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From the Private Secretary

17 June 1989

ARGENTINA: POSSIBLE THREAT TO UK INTERESTS

The Prime Minister has noted the Foreign Secretary's minute of 16 June to the Secretary of State for Defence about the election of Carlos Menem as the next President of Argentina. She has commented that this is a matter which ought to be considered by Ministers collectively. We might therefore take it at a future meeting of OD.

I am copying this letter to Brian Hawtin (Ministry of Defence) and Trevor Woolley (Cabinet Office).

C. D. POWELL

Stephen Wall, Esq.
Foreign and Commonwealth Office

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Die Minister

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FCS/89/127

*A timely reminder. The key is to get MOD thinking
CAB 16/6*

SECRETARY OF STATE FOR DEFENCE

Argentina: Possible Threat to UK Interests

1. Following the election of Carlos Menem as the next President of Argentina I believe we should take seriously the possibility of some sort of action against us. I have therefore arranged for our contingency plans on the economic/diplomatic side to be updated, in consultation with officials from other Departments. The results are set out in the attached paper. They take account of the judgement that unless Menem were to take very extreme action, we would have difficulty in mobilising Community and wider international support.
2. The threat is as much military as political and I think it would be helpful if you could consider how far our defence arrangements are adequate in the light of this new situation and whether any reinforcement or revision is necessary. I understand your officials are already considering this question.
3. Menem was due to take office in December. But since the election on 14 May, the situation in Argentina has deteriorated and the Peronists are now due to take power in July.

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4. I believe there are real grounds for concern. Menem is an unpredictable populist. Before the election he hinted at further military adventures against the Falklands "even if we must endure the spilling of blood". He has threatened to embargo or expropriate British or Crown property in Argentina; and has come close to threatening a military response to any moves on our part to extend the Falklands fishing zone. His statements may be put down to pre-electoral posturing; indeed he has subsequently said that he would pursue Argentina's claims peacefully through diplomatic channels. But we cannot be confident about such assurances.

5. The armed forces in Argentina are in a volatile and dangerous state. They are so poorly equipped and morale is so low that a sustained assault against the Falklands is probably beyond them. Nevertheless, the JIC assessed (JIC(89)(IA)45) that there may be an increased likelihood of provocative actions against the Islands. Given the bleak internal situation, sections of the military could, for domestic advantage, attempt eg a commando raid, fighter sorties, incursions into the FICZ and harassment of Falkland vessels or landings on outlying parts of the Falklands (or even on South Georgia and the South Sandwich Islands). Menem, once in power, might be driven to seek a popular diversion from economic troubles by action against British commercial interests or by encouraging the military to try something on.

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6. Prevention is better than cure. I am therefore considering warning Menem in clear terms, via the Americans, of the consequences of any action against our interests. I will need to judge the optimum form and timing of such a message in the light of the situation in Argentina: but with Menem now likely to take power next month, I see a need for early action.

7. I am copying this to the other members of OD, and Sir Robin Butler.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

16 June 1989

I think we should consider this rather action collectively

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POSSIBLE RESPONSE TO ARGENTINE ACTION AGAINST THE FALKLANDS OR UK INTERESTS

Review of Economic and Diplomatic Responses

1. The annexed summary of British assets in Argentina shows that the scope for hostile action against our interests is limited; British investment there is relatively small (£161 million in 1984) and there are no "Crown Lands", contrary to Peronist mythology, of the sort President-Elect Menem vowed to "embargo". But if we were faced with expropriation or freezing of UK assets in Argentina (including a selective default against British banks with outstanding loans in Argentina) or with Argentine military action against the Falklands or South Georgia and South Sandwich Islands, we could consider a range of possible responses.

Re-imposing a ban on Argentine imports

2. This would be a prompt and effective counter-measure to a range of Argentine action. It would hurt Argentina. Argentine exports to the UK last year totalled £66 million. As UK exports to Argentina in 1988 were worth only about £13 million (reflecting continued Argentine restrictions), we would not lose much from any counter-measures.

3. We could:

- ideally seek an EC-wide ban, following a political initiative with our partners (see para 7 below). This would be the most effective option;
- seek EC agreement to a UK ban on Argentine imports. Article 36 of the EEC Treaty permits national restrictions on imports on grounds of "public security" and "public policy".

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Once agreed, we could implement either quickly by administrative order, without need for new legislation, under the Import, Export And Customs Powers (Defence) Act 1939.

4. If Argentina challenged us in the GATT we could mount a defence based on article XXI (national security); the Commission would have to represent us (as they would if Argentina took counter action against us and we wished to pursue a GATT case).

