



## CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

*From the Secretary of the Cabinet: Sir Robert Armstrong KCB, CVO*

Ref. A09298

11 August 1982

*Dear Kit,*Argentina: Financial and Commercial Restrictions

At our meeting this morning you reported on the latest state of play of the private discussions which the Bank of England had been having with members of the Central Bank of Argentina about the removal of financial and commercial restrictions. You said that the latest state of play was that Argentine representatives had indicated that they were prepared to agree to the reciprocal removal of all financial restrictions and all restrictions on "invisible" transactions other than air services. They had indicated that they wished to deal with the problem of air services in the context of negotiations with a group of European Governments, and they had indicated that the removal of commercial restrictions might follow before long, but they were not prepared either to commit themselves in principle or to set a date for discussions.

In the light of our discussion at the meeting, reports were made to the Prime Minister and the Chancellor of the Exchequer.

The Prime Minister and the Chancellor have agreed that, while we should make it clear to the Argentines that we are ready to proceed with the reciprocal removal of commercial restrictions, we need not insist upon coupling that with the removal of financial restrictions, provided that the removal of financial restrictions extends to the removal of restrictions on all "invisible" trade, including air services. British Caledonian has, as you know, incurred significant loss as a result of the disruption of its scheduled services to Buenos Aires, and Ministers regard it as important to secure the restoration of those services in the context of any removal of restrictions on financial transactions and "invisible" trade.

I reported this to you on the telephone and you said that you would proceed accordingly with your Argentine contact.

/ In case

C W McMahon Esq



PERSONAL AND CONFIDENTIAL

In case it may be possible to come to an agreement, Douglas Wass is ready to deal with the problems of removing the existing Orders and making a Press announcement.

I am sending copies of this letter to Douglas Wass, Michael Franklin and Richard Evans and to Willie Rickett (10 Downing Street).

ROBERT ARMSTRONG

PERSONAL AND CONFIDENTIAL

W F S Rickett Esq



WFR to see  
13/8  
WR

CABINET OFFICE

With the compliments of  
Sir Robert Armstrong KCB, CVO  
*Secretary of the Cabinet*

70 Whitehall, London SW1A 2AS  
Telephone: 01-233 8319

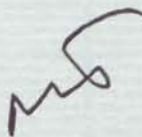


RIME MINISTER

In our last conversation you asked about the position of European air service operators flying to Argentina. The position is Lufthansa and Air France and some other European operators are not allowed to fly into Argentina but expect to be able to negotiate other flying rights and landing rights by the end of September. Al Italia, Iberia and Swiss Air, either because of their support for the Argentines or their neutral position, are all flying into Argentina.

When the Department of Trade say that they would like to be able to negotiate the same treatment as the Europeans, they mean that they would like to be able to negotiate the same treatment as Lufthansa and Air France.

More generally, as Sir Douglas Wass mentioned, we have not yet had a reply to the conditions that we put to the Argentines. The Treasury, the FCO and the Department of Trade all feel we should not make any concessions at least until we have had a reply.



WILLIE RICKETT

16 August 1982



SECRET

19458 - 1

OO WASHINGTON

GRS 291

SECRET

FM FCO 201730Z AUGUST 82

TO IMMEDIATE WASHINGTON

TELEGRAM NUMBER 1543 OF 20 AUGUST

YOUR TELEGRAM NO. 2782: ARGENTINA: FINANCIAL AND COMMERCIAL  
SANCTIONS: AIR SERVICES.

