make sanctions merely symbolic. Paraguay's position is the same.

6. Reports from other Latin Americans posts suggest that while other countries might feel obliged to go along with economic measures to show political solidarity with Argentina, especially after hostilities have begun, they would be very

aware of the damage they could do to their important economic relations with the UK and the Community. The implementation of any measures is therefore likely to be unenthusiastic. This notably applies to Brazil.

Foreign and Commonwealth Office  
22 April 1982



## ATTITUDES OF INDIVIDUAL COUNTRIES

Venezuela

Argentina's strongest supporter in South America. It is still 'business as usual' at working level. But political support for Argentina is so strong that it will be very difficult for Venezuela to avoid some action if shooting starts. Hawk contract is touch-stone for our relations. If shooting starts, suspension of negotiations or even cancellation a likely gesture. Long-term damage if decision taken to exclude British companies from Government tender list. Individual businessmen may also take commercial decision to avoid link with Britain in this context. Withdrawal of deposits from London is a possibility. Venezuela could take trade action against the UK without serious damage.

Peru

Politically pro-Argentina. Against the military activists, the economic team is stressing the importance of international banking confidence, access to the Euro-market, continuing export credit finance and the usefulness of the London Metal Exchange for their mineral exports. So far, economic realism seems to have prevailed but an outbreak of hostilities could change things.

Brazil

Britain and the EC are of crucial importance to the Brazilian economy and Brazil very much aware that its interests would be seriously damaged by taking economic measures against the UK. Though UK takes only some 3% of Brazilian exports, EC is by far the largest outlet (taking 26%). EC largest source of foreign investment in Brazil (30%) with UK contributing 5%. British banks play important role in Brazil's external borrowing programme. If Brazil takes any action at all, it will do only the minimum necessary. Brazil would work behind the scenes to resist mandatory collective economic action by the OAS, even after the use of force. It would not be isolated in resisting sanctions but would not be over-zealous in their implementation.

Uruguay

Uruguay would find it hard to resist pressure from Argentina to impose some economic measures, especially if hostilities begin. This might be some form of import licensing against the UK.

Ecuador

Attitude at present is business as usual, though this would harden if hostilities begin. Would not stand aside from OAS measures against us, though Ecuador needs to maintain banking confidence.

Bolivia

Balance of trade with UK is heavily in Bolivia's favour and risk of retaliation would probably preclude Bolivia taking effective economic measures against the UK.

Colombia

Colombian Government is moderate and is unlikely to take measures, even after a blockade was imposed without use of force. If force was used, they would find it difficult to resist pressure to make a gesture. But they are aware that economic impact of serious measures on Colombia would be severe. They will resist taking action as long as possible, limiting this to the UK.

Chile

If obliged to go along with economic measures, these would be cosmetic only.

Paraguay

Has stated determination to resist mandatory sanctions, even in the event of hostilities.

Mexico

The Mexicans have told us that they will not support sanctions in the OAS or participate in them. They would still try to avoid this, even if force were used causing Argentine casualties. If military action were prolonged, the Mexicans might have to join some act of collective disapproval but would make any sanctions as symbolic as possible, bearing in mind Mexico's massive foreign debt and need for external credit.

## INTER-AMERICAN TREATY OF RECIPROCAL ASSISTANCE

## (RIO TREATY) ARTICLE 8

For the purposes of this Treaty, the measures on which the Organ of Consultation may agree will comprise one or more of the following: recall of chiefs of diplomatic missions; breaking of diplomatic relations; breaking of consular relations: partial or complete interruption of economic relations or of rail, sea, air, postal, telegraphic, telephonic, and radiotelephonic or radiotelegraphic communications; and use of armed force.