Freezing of Argentine Assets

5. Apart from the (small) Banco de la Nacion branch in London, we believe that Argentine assets here are minimal. If the Argentines took action against the considerable assets of any of our banks we could:

- retaliate against Banco de la Nacion's branch in London;
- freeze Argentine assets or financial transactions in the UK (as in 1982), under the Emergency Laws (Re-enactments and Repeals) Act 1964. This would prevent British banks participating in international efforts to provide Argentina with new finance. Our non-participation could make foreign banks unwilling to continue with further syndicated loans, and thus impose a very real penalty on Argentina (far more significant than the loss of banking assets in the UK). (Argentina could retaliate by not paying British banks interest due on existing loans if they in fact start paying such interest again).

Action in international financial institutions

6. We could:

- hold up for a time - but not indefinitely - agreement on further rescheduling of Argentine loans in the Paris Club, as long as the bilateral UK/Argentina Debt Agreement for the last such rescheduling in 1987 is still unsigned or not being honoured;

- vote against new loans in the IMF/IBRD, on technical grounds if Argentine action to which we wish to respond were to violate the terms of existing loan agreements.

Political Action with our European partners

7. We could seek:

- a prompt joint statement condemning Argentine action, which we could use to underpin action on trade (see para 3 above);
- the freezing of high level visits.
- an immediate stop to any arms sales or negotiations;

8. We could also seek EC partners' help with pre-emptive action, asking them to convey warnings to the Argentines if we had reliable indications that hostile Argentine action might be afoot (as we did successfully in early 1983).

Action at the United Nations

9. We could:

- make and circulate a prompt protest to the Secretary General setting out the details of any Argentine action against us;
- appeal to the Security Council in the event of a serious military attack.

Curtailement of sporting/cultural links

10. We could:

- seek to curtail Argentine participation in sporting/cultural events in the UK including through selective delaying action in the operation of our existing visa controls. (However, this might provoke Argentine reciprocal action against

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British travellers to Argentina).

Imposing a ban on Argentine ships and aircraft

11. Given the small numbers involved such a gesture is unlikely to have much effect.

FALKLAND ISLANDS DEPARTMENT

FOREIGN AND COMMONWEALTH OFFICE

15 JUNE 1989

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ANNEX

BRITISH ASSETS IN ARGENTINA

1. BANKS

- i) British Banks' Exposure to Argentina, including lending by branches and subsidiaries overseas of British owned banks (see footnote).

	End December 1987	End December 1988
	\$3316m	£3278m

- ii) British Banks' claims on Argentina. Unadjusted figure. (UK offices only).

	End December 1987	End December 1988
	\$2923m	\$3039m

- iii) British Banks liabilities vis-a-vis Argentina. Unadjusted figure. (UK offices only).

	End December 1987	End December 1988
	\$87m	\$99m

2. ECGD.

- i) Debts owed to ECGD under the two Bilateral Debt Rescheduling Agreements (provisional figures)

	1985 Agreement	1987 Agreement (not yet signed)
	£34.36m + \$46.97m	£30.32m + \$9.03m

plus arrears on interest.

NB Exposure is defined as all claims on Argentina after adjustment for inward and outward risk transfer and the inclusion of net local claims (if possible) in local currency.

(Source: Bank of England).

3. COMPANIES

i) Net direct overseas investment by British companies in Argentina.

1984	1985	1986	1987
£31m	£31m	£44m	£37m

ii) Total Effective Earnings of British Companies.

1984	1985	1986	1987
£35m	£42m	£42m	£37m

iii) Estimated net value of British assets in Argentina

End 1984 (latest figures available)

£161m

iv) British subsidiaries and firms with UK participation operating in Argentina.

Agencia Maritime Mundial SA (Shipping agents)
Banco Lloyds (Lloyds Bank)
Barclays Bank International Limited
Boroquimica SA (RTZ Borax Ltd)
Brassovora SRL (Reckitt and Coleman)
Ciabasa SA (Union International)
Commercial Union Assurance Co Ltd
Cooper Argentina SA (The Wellcome Foundation)
Dunlop Argentina Ltda
Nobleza Piccardo SACIF (BAT)
Papelco SACIF (Wiggins Teape)
Perkins Argentina SAIC (Perkins Engines)
Price Waterhouse y Cia
Royal Exchange Assurance SA
Shell CAPSA (Shell International)
Stone Electrical SA
VASA (Vidrieria Argentina SA) (Pilkington Brothers)
Wellcome Argentina Ltd (The Wellcome Foundation)
Duperial SAIC (ICI)
Electroclor SAIC (ICI)
EMI Odeon SAIC (EMI Music Ltd)
Hilos Cadena SACeI (Coats Patons PLC)
Hiram Walker Sa
Laboratorios Glaxo (Argentina) SACI (Glaxo)
Lever y Asociados SACIF (Unilever)
Martin Amato y Cia SAIC (Lucas Industries)
The Midland Bank

(Source: Department of Trade and Industry)

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