1. WE AGREE WITH THE LINE YOU TOOK WITH BAILEY (PARAGRAPH 4 OF YOUR TUR). FOLLOWING A FURTHER REVIEW HERE OF THE SITUATION, WE CONTINUE TO FEEL STRONGLY THAT THE AIR SERVICES ISSUE MUST BE MAINTAINED IN THE FINANCIAL/INVISIBLES PACKAGE.
2. WE REALISE THAT THE AMERICANS MAY BE TEMPTED TO CONTINUE TO PRESS US TO UNTIE THE PACKAGE RATHER THAN THEMSELVES TO URGE THE ARGENTINES TO DELIVER OVER BRITISH CALEDONIAN. NEVERTHELESS, GIVEN STRONG AMERICAN DESIRE FOR MOVEMENT ON THE FINANCIAL PACKAGE (FOR WHICH THE ARGENTINES MUST ALSO BE VERY ANXIOUS) AND THE SUPERIORITY OF THEIR CONTACTS WITH THE ARGENTINIAN AUTHORITIES (OURS ARE OF COURSE CONFINED TO CONTACTS BETWEEN CENTRAL BANKS), WE NOW SEE ADVANTAGE IN ENLISTING THEIR ASSISTANCE.
3. PLEASE THEREFORE TAKE AN EARLY OPPORTUNITY OF TELLING THE AMERICANS THAT, FOR THE REASONS MENTIONED ABOVE, WE SHOULD BE GRATEFUL IF THEY COULD BRING WHAT PRESSURE THEY CAN TO BEAR ON THE ARGENTINES (INCLUDING THE ARGENTINIAN AIR FORCE) TO MEET US ON THE BRITISH CALEDONIAN ISSUE.
4. WE HAVE SENT YOU BY BAG A COPY OF A CALL ON EVANS ON 18 AUGUST BY STROMAYER (ECONOMIC MINISTER AT THE AMERICAN EMBASSY) IN WHICH THE POSSIBILITY OF THEIR HELPING US IN THIS WAY WAS RAISED.
5. WE DO NOT AT THIS STAGE WANT TO INVOLVE THE AMERICANS IN THE DETAILS OF THE NEGOTIATIONS: THIS WOULD NO DOUBT EXPOSE US TO PRESSURE TO LOWER OUR BID. BUT THEY MIGHT LIKE TO BE REASSURED THAT ON OVERFLYING ALL WE ARE SEEKING IS PERMISSION FOR BRITISH CALEDONIAN TO FLY BETWEEN BRAZIL AND CHILE WITHOUT

1

SECRET

SECRET

19458 - 1

THE EXPENSIVE DETOUR. THIS IS OF COURSE IN ADDITION TO THE RESTORATION OF UK-ARGENTINE AIR SERVICES BY BRITISH CALEDONIAN. AIR SERVICES BY BRITISH CALEDONIAN.

PYM

FALKLAND ISLANDS GENERAL

FCO

FALKLANDS UNIT

CABINET OFFICE

ADDITIONAL DISTRIBUTION  
FALKLAND ISLANDS

[COPIES SENT TO NO 10 DOWNING STREET]

COPIES TO  
PS/S DOT  
MR CAREY HM TREASURY  
MR FORTMAN DOT  
MR FACER CABINET OFFICE

2

SECRET



SECRET

JMA.

