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B.06949

PRIME MINISTER

c Sir Robert Armstrong

OD: Northern Ireland Electricity Service:
Possible Sale of Electricity Generating Sets
to Argentina

BACKGROUND

LAG A
1. In his minute to you of 9 January, the Secretary of State for Northern Ireland reports renewed Argentine interest in purchasing two oil-fired electricity generating sets owned by the Northern Ireland Electricity Service (NIES) but surplus to their requirements. The value of any eventual sale is likely to be about £100 million. You agreed that it would be useful to discuss this question at OD on 25 January, and that in the meantime the Chairman of NIES should be advised to defer any visit to Buenos Aires to discuss the sale (Mr Coles's letter of 11 January to Mr Lyon).

LAG B
2. The Foreign and Commonwealth Secretary considers that the proposal should be explored carefully, given that a positive approach could help the broader aim of persuading the Argentines to lift their outstanding commercial and financial restrictions (his minute to you of 16 January).
LAG C
LAG D
The Secretary of State for Trade and Industry in his minute of 16 January has drawn attention to the question of how the Argentines would pay for the generators; given the state of the Argentine economy, the Export Credit Guarantee Department would be unlikely to recommend re-opening credit cover in the near future.

3. The Committee's consideration of the problem will be influenced by their decisions on the Foreign and Commonwealth Secretary's proposals on the next steps with the Alfonsin Government (OD(84) 1). If the Committee accepts the

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recommendation that discussion should begin with Argentina on the reciprocal lifting of restrictions on trade between the two countries, they will be unlikely to have reservations of principle over the potential sale. There is also the question of timing. The Argentines seem keen to press ahead with the deal, but there is an argument that the sale should not proceed until discussions about normalisation of relations with Argentina have begun, and there is evidence of a constructive Argentine attitude. As the Foreign and Commonwealth Secretary has indicated, a positive response, conveyed with suitable caution, might help in these discussions.

4. It is possible that, because the Chancellor of the Duchy of Lancaster may have to lead in a Lords Debate at 5.30 p.m. on 25 January, he may not be able to be present. The Chief of the Defence Staff has been invited to attend.

HANDLING

5. You should invite the Secretary of State for Northern Ireland to introduce the discussion. The Foreign and Commonwealth Secretary might then be invited to comment and the Secretary of State for Trade and Industry to expand upon the problem of credit cover. Points to establish in discussion are -

(a) Is the Committee content in principle that the sale should go ahead? If agreed, would this clear the way for the Chairman of NIES to arrange a visit to Buenos Aires on the understanding that this would be for exploratory talks which would stop short of final commitment?

(b) Is it agreed that credit cover should not be made available to Argentina for this sale?


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(c) Is it agreed that a final decision to allow the sale to proceed should be deferred until initial contacts on the normalisation of relations with Argentina have been made, and the Alfonsin Government's preliminary attitude to normalisation established? Would it not then be easier to judge whether a positive response on this proposal would assist these discussions?

CONCLUSION

6. Subject to the points made in discussion, you could guide the Committee to -

(i) Agree that there is no objection in principle to the potential sale of electricity generating sets to Argentina by the NIES and that the Chairman of NIES should go ahead with exploratory talks in Buenos Aires which would stop short of final commitment.

(ii) Agree that credit cover should not be made available for such a sale.

(iii) Agree that a final decision on the sale should be taken in the light of the Argentine Government's response to the proposal that there should be talks with a view to reaching agreement on the progressive normalisation of relations between Britain and Argentina.

David Goodall

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24 January 1984

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