

**376. Action Memorandum From the Assistant Secretary of State for Inter-American Affairs (Enders) and the Assistant Secretary of State for Economic and Business Affairs (Hormats) to the Under Secretary of State for Political Affairs (Eagleburger)<sup>1</sup>**

Washington, July 9, 1982

SUBJECT

Eximbank and Post-Falklands Argentina

*Issue*

Now that sanctions against Argentina are being lifted,<sup>2</sup> we need to begin rebuilding relations with Latin America and demonstrate our desire to normalize relations with Argentina. Lifting the Chafee Amendment determination blocking Exim credits to Argentina<sup>3</sup> is an important step, but we must also encourage Exim to go forward as soon as feasible with lending in Argentina.

*Essential Factors*

Revocation of the Chafee Amendment finding is itself an important signal to the Argentines, but they will also be anxious for an actual renewal of Exim lending. Argentina's precarious financial situation will make it difficult for Exim to approve new loans. It could even threaten disbursement of loans approved prior to the Falklands war.

The key case pending is a giant \$500 million loan for the Yacyreta hydropower project, of great symbolic and economic importance to Argentina and to major US suppliers. Due primarily to Argentine delays, the loan agreement for Yacyreta has not yet been signed. Exim is extremely reluctant to sign it now because of Argentina's diminished credit-worthiness. Lifting the Chafee Amendment sanctions will be seen as a hollow gesture if Exim then refuses to do business in Argentina.

If we press Exim to move rapidly toward disbursement on Yacyreta or other loans to Argentina that may be swept up in an Argentine rescheduling, Exim would have every legal basis for refusing and we

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<sup>1</sup> Source: Department of State, Central Foreign Policy File, P830007-1119. Confidential. Drafted by J.S. Monier (EB/IFD/ODF) on June 24; cleared in draft by Constable, McMullen, G. Rase (EB/IFD/OMA), Penfold, S. Smith (ARA/SC), and Johnston. Monier initialed for all clearing officials. A stamped notation in the top right-hand corner indicates that Eagleburger saw the memorandum on July 10.

<sup>2</sup> See Document 375.

<sup>3</sup> See footnote 6, Document 69.

would risk the same sort of criticism we received on the Polish CCC default issue.

However, we believe that Exim can be persuaded to sign a loan agreement in the near future for Yacyreta provided it can protect itself by delaying actual disbursements until Argentina's financial outlook has stabilized. The Yacyreta project has already been much delayed, and even without Exim footdragging, is likely to suffer further delays of a year or more before disbursements could begin. In addition, the negotiations on the loan agreement are still open. Exim could protect itself from disbursing into a default by inserting provisions that would allow it to postpone disbursement in the event of a rescheduling.

### *Recommendations*

1. That you call Bill Draper to inform him of the rescission of the April 30 Chafee Amendment Determination. (Mr. Draper will be at home—338-1504—over the weekend. Monday he will travel to Seattle and can be reached through his office—Linda Putnam at 566-8144.)<sup>4</sup>

2. That you sign the letter to Exim Chairman Bill Draper urging him to proceed with signing the Yacyreta loan agreement (Tab A).<sup>5</sup>

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<sup>4</sup> Eagleburger initialed his approval of the recommendation on July 12.

<sup>5</sup> The letter, with handwritten edits, is in the Department of State, Central Foreign Policy File, P830007-1122.