Argentina

SECRET

DESKBY 202130Z

FM WASHINGTON 202043Z AUG 82

TO IMMEDIATE F C O

TELEGRAM NUMBER 2787 OF 20 AUGUST

NY TELNO 2782: ARGENTINIAN DEBT

1. FIRST SECRETARY (ECONOMIC) SPOKE TO BRUCE JUBA (ARGENTINA DESK OFFICER, U.S. TREASURY) TO GO OVER THE ESTIMATES RECORDED IN MY TELEGRAM UNDER REFERENCE AND TO SEEK TREASURY VIEWS ABOUT THE RISKS OF THE ARGENTINIANS DECLARING A DEBT MORATORIUM.
2. AS OF 30 JUNE, JUBA SAID THAT TREASURY ESTIMATES PUT THE TOTAL ARGENTINIAN OFFICIAL AND COMMERCIAL EXTERNAL DEBT AT DOLLARS 36.6BN. SOME DOLLARS 21.3BN OF THIS RELATED TO THE DEBT OBLIGATIONS OF THE ARGENTINIAN GOVERNMENT AND ITS AGENCIES INCLUDING GOVERNMENT GUARANTEES AND THE REMAINING DOLLARS 15.3BN OF PRIVATE ENTITIES. OBLIGATIONS MATURING DURING THE SECOND HALF OF 1982 TOTAL DOLLARS 12.8BN OF WHICH SOME DOLLARS 10.3BN IS PRINCIPAL AND DOLLARS 2.5BN INTEREST PAYMENTS. THIS SUM DID NOT INCLUDE DOLLARS 2.3BN OF APREARS AS OF 30 JUNE. THE TREASURY ESTIMATE THAT THE ARGENTINIANS HAD DOLLARS 512M OF LIQUID FOREIGN EXCHANGE RESERVES ON 30 JUNE, DOWN FROM DOLLARS 2.5BN AT THE END OF THE FIRST QUARTER, AND AVAILABLE TANGIBLE ASSETS OF BETWEEN DOLLARS 1-2BN, MOSTLY IN GOLD, WHICH COULD BE CALLED UPON TO MEET OBLIGATIONS.
3. JUBA ALSO DISCUSSED THE TREASURY'S CURRENT ASSESSMENT OF THE POLITICAL POSITION OF PASTORE, THE MINISTER OF ECONOMICS. PASTORE HAD BEEN TRYING TO SET THE PACE ON NORMALISATION OF RELATIONS WITH BRITAIN IN BUENOS AIRES. THE INITIAL ECONOMICS MINISTRY AND CENTRAL BANK APPROACHES TO THE UNITED STATES AUTHORITIES ABOUT THEIR ECONOMIC SITUATION WERE KEPT SECRET IN BUENOS AIRES. BUT THE FACT THAT DISCUSSIONS WERE TAKING PLACE WITH THE BRITISH ON FINANCIAL ISSUES WAS LEAKING TO THE ARGENTINIAN PRESS AND THERE WAS A RISK THAT IF THEY WERE NOT ABLE TO KEEP THE MOMENTUM GOING BY SHOWING SOME PROGRESS, THE MILITARY WOULD BE IN A POSITION TO CIRCUMSCRIBE THEIR ACTIONS.
4. ACCORDING TO JUBA, PASTORE'S DIFFICULTIES WERE CLEARLY ILLUSTRATED BY THE BRITISH CONDITION THAT AIR SERVICES TO BUENOS AIRES BY BRITISH CALEDONIAN BE RESTORED AS PART OF A FINANCIAL AND INVISIBLES PACKAGE. THERE WERE 2 ISSUES HERE: OVERFLIGHT PERMISSION AND AN AGREEMENT TO RESUME AIR SERVICES. JUBA STATED THAT PASTORE HAD CONSIDERED THIS PERSONALLY EARLIER THIS WEEK AND HAD DECIDED THAT HE WOULD NOT EVEN PUT THE REQUEST FOR OVERFLIGHT PRIVILEGES TO THE AIR FORCE BECAUSE HE WAS CERTAIN THAT THEY WOULD SAY NO, AND MOREOVER THERE WAS A RISK THEY WOULD WISH TO BECOME INVOLVED IN THE FINANCIAL DISCUSSIONS. JUBA'S ARGENTINIAN CONTACTS HAD ALSO SAID THE FLUID LEADERSHIP POSITION IN THE AIR FORCE MADE MATTERS WORSE. ON THE  
2 RESUMPTION OF AIR SERVICES, THERE WERE CLEARLY CONSIDERABLE

SECRET

/POLITICAL



SECRET

POLITICAL DIFFICULTIES IN RESPECT OF A BRITISH CARRIER. NO COMMITMENT HAD EVEN BEEN GIVEN TO THE FRENCH WHO HAD LIFTED THEIR ARMS EMBARGO. THE RECENT ARGENTINIAN PRESS REPORTS OF THE BRAZILIANS REFUELLING A BRITISH AIRCRAFT DESTINED FOR THE FALKLANDS HAD REINFORCED THE POLITICAL SENSITIVITY OF THE AIR SERVICES ISSUE.

