

104. Telegram From the Department of State to Secretary of State Haig in London¹

Washington, April 13, 1982, 1215Z

Tosec 50196/98442. Subject: Areas of Possible Argentine Retaliation/U.S. Vulnerabilities.

1. Secret—Entire text.

2. In response to your request,² following is our quick and dirty assessment of Argentina's potential for retaliation against U.S. interests

¹ Source: Reagan Library, Executive Secretariat, NSC Cable File, Falkland File 04/13/1982. Secret; Niact Immediate; Nodis.

² Not found.

and our major areas of vulnerability. There are several areas in which the Argentines could take retaliatory action, although in some cases, at as much cost to themselves as to the U.S.

3. Political Military

—Accepting military supply relationship which USSR has long sought to establish. Argentine Air Force is ready to make a major purchase of combat aircraft this year, and with US and Western European sources blocked it could well turn to USSR. (French willingness to adhere over time to the current boycott,³ of course, would be a factor.) Depending upon the closeness of military ties, Soviet Navy could enjoy use of Argentine ports and, for the first time, friendly waters in the South Atlantic. This relationship would constitute a setback to U.S. strategic interests, could eventually cause major damage to US interests.

—Reducing or terminating military-to-military cooperation with the US, by withdrawing from 1982 UNITAS exercise,⁴ expelling our MILGP and DAP, canceling high-level military visits. (Most visible, immediate action Argentina could take militarily but would have little real impact.)

—Making clear that it is no longer interested in cooperation on security of South Atlantic SLOCs. (Damage to important US objective, but one which may not have been obtainable in any event.)

—Being even less supportive of US positions, and more supportive of Soviet/Cuban positions, in UN, the NAM, and other international fora. (However, Argentina already rarely cooperative.)

—Reaching a national decision to use its unsafeguarded nuclear facilities to develop a nuclear weapon, both in defiance of US policy and to increase Argentine leverage in any future Falklands or Beagle crisis. This could only take place over medium-term (3 to 5 years) and is already probably under way, but perception Argentina moving in that direction would be seriously destabilizing in South America.

—Ceasing its cooperation with US in Central America.

4. Economic

(A) Trade:

—US exports total \$2 billion representing 20 percent of Argentine imports. Major US exports are organic chemicals, construction and heavy duty earthmoving equipment. Argentina could embargo all or part of US imports. However, exports to Argentina represent less than one percent of US exports. Individual US exporters may be hurt in the

³ See footnote 2, Document 98.

⁴ See footnote 2, Document 65.

short term. An embargo would cause considerable disruption to the Argentine economy.

—US imports only 8 percent of Argentina's exports, or slightly more than \$700 million, and consist mostly of sugar, prepared meat products, petroleum products, leather and leather manufactures. Argentina could embargo all or part of exports to the US. Some initial disruption of orderly conduct of trade would occur but no major items are of strategic importance and some are contentious such as sugar and hides.

(B) Investment:

—US direct investment in Argentina totals \$2.5 billion, less than one percent of total US overseas investment. Petroleum and chemicals make up the largest group totaling \$400 million and \$415 million respectively. Nationalization could be consistent with the nationalistic fervor and should rank as a possible action.

(C) Finance:

—Argentina owes US concerns some \$17 billion. However the loss on an Argentine default or payments moratorium, once undisbursed credits and US holdings of Argentine assets are netted out, would only be about \$7.6 billion. This would be a painful but wholly sustainable loss to the US banking industry. Argentina must roll-over some \$11 billion in short-term debt this year and needs to borrow an estimated \$7 billion in balance of payments support. Should the GOA declare a moratorium, finding this level of financing would prove an impossibility. Moreover, the USG could freeze Argentine assets (\$5.7 billion).

5. U.S. responses. While we cannot prevent Argentina from taking the actions enumerated above, we are not without the means to take measures of our own. On the military side, these could include:

—Military and other assistance to the British;

—Announcement that we will not proceed with certification permitting resumption of military assistance and training;

—Termination of pipeline of FMS equipment ordered prior to the cut-off of sales in 1978;⁵

—Support of international sanctions in UN Security Council and with European Community;

—Seeking halt of West German and Canadian nuclear cooperation with Argentina.

Eagleburger

⁵ See footnote 5, Document 50.