

GRS 293
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FM FCO 301300Z APRIL 82

TO PRIORITY ROME

TELEGRAM NUMBER 92 OF 30 APRIL

INFO UKREP BRUSSELS AND ALL OTHER EC POSTS

YOUR TELNO 206 (TO FCO ONLY): EC IMPORT EMBARGO ON ARGENTINA

1. YOU SHOULD DRAW ON THE FOLLOWING IN SPEAKING TO THE ITALIANS.

2. IT IS TRUE THAT A FINANCIAL SQUEEZE ON ARGENTINA IS LIKELY TO HURT HER FASTER THAN TRADE MEASURES. IT WAS NEVER TO BE EXPECTED THAT THESE WOULD HAVE AN IMMEDIATE ECONOMIC IMPACT, PARTICULARLY IN VIEW OF THE EXEMPTION FOR EXISTING CONTRACTS. ARGENTINA'S WEAKEST ECONOMIC POINT IS HER RELIANCE ON OVERSEAS LENDING. HER TOTAL DEBT IS SOME US DOLLARS 34 BILLION. ON AVERAGE ARGENTINA NEEDS TO FIND ABOUT US DOLLARS 600 MILLION A MONTH IN 1982 TO FINANCE PAYMENTS ON HER OVERSEAS DEBT. AS FAR AS WE KNOW ARGENTINA HAS BEEN UNABLE TO SECURE NEW EXTERNAL LOANS OVER ONE YEAR SINCE THE INVASION. THOSE THAT WERE BEING NEGOTIATED HAVE STALLED. THE ECONOMIC MEASURES TAKEN BY THE EC, AS A MAJOR TRADING PARTNER OF ARGENTINA, ARE CERTAINLY ONE OF THE FACTORS INFLUENCING FOREIGN LENDERS.

3. IF ARGENTINA CANNOT RAISE NEW LOANS OVERSEAS, SHE WILL HAVE TO FIND THE MONEY THROUGH A TRADE SURPLUS OR FROM RESERVES, ALREADY DEPLETED AND LIKELY TO BE RUN DOWN FURTHER BY THE PURCHASING OF DOLLARS ON THE BLACK MARKET. ARGENTINA IS THEREFORE LIKELY TO GO INTO DEFAULT UNLESS SHE CAN GENERATE A LARGE ENOUGH TRADE SURPLUS IN THE NEXT FEW MONTHS.

4. IN THESE CIRCUMSTANCES THE COMMUNITY'S IMPORT BAN IS OF CRUCIAL SIGNIFICANCE AS A VITAL ELEMENT IN A STRATEGY DESIGNED TO IMPOSE SEVERE SHORT-TERM PRESSURES ON THE ECONOMY BY RESTRICTING EXTERNAL TRADE AND FINANCE. THE KNOWLEDGE THAT THE IMPORT BAN WILL CAUSE SEVERE DAMAGE PUTS ON ARGENTINA PRESSURE TO REACH A POLITICAL SETTLEMENT WHICH INCREASES CONSIDRABLY WITH THE PASSAGE OF TIME.

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