5. ON A DEBT MORATORIUM, JUBA SAID ALL THE INFORMATION AVAILABLE TO HIM INDICATED THAT THE ARGENTINIANS SAW THIS AS AN OPTION OF LAST RESORT. IF THE FREEZE ON ASSETS WAS LIFTED, EVERY INDICATION WAS THAT THE ARGENTINIANS WOULD SETTLE OUTSTANDING PUBLIC CLAIMS WITHIN A WEEK (ARREARS WERE DOLLARS 0.6BN AT 30 JUNE). SENIOR ECONOMIC OFFICIALS AND BUSINESS LEADERS IN BUENOS AIRES SAW ARGENTINA AS PART OF THE INTERNATIONAL ECONOMIC COMMUNITY AND WERE VERY CONSCIOUS OF THE ADVERSE CONSEQUENCES THAT WOULD RESULT FROM A FAILURE TO HONOUR THEIR DEBTS. THE SITUATION FOR PRIVATE CLAIMS (AMOUNTING TO DOLLARS 1.7BN ON 30 JUNE) WAS SLIGHTLY MORE COMPLICATED BECAUSE MANY ARGENTINIAN BORROWERS WERE EXPERIENCING SERIOUS FINANCIAL DIFFICULTIES, PARTICULARLY GIVEN THE DEVALUATION OF THE PESO. TO DATE, A NUMBER OF U.S. CREDITORS WERE RECEIVING PART PAYMENT OF OBLIGATIONS IN DOLLARS AND THE REMAINDER IN EXTERNAL BONDS (BONDEX). HE HAD NO EVIDENCE THAT U.S. FIRMS WERE BEING DISCRIMINATED AGAINST. THE TREASURY VIEW WAS THAT THE CLAIMS LIKELY TO ARISE DURING THE REST OF THE YEAR PROBABLY COULD BE MET GIVEN CURRENT LIQUID AND TANGIBLE ASSETS, THE CO-OPERATION OF COMMERCIAL BANKS TO ROLL OVER EXISTING DEBT AND THE EXERCISE OF OPTIONS AVAILABLE TO THE ARGENTINIAN AUTHORITIES (EG TIGHT IMPORT CONTROLS). IN DECEMBER THE ARGENTINIAN CASH POSITION WOULD IMPROVE AS THE NEW GRAIN CROP CAME TO MARKET.

6. JUBA SAID THAT IF, ON THE OTHER HAND, THE FINANCIAL ASSETS WERE NOT UNFROZEN, THE SYNDICATED LOAN PAYMENTS IN WHICH BRITISH BANKS PARTICIPATED COULD NOT BE SETTLED. THIS WOULD CAUSE A PROGRESSIVE INCREASE IN FINANCIAL MARKET STRESS UNTIL MORE SERIOUS ACTION, INCLUDING POSSIBLY THE ARGENTINIANS DECLARING A DEBT MORATORIUM, WOULD BE PRECIPITATED. HE WAS NOT SURE WHEN THIS STAGE WOULD BE REACHED SINCE IT WAS MORE A MATTER OF MARKET PSYCHOLOGY THAN CAREFUL ANALYSIS, BUT HE THOUGHT THAT BY SEPTEMBER THINGS COULD BECOME QUOTE QUITE URGENT UNQUOTE.

7. F C O PLEASE ADVANCE TO COUZENS (TREASURY) AND LOEHNIS (BANK OF ENGLAND).

THOMAS

(ADVANCED AS REQUESTED)

FALKLAND ISLANDS GENERAL

ADDITIONAL DISTRIBUTION

FCO

FALKLAND ISLANDS

FALKLANDS UNIT

[COPIES SENT TO NO 10 DOWNING STREET]

CABINET OFFICE

- 2 -  
SECRET



SECRET

SECRET

DESKBY 240900Z

FM WASHINGTON 240041Z AUG 82

TO IMMEDIATE F C O

TELEGRAM NUMBER 2803 OF 23 AUGUST 1982.

ARGENTINA: FINANCIAL AND COMMERCIAL SANCTIONS AND AIR SERVICES.

1. I SPOKE THIS AFTERNOON TO ENDERS, RE-EMPHASISING OUR VIEW THAT THE ARGENTINIANS WOULD HAVE TO GIVE US SATISFACTION ON AIR SERVICES IF THEY WANTED FINANCIAL SANCTIONS LIFTED.

2. ENDERS SAID THAT IT WAS CLEAR FROM NUMEROUS CONTACTS BETWEEN AMERICAN AND ARGENTINIAN OFFICIALS IN THE LAST TEN DAYS THAT THE LATTER DID NOT ACCEPT THAT THE LIFTING OF FINANCIAL SANCTIONS WOULD ONLY BENEFIT ARGENTINA OR THAT THEY SHOULD GIVE WAY TO THE UK ON OVERFLIGHT CLEARANCES AND LANDING RIGHTS FOR BRITISH CALEDONIAN, WHICH WAS REGARDED (PARTICULARLY BY THE AIR FORCE) AS A MATTER OF NATIONAL SECURITY.

