

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

1 April 1982

N. D. P. N .

ADL 3/4

p.a.

Dear John,

Falkland Islands:  
Economic Retaliation Against Argentina

I enclose for the Prime Minister a paper setting out the scope for economic retaliatory measures against Argentina. Our general conclusion from this is that the scope for effective action, which will not hurt us as much as it hurts the Argentines or which would not cause us legal problems, is very limited.

Yours over,

(F N Richards)  
Private Secretary

A J Coles Esq  
10 Downing Street

CONFIDENTIAL



## 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.

2. 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.)

3. 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

/EC Trade

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. It is not, however, entirely clear whether we could prevent Argentinian trade with the UK being carried on via other Community countries, given the provisions on the free circulation of goods within the Community. The UK might be able to do so under Article 224 of the EEC Treaty; otherwise it would rest with the Commission to take any decision to suspend the free circulation provisions. 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.

/British



### 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.

/Air



### 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.



31 APR 1982