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UK/ARGENTINA: SCENE SETTER FOR THE MADRID TALKS

SUMMARY

1. THE ARGENTINES HAVE MANY PROBLEMS MORE PRESSING THAN RELATIONS WITH BRITAIN. BUT MENEM IS HOPING FOR A QUICK SUCCESS. FOREIGN MINISTRY EXPECTATIONS ARE RELATIVELY MODEST BUT THEY ARE PINNING A GOOD DEAL ON ELIMINATION OF THE FIPZ. WE MUST AT LEAST LET THEM DOWN LIGHTLY IF WE ARE TO SECURE OUR OWN OBJECTIVES AND KEEP THE AMERICANS HAPPY.

DETAIL

BACKGROUND

2. AS THE MADRID TALKS DRAW NEAR PRESIDNET MENEM HAS MANY OTHER PRESSING ISSUES ON HIS PLATE. HIS CONTROVERSIAL PARDON OF MILITARY OFFICERS CONDEMNED FOR, OR FACING, HUMAN RIGHTS, FALKLANDS WAR AND REBELLION CHARGES HAS DOMINATED THIS WEEK'S HEADLINES. MENEM'S FRUSTRATED ATTEMPT TO EXPAND THE SUPREME COURT IS TEMPORARILY IN ABEYANCE. THE TRADES UNION MOVEMENT IS INVOLVED IN A BYZANTINE INTERNAL POWER STRUGGLE, WITH THE MENEMIST FACTION APPARENTLY EMERGING ON TOP.

3. BUT THE MAJOR PREOCCUPATION REMAINS THE ECONOMY. INFLATION HAS COME DOWN DRAMATICALLY FROM THE HORRENDOUS RATES OF MID-YEAR BUT AT 9 PERCENT FOR SEPTEMBER IS STILL HIGH AND THERE ARE SIGNS THAT THE AUSTRAL IS COMING UNDER PRESSURE ONCE MORE. THE GOVERNMENT HAVE THEIR EMERGENCY ECONOMIC LEGISLATION IN PLACE AND ARE DETERMINEDLY PRESSING AHEAD WITH PROPOSALS TO PRIVATIZE STATE SECTOR COMPANIES AND ELIMINATE THE PUBLIC SECTOR DEFICIT. THERE IS A LARGE MEASURE OF CONSTRUCTIVE OPTIMISM AROUND, EVEN AMONG THE NORMALLY ULTRA-CAUTIOUS INTERNATIONAL BANKING COMMUNITY.

BUT THE MOST DIFFICULT OBSTACLES REMAIN TO BE TACKLED: THE VESTED INTERESTS ENTRENCHED IN THE UNIONS, THE BUREAUCRACY AND LARGE SECTORS OF BIG BUSINESS. AND THE FULL SOCIAL EFFECTS OF THE WIDE-SCALE UNEMPLOYMENT BOUNT TO RESULT FROM AND DETERMINED RE-STRUCTURING OF THE STATE SECTOR HAVE YET TO MANIFEST THEMSELVES.

4. THESE MAJOR PREOCCUPATIONS SERVE ONE USEFUL PURPOSE, THAT OF DEFLECTING PRESS ATTENTION FROM THE MADRID TALKS AND, AT LEAST TO SOME EXTENT, LESSENING THE DANGER OF UNREALISTIC HYPING UP OF EXPECTATIONS. IN THIS RESPECT THE ABSENCE OF BOTH PRESIDENT MENEM AND FOREIGN MINISTER DOMINGO CAVALLO IN LIMA THIS WEEK IS ALSO A POSITIVE, AS IS THE FACT THAT 16 OCTOBER IS A PUBLIC HOLIDAY.

5. BUT FOR ALL THIS WE SHOULD NOT UNDERESTIMATE THE IMPORTANCE MENEM ATTACHES TO THE SUCCESS OF HIS INITIATIVE TOWARDS BRITAIN, BOTH BECAUSE OF THE POLITICAL KUDOS HE MAY DERIVE FROM A RAPID MAJOR BREAK-THROUGH AND BECAUSE OF THE MATERIAL ADVANTAGES HE PRECEIVES FROM ARGENTINA IN A DEAL WITH BRITAIN. IT FORMS PART OF HIS GRAND SCHEME TO ALLY ARGENTINA TO THE DEVELOPED WORLD. HE HAS ALREADY SECURED HIS POSITION WITH THE UNITED STATES. PATCHING UP THE QUARREL WITH BRITAIN IS THE KEY TO EUROPE.