3. ENDERS EXPLAINED THE ARGENTINIANS DID NOT NECESSARILY SEE THAT ARGENTINA'S FINANCIAL POSITION WOULD BE SERIOUSLY DAMAGED BY FAILURE TO REACH EARLY AGREEMENT ON A FINANCIAL PACKAGE. THE COUNTRY'S FINANCIAL PROBLEM WAS ESSENTIALLY A SHORT TERM ONE, (THE CURRENT ACCOUNT DEFICIT WAS ONLY DOLLARS 1.5 BILLION PA) AND, UNLIKE MEXICO, ARGENTINA DID NOT NEED ANY NEW CREDIT. THUS MANY ARGENTINES BELIEVED THAT A SUSPENSION OF PAYMENTS WOULD BE AN ACCEPTABLE WAY OUT. ENDERS SEEMED TO DRAW A DISTINCTION BETWEEN THIS AND A FORMAL MORATORIUM.

4. ENDERS CONTINUED THAT IF WE CONTINUED TO INSIST ON LINKAGE, THE ARGENTINIANS WOULD PROBABLY TAKE NO IMMEDIATE ACTION ON THE FINANCIAL SIDE. THE TURN-OVER OF OFFICIALS IN BUENOS AIRES WAS SO RAPID, AND EXPERIENCE SO LIMITED, THAT THE FINANCIAL TEAM DID NOT LOOK FAR AHEAD AND COULD NOT BE COUNTED UPON TO TAKE PRUDENT FINANCIAL DECISIONS. IN ANY CASE, HE ADDED, THE DECISION-MAKING PROCESS IN ARGENTINA WAS NOW SO FRAGMENTED THAT IT WAS VIRTUALLY IMPOSSIBLE TO GET AGREEMENT ON ANY POLICY; (HE MENTIONED THAT FOREIGN MINISTER LANARI HAD BEEN ENTIRELY UNAWARE OF OUR DISCUSSIONS ABOUT THE LIFTING OF ECONOMIC AND FINANCIAL SANCTIONS WHEN HE HAD SPOKEN TO ENDERS LAST WEEK IN SANTO DOMINGO. HE WAS CONFIDENT THAT THE AIR FORCE WERE NOT AWARE OF THEM EITHER AND THOUGHT THEY WOULD TRY TO PUT A STOP TO THEM IF THEY KNEW).

5. I REPLIED THAT IN SPITE OF THIS ASSESSMENT WE HOPED THAT THE AMERICANS WOULD CONTINUE TO URGE THE ARGENTINIANS TO MEET US ON THIS ISSUE. ENDERS SAID THAT HE WOULD HAVE ANOTHER WORD WITH THE UNITED STATES AMBASSADOR AT BUENOS AIRES AND ASK HIM IF THERE WERE ANY HITHERTO UNEXPLORED CHANNELS WHICH COULD BE USED. HE AGREED

SECRET

/ THAT



SECRET

THAT IT WAS ESSENTIAL THAT THE ARGENTINES SHOULD BE 100 PERCENT CLEAR ABOUT HMG'S POSITION. HE WAS NOT SURE THAT THEY UNDERSTOOD THAT THIS CARRIED THE FULL ENDORSEMENT OF BRITISH MINISTERS. IN THIS REGARD, HE ASKED ABOUT THE EXTENT OF OUR OWN DIRECT CONTACTS WITH THE ARGENTINES THROUGH THE BANK OF ENGLAND AND THE CENTRAL BANK. IT WOULD BE HELPFUL TO LET ME KNOW WHAT I MAY TELL ENDERS ABOUT THESE CONTACTS BY 241300Z.

