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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

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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)

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