ARGENTINE EXPECTATIONS

6. ARGENTINE ASPIRATIONS TO ASSERT SOVEREIGNTY OVER THE FALKLANDS HAVE NOT BEEN ABANDONED AND ARE NOT LIKELY TO BE FOR THE FORESEEABLE FUTURE. BUT MENEM AND CAVALLO HAVE TAKEN THE VIEW THAT THE CURRENT ESTRANGEMENT HURTS ARGENTINA MORE THAN BRITAIN AND ARE PREPARED TO SHELVE THE SOVEREIGNTY ISSUE TO PERMIT A RAPPROCHEMENT TO BOTH SIDES' BENEFIT. WHATEVER THEIR LONG-TERM ASPIRATIONS MAY BE (AND HOWEVER CLUMSY THEIR PUBLIC STATEMENTS FREQUENTLY ARE) THEY SHOW EVIDENCE OF FULLY UNDERSTANDING THE NEED TO PLAY STRAIGHT ON THE SOVEREIGNTY ISSUE SO AS NOT TO ENDANGER THE RAPPROCHEMENT THEY GENUINELY SEEK TO CULTIVATE.

7. THE ARGENTINES ARE IN A HURRY BECAUSE THEY WISH TO ACHIEVE PROGRESS BEFORE INTERNAL OPPOSITION CAN GROW. BUT THE FOREIGN MINISTRY ACCEPT THAT DIPLOMATIC RELATIONS CANNOT BE RESTORED AT MADRID. THEY HOPE FOR CONSULAR RELATIONS AS AN IMMEDIATE STEP TO MARK PROGRESS. ABOVE ALL THEY WISH TO RETURN FROM MADRID WITH THE FIPZ ELIMINATED AND WILL TABLE COMPREHENSIVE CONFIDENCE-

BUILDING MEASURES TO THIS END. DESPITE THE ALARMLINGLY EXTRAVAGANT CLAIMS IN THE PRESS TO AN EARLIER STAGE ARGENTINE EXPECTATIONS ON FISHERIES AT MADRID (AS OPPOSED TO LONGER TERM) ARE MORE MODEST: THEY WILL LOOK FOR AGREEMENT ON MECHANISMS TO HANDLE FUTURE NEGOTIATIONS AND APPEAR PREPARED TO ACCEPT THE DE FACTO EXISTENCE OF THE FICZ. IN DISCUSSIONS ON COMMERCIAL NORMALIZATION THEY MAY HOPE, AS A SUBSIDIARY OBJECTIVE, TO ACHIEVE RELEASE OF THE AEROLINEAS ARGENTINAS SIMULATOR. BUT THEIR MAIN OBJECTIVE IS TO REMOVE OBSTACLES TO A MORE COMPLETE RELATIONSHIP WITH THE EUROPEAN COMMUNITY AND WITH THE DEVELOPED WORLD IN GENERAL (AND, OF COURSE, TO EXERCISE LEVERAGE ON US OVER THE FIPZ).

8. ONE FURTHER REPEATED REFRAIN OF CAVALLO'S IN THE PRESS OF LATE HAS BEEN THE DESIRABILITY OF CONTACT WITH THE FALKLAND ISLANDERS AND OF COMMUNICATIONS BETWEEN THE ISLANDS AND THE MAINLAND. THESE ISSUES HAVE NOT BEEN TOUCHED ON IN MY LIMITED EXCHANGES IN THE LAST FEW WEEKS WITH THE FOREIGN MINISTRY. THEY ARE IN LINE WITH THE GENERAL DESIRE FOR NORMALIZATION AND AS SUCH DESERVE SERIOUS CONSIDERATION. BUT THEY ARE NOT, OF COURSE, UNCONNECTED WITH THE LONG-TERM ASPIRATIONS ON SOVEREIGNTY AND ARE CLEARLY OUT OF TUNE WITH THE ISLANDERS' VIEWS.