6. SEE MIFT FOR FURTHER POINTS ARISING FROM MY TALK WITH ENDERS.

THOMAS

FALKLAND ISLANDS GENERAL

FCO

FALKLANDS UNIT

CABINET OFFICE

ADDITIONAL DISTRIBUTION

FALKLAND ISLANDS

[COPIES SENT TO NO 10 DOWNING STREET]

2  
SECRET



GRS 230  
SECRET  
DESKBY 240900Z  
FM WASHINGTON 240042Z AUG 82  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 2804 OF 23 AUGUST

SECRET

Argentina  
M

MIPT: ARGENTINA

1. I ASKED ENDERS ABOUT HIS MEETING WITH FOREIGN MINISTER LANARI LAST WEEK. HE SAID THAT THE ARGENTINIAN HAD FOCUSED SINGLE-MINDEDLY ON THE UN RESOLUTIONS. HE DID NOT APPEAR TO BE INTERESTED IN THE BROADER ISSUES OF U S/ARGENTINE RELATIONS, AND WAS UNINFORMED ABOUT RECENT EXCHANGES OVER ECONOMIC AND FINANCIAL SANCTIONS. ENDERS COMMENTED THAT LANARI'S LACK OF AWARENESS INDICATED FURTHER DECOMPOSITION OF THE GOVERNMENTAL PROCESS IN BUENOS AIRES AND A TOTAL LACK OF POLICY-MAKING CO-ORDINATION BETWEEN VARIOUS MINISTRIES.

2. ON THE QUESTION OF UN RESOLUTIONS, ENDERS HAD EXPLAINED TO LANARI QUOTE THAT THE UK WOULD NOT NEGOTIATE AT ANY EARLY POINT ABOUT THE FALKLAND ISLANDS UNQUOTE. HE HAD ADDED THAT WHILE HE COULD NOT SPECULATE WHEN SUCH NEGOTIATIONS MIGHT START, HE COULD NOT RULE OUT THE POSSIBILITY THAT THEY WOULD TAKE PLACE IN DUE COURSE. HOWEVER HE HAD INSISTED TO THE ARGENTINIAN THAT THE US WOULD NOT SUPPORT ANY RESOLUTION WHICH PREJUDGED THE QUESTION OF SOVEREIGNTY OR IMPOSED AN UNREALISTIC TIMETABLE FOR NEGOTIATIONS.

3. ENDERS SAID THAT LANARI HAD BEEN MOST INTERESTED IN WINNING U S SUPPORT FOR THE RESOLUTION. ENDERS HAD EXPLAINED THAT THE ARGENTINIANS SHOULD BE REALISTIC ABOUT THE LIMITATIONS IMPOSED BY THE U S/UK RELATIONSHIP ON U S SUPPORT FOR THE ARGENTINE POSITION. HOWEVER HE HAD INDICATED THAT IF THE MEXICAN DRAFT WERE TO BE AMENDED IN SUCH A WAY AS TO REMOVE THOSE POINTS WHICH PREJUDGED SOVEREIGNTY, THEN THE U S WOULD PROBABLY SUPPORT IT. LANARI HAD ASKED FOR DETAILED AMERICAN VIEWS ON THE MEXICAN DRAFT, AND THESE HAD NOW BEEN CONVEYED TO BUENOS AIRES (I GATHER THAT A MESSAGE ABOUT THIS HAS BEEN DELIVERED TO MR ONSLOW THROUGH THE U S EMBASSY IN LONDON).

4. I RUBBED IN THE POINT THAT THERE WAS NOTHING TO NEGOTIATE ABOUT SOVEREIGNTY. ENDERS NODDED HIS AGREEMENT AND SAID THAT THE BASIC U S VIEW WAS THAT IT WANTED A PEACEFUL RESOLUTION TO THE DISPUTE AS SOON AS POSSIBLE. HOWEVER THE AMERICANS APPRECIATED OUR POSITION AND WANTED TO AVOID ANY REFERENCE IN A UN RESOLUTION TO A STRUCTURED SCHEDULE FOR NEGOTIATIONS. ACCORDINGLY THE AMERICANS WOULD NOT SUGGEST PROCEDURES, MODELS OR CONCEPTS IN THE WAY THEY HAD DONE DURING THE CRISIS. HE REPEATED THE AMERICAN COMMITMENT TO KEEP IN CLOSE TOUCH WITH US AS THE SITUATION DEVELOPED IN NEW YORK.

