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TO IMMEDIATE F C O

TELEGRAM NUMBER 1164 OF 7 APRIL

FALKLAND ISLANDS: U.S. ECONOMIC PRESSURE ON ARGENTINA.

TELECON BAYNE/BRAITHWAITE.

1. WE ARE WORKING ON A SEPARATE ASSESSMENT OF THE POLITICAL FACTORS CURRENTLY AFFECTING U.S. POLICY AS BACKGROUND FOR HAIG'S CALL ON THE PRIME MINISTER. THE FOLLOWING IS A BRIEF FACTUAL ACCOUNT ONLY OF AMERICAN POLICY ON MILITARY SUPPLIES, TRADE AND FINANCIAL RELATIONS WITH THE ARGENTINE.

MILITARY SUPPLIES

2. IN 1978 CONGRESS PASSED A RESOLUTION SPONSORED BY SENATOR KENNEDY PROHIBITING ARMS DEALS WITH ARGENTINA BECAUSE OF HUMAN RIGHTS VIOLATIONS. THE PROHIBITIONS COVERED SPARES AS WELL AS EQUIPMENT AND COMPONENTS. SINCE THEN NO NEW EXPORT LICENCES HAVE BEEN ISSUED. BUT THERE WAS STILL ABOUT A YEAR'S SUPPLY OF PARTS AND EQUIPMENT WORTH SEVERAL MILLION DOLLARS IN THE PIPELINE, AND WE ARE TOLD PRIVATELY THAT MOST OF THIS HAS SINCE TRICKLED THROUGH TO ARGENTINA. THE ARGENTINANS HAVE STORAGE IN THE U.S. FOR THE

AND EQUIPMENT WORTH SEVERAL MILLION DOLLARS IN THE PIPELINE, AND WE ARE TOLD PRIVATELY THAT MOST OF THIS HAS SINCE TRICKLED THROUGH TO ARGENTINA. THE ARGENTINES HAVE STORAGE IN THE U.S. FOR THE EQUIPMENT AND A QUOTE MECHANISM UNQUOTE FOR EXPORTING IT. WE UNDERSTAND THAT SOME PARTS FOR C.130 TRANSPORT AIRCRAFT AND SKYHAWKS (AMONG OTHER THINGS) REMAIN TO BE DELIVERED AND WE BELIEVE THEY COULD STILL BE LEGALLY SUPPLIED. WE ARE BENDING EVERY EFFORT TO GET THIS HOLE PLUGGED QUICKLY.

TRADE

3. IN 1981, U.S. EXPORTS TO ARGENTINA WERE WORTH DOLLARS 2.2 BILLION AND IMPORTS DOLLARS 1.1 BILLION. IMPORTS MAY RISE TO SLIGHTLY IN 1982 BUT BILATERAL TRADE WILL STILL ACCOUNT FOR LESS THAN 1 PERCENT OF TOTAL U.S. TRADE. THE MAIN U.S. IMPORTS ARE SUGAR AND PROCESSED FOOD (ESPECIALLY MEAT) WHICH WOULD BE RELATIVELY EASY TO REPLACE. PRINCIPAL U.S. EXPORTS ARE IN COMMERCIAL AIRCRAFT, ORGANIC CHEMICALS, CONSTRUCTION EQUIPMENT AND OTHER SECTORS HIT BY THE CURRENT RECESSION. THE U.S. ACCORDS ARGENTINA MFN TREATMENT AND COMMERCE DEPARTMENT OFFICIALS CONSIDER IT A GOOD MARKET WITH BRIGHT PROSPECTS.

FINANCE

4. IT IS NOT THE POLICY OF THE U.S. GOVERNMENT TO ENCOURAGE OR DISCOURAGE PRIVATE LENDING FROM U.S. FINANCIAL INSTITUTIONS TO ANY PARTICULAR DESTINATION, AND THIS POLICY IS UNLIKELY TO CHANGE. IF HOWEVER, U.S. TREASURY CONTACTS SAY THAT MIDDLE LEVEL OFFICIALS IN THE RELEVANT AGENCIES FAVOUR SUPPORTING US ON EXPORT CREDITS BY NOT GRANTING ANY NEW EXIM CREDITS TO ARGENTINA. WE DO NOT KNOW HOW HIGH UP IN THE ADMINISTRATION THIS VIEW IS SHARED, AND WE ARE TOLD THAT THE AMERICANS WOULD IN ANY CASE CONTINUE TO ISSUE INSTALMENTS OF EXIM LOANS UNDER THEIR EXISTING CONTRACTUAL OBLIGATIONS (IT IS NOT CLEAR WHERE THEY STAND ON LOANS WHERE THE U.S. HAS A PRELIMINARY BUT NOT A LEGALLY BINDING COMMITMENT). THE JUSTIFICATION FOR WITHHOLDING NEW EXIM LOANS WOULD PROBABLY BE ECONOMIC, IN VIEW OF ARGENTINA'S DUBIOUS CREDIT-WORTHINESS. ACTION ON OTHER THAN ECONOMIC GROUNDS WOULD REQUIRE A PRESIDENTIAL DETERMINATION UNDER THE CHAFFEE AMENDMENT TO THE EXPORT-IMPORT BANK ACT. ADMINISTRATION OFFICIALS SEEM TO BE INFLUENCED BY MEMORIES OF OUR CO-OPERATION OVER FREEZING IRANIAN ASSETS. THEY MAY HOPE ALSO TO STIFFEN US OVER THE WIDER ISSUE OF REDUCING THE SUBSIDY ELEMENT IN EXPORT CREDITS GENERALLY, THOUGH OUR CONTACTS CLAIM THAT THERE IS NO QUESTION OF AN EXPLICIT TRADE-OFF.

HENDERSON

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