OPPOSITION

9. OPPOSITION REMAINS REMARKABLY MUTED, ITS MAIN VOCAL PUBLIC EXPRESSION COMING FROM EXTREMISTS LIKE FORMER ADMIRAL CARLOS BUSSE AND, IN MORE CONSIDERED FORM, FROM RADICAL POLITICIANS DEFENDING THE LINE OF THE FORMER FOREIGN MINISTER, CAPUTO. THEIR CLAIM IS THAT ARGENTINA IS GIVING BRITAIN EVERYTHING SHE SEEKS AND ACHIEVING NOTHING IN RETURN. THERE IS ALSO LATENT OPPOSITION WITHIN THE PERONIS PARTY, WHICH COULD FLARE UP IF THE ARGENTINES RETURN EMPTY-HANDED FROM MADRID. THE ROLE OF THE FISHERIES LOBBY, AT PRESENT CONTAINED, MAY ALSO THEN BE IMPORTANT.

10. RIVALRIES AND DISSENSION WITHIN THE FOREIGN MINISTRY SEEM TO HAVE ABATED FOR NOW SINCE THE DEPARTURE OF DEPUTY FOREIGN MINISTER (LANUS) AND CAVALLO'S CLEAR CHAMPIONING OF GARCIA DEL SOLAR. BUT THE LATTER'S POSITION (AS WELL AS CAVALLO'S OWN) WILL BE UNDER THREAT IF MADRID DOES NOT GO WELL.

CONCLUSION

1. THERE IS MUCH GOODWILL ON THE PART OF THE ARGENTINES TO MAKE THE NEGOTIATIONS GO WELL. THEY HAVE ALREADY MADE TWO WELCOME GESTURES: LIFTING IMPORT RESTRICTIONS AND ABOLOSHING NAVAL WARNING IN THE SOUTH-WEST ATLANTIC. BUT THEY WILL NEED TO DEMONSTRATE SOME ACHIEVEMENT ON THEIR RETURN IF THEY ARE TO MAINTAIN THEIR COURAGE AND KEEP THEIR CRITICS AT BAY. IF, AS SEEMS CLEAR, THEIR ASPIRATIONS ON THE FIPZ CANNOT BE MET AT MADRID IT WOULD BE HELPFUL IF WE COULD PROVIDE THEM WITH A FORMULATION WHICH ALLOWED GENUINE HOPE OF EARLY MOVEMENT PROVIDED ADEQUATE CONFIDENCE-BUILDING MEASURES COULD BE AGREED. WHILE THERE IS CLEARLY NO QUESTION OF OUR ALLOWING LINKAGE BETWEEN THE FIPZ AND THE REMOVAL OF REMAINING ARGENTINE COMMERCIAL RESTRICTIONS THE ARGENTINES WILL NEED SOME KIND OF FIG-LEAF IF WE ARE TO GET WHAT WE SEEK ON FINANCIAL RESTRICTIONS AND AIR AND SEA LINKS.

12. BUT I BELIEVE IT IS IMPORTANT TO KEEP THE ARGENTINES IN PLAY NOT JUST TO SECURE OUR SHORT-TERM OBJECTIVES. THE OVERRIDING CONCERN MUST BE THE SECURITY OF THE FALKLANDS. THIS IS BEST SERVED IN THE LONG TERM BY A NORMAL RELATIONSHIP WITH THE ARGENTINES. IF THE CURRENT OPPORTUNITY IS LOST WE MAY NOT SOON GET ANOTHER. LAST, BUT BY NO MEANS LEAST, THE AMERICANS ARE WATCHING ANXIOUSLY AND HOPING THAT WE SHALL FIND SOME WAY OF SATISFYING THE ARGENTINES. SOME CARE WILL NEED TO BE TAKEN TO DEMONSTRATE TO THE AMERICANS THAT WE HAVE GONE AS FAR AS THEY COULD REASONABLY EXPECT.

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