THOMAS

FALKLAND ISLANDS GENERAL

FCO

FALKLANDS UNIT

CABINET OFFICE

ADDITIONAL DISTRIBUTION

FALKLAND ISLANDS

[COPIES SENT TO NO 10 DOWNING STREET]

SECRET



Prime minister

ES/ NO. 10. DOWNING STREET.

wh  
27/8

CONFIDENTIAL

20312 - 1

OO WASHINGTON DESKBY 261730Z

GRS 733

CONFIDENTIAL

DESKBY 261730Z

FM FCO 261515Z AUG 82

TO IMMEDIATE WASHINGTON

TELEGRAM NUMBER 1573 OF 26 AUGUST

YOUR TELNO. 2811: ARGENTINA: FINANCIAL SANCTIONS AND AIR SERVICES

1. FOLLOWING SUMMARISES DISCUSSIONS WITH ARGENTINES ON AIR SERVICES:

(A) ON 5 AUGUST THE BANK OF ENGLAND TOLD THE ARGENTINE CENTRAL BANK THAT WE WANTED TO LIFT RESTRICTIONS RECIPROCALLY IN A NUMBER OF FIELDS, INCLUDING AIR SERVICES. THE ARGENTINES FORESAW DIFFICULTIES, ESPECIALLY ON AIR SERVICES, IF THE RESTRICTIONS WERE TREATED AS A PACKAGE.

(B) AFTER DISCUSSIONS IN WHITEHALL AND CLEARANCE WITH MINISTERS, THE BANK OF ENGLAND WERE ASKED ON 11 AUGUST TO TELL ARGENTINE CONTACTS THAT WE DID NOT INSIST ON COUPLING THE RECIPROCAL REMOVAL OF COMMERCIAL AND FINANCIAL RESTRICTIONS, PROVIDED THE REMOVAL OF FINANCIAL RESTRICTIONS EXTENDED TO ALL QUOTES INVISIBLE UNQUOTES TRADE, INCLUDING AIR SERVICES.

(C) ARGENTINE CONTACT SAID HE COULD ONLY DELIVER AN INDICATION THAT ARGENTINA WOULD NOT DISCRIMINATE AGAINST UK AIRLINES.

(D) SINCE WE BELIEVE THAT THE ARGENTINES NO LONGER WANT TO FLY TO LONDON, THIS WAS TOO VAGUE. THE BANK WERE AUTHORISED ON 13 AUGUST TO TELL THEIR ARGENTINE CONTACTS THAT (STILL WITHIN A PACKAGE INCLUDING FINANCIAL RESTRICTIONS) WE COULD NOT ACCEPT LESS THAN AN ASSURANCE THAT ARGENTINA WOULD OPEN TALKS WITHIN SAY A MONTH, ACCORDING TO B-CAL TREATMENT NO LESS FAVOURABLE THAN AIR FRANCE AND LUFTHANSA AS REGARDS FLIGHTS TO ARGENTINA AND OVERFLYING RIGHTS: WHEN EITHER AIRLINE RESUMED SCHEDULED SERVICES TO ARGENTINA, B-CAL WOULD ALSO BE GIVEN A PERMIT TO RESUME.

(E) THE BANK PUT THIS TO THE ARGENTINES, WHO REPLIED ON 16 AUGUST THAT THE MINISTRY OF FINANCE COULD ONLY OFFER ON LANDING

1

CONFIDENTIAL



CONFIDENTIAL

20312 - 1

RIGHTS THAT THE UK WOULD NOT BE DISCRIMINATED AGAINST ON ECONOMIC OR COMMERCIAL GROUNDS (BUT THIS WOULD NOT GUARANTEE MFN TREATMENT) AND THAT ONCE FINANCIAL RESTRICTIONS WERE OUT OF THE WAY, NEGOTIATIONS COULD PROCEED AT AN EARLY STAGE. ON OVERFLYING THEY COULD GUARANTEE NOTHING.

2. THERE HAVE BEEN NO CONTACTS WITH THE ARGENTINES SINCE THEN. HAD THERE BEEN, WE WOULD HAVE BEEN PREPARED TO OFFER THE FOLLOWING REFINEMENTS TO THE POSITION IN (D) ABOVE:

(A) AS FAR AS OVERFLYING IS CONCERNED, WE ONLY HAVE IN MIND B-CAL'S FLIGHTS BETWEEN BRAZIL AND CHILE (PARA 5 OF OUR TELNO 1543).

(B) ON AIR SERVICES, WE ARE ONLY ASKING FOR THE SAME TIMESCALE AS THE FRENCH AND GERMANS TO NEGOTIATE AN AGREEMENT OR TO RESUME FLIGHTS, AND A GUARANTEE THAT B-CAL WILL BE ALLOWED TO RESUME SERVICES SUBJECT TO A SATISFACTORY COMMERCIAL ARRANGEMENT BEING WORKED OUT. (IF, AS WE BELIEVE, THE ARGENTINES WANT TO FLY TO PARIS AND FRANKFURT BUT NOT TO LONDON, B-CAL COULD NOT EXPECT TO NEGOTIATE EXACTLY THE SAME TERMS AS AIR FRANCE AND LUFTHANSA, WHO WOULD BE SHARING THEIR TRAFFIC WITH THE ARGENTINES. IN SUCH CIRCUMSTANCES IT WOULD BE NORMAL COMMERCIAL PRACTICE FOR B-CAL TO PAY SOME PRICE TO THE ARGENTINES FOR BEING THE ONLY DIRECT OPERATOR BETWEEN LONDON AND BUENOS AIRES. WE CAN ACCEPT THAT, WITHIN REASON: WE COULD NOT ACCEPT B-CAL'S TOTAL EXCLUSION.)

(C) NO DE-COUPLING OF AIR SERVICES ISSUES FROM FINANCIAL RESTRICTIONS.

3. YOU MAY GIVE ENDERS THE PROPOSAL AT PARA 2 ABOVE, WITH THE AUTHORITY TO PUT IT TO THE ARGENTINES AS PART OF A PACKAGE ALSO COVERING FINANCIAL RESTRICTIONS. YOU SHOULD DRAW ON PARA 1 OF THE ABOVE TO EMPHASISE THAT THE HISTORY OF THE CONTACTS TO DATE, TAKEN WITH THIS LATEST REFINEMENT, CLEARLY INDICATE OUR WILLINGNESS TO EXPLORE ANY PROPOSAL, PROVIDED THE OUTCOME IS A RESUMPTION WITHIN A REASONABLE TIMESCALE

(A) OF B-CAL'S OVERFLIGHTS FROM BRAZIL TO CHILE, AND

(B) OF B-CAL'S OPERATING PERMIT FOR BUENOS AIRES.

IN THE PROCESS OF ACHIEVING SUCH AN OUTCOME WE WOULD ACCEPT THAT CHANGED ECONOMIC AND COMMERCIAL CONDITIONS MAY REQUIRE



CONFIDENTIAL

20312 - 1

NEGOTIATING A NEW BASIS FOR AIR SERVICES BETWEEN THE TWO COUNTRIES. BUT WE CANNOT ACCEPT THAT THERE SHOULD BE NO AIR SERVICE BETWEEN LONDON AND BUENOS AIRES IF SERVICES ARE RE-INTRODUCED FROM PARIS AND FRANKFURT. IF ENDERS' DEFINITION OF MOST FAVOURED NATION TREATMENT (PARA 3 OF TUR) ACCORDS WITH THAT POSITION, WE WOULD BE HAPPY FOR SCHLAUDEMAN TO PRESS OUR CASE WITH THE ARGENTINES AT WHATEVER LEVEL HE THINKS FIT. THOUGH WE RECOGNISE THERE MAY BE DELAY IN DOING SO. WHILE THE NEW ARGENTINE ECONOMICS PERSONNEL SETTLE IN.

4. FOR YOUR OWN INFORMATION. WE ARE OF COURSE LOOKING AT THE SITUATION DAY BY DAY. BUT YOU SHOULD GIVE THE AMERICANS NO REASON TO SUSPECT THAT WE SHALL CHANGE THE LINE IN OARA 2 ABOVE.

PYM

FALKLAND ISLANDS GENERAL

FCO

FALKLANDS UNIT

CABINET OFFICE

ADDITIONAL DISTRIBUTION

FALKLAND ISLANDS

[COPIES SENT TO NO 10 DOWNING STREET]

COPIES TO

MR FORTNAM DOT

MR CAREY H.M. TREASURY

MR JAGGERS } BANK OF  
MR LOCHANIS } ENGLAND

MR FACER  
CABINET OFFICE