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PROSPECTS FOR SOVIET ARMS DELIVERIES TO ARGENTINA

Key Judgments

Before 1980, ideological differences between Argentina's military regime and Moscow were partially overshadowed by commercial and political considerations on both sides. Argentina viewed the Soviet Union as an important market, a supplier for its nuclear program, and a valued source of ad hoc support in international forums on human rights issues. Offers by the USSR to sell arms, in part to reduce its trade deficit with Argentina, consistently ran afoul of Argentine fears of political contamination.

The partial US grain embargo imposed in January 1980 and Soviet backing during last year's war over the Falkland Islands have led to an expansion of commercial dealings and perhaps some diminution of bilateral tensions that had existed in the months before the war. Argentina profited from the partial embargo, massively expanding grain exports to the USSR. Soviet propaganda and other support for Argentina during the South Atlantic war contrasted favorably in Argentine eyes with US support for the United Kingdom. Soviet efforts to parlay these events into political and commercial advantages, however, have had limited success.

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Renewed efforts to use arms sales as a mechanism to expand Soviet influence and presence in Argentina while reducing the bilateral trade imbalance have not succeeded. Apart from the persistent and deeply rooted ideological constraints, Argentine military leaders have been satisfied with the performance of Western weapons, and they have access to Western suppliers outside the United States. Moreover, they doubt the quality of the Soviet systems, and they recognize the huge logistic problems that acquisition of major Soviet systems would create. Argentine hesitancy about Soviet arms could change substantially, however, if Argentina were to encounter major problems in obtaining equipment that military leaders considered vital to compensate for losses suffered and weaknesses exposed during the Falklands war.

Moscow will continue to pose as a distant but powerful supporter of Argentine interests, hoping for trade advantages and arms sales. We doubt, however, that the Soviets harbor expectations of a dramatic improvement in political relations, given existing ideological differences.

Argentina will continue to use the specter of closer Argentine-Soviet relations, including possible arms deals, as a lever in its dealings with the United States and its Western allies. If the Argentines should become convinced that they will be denied long-term access to the kinds of Western weapons they desire, they would probably expand military ties with the Soviets incrementally. Small purchases of selected items would fulfill some military needs and send the desired signal to the West without requiring the long-term presence of Soviet technicians. Only as a last resort would the Argentines move to major purchases that would involve a long time arms relationship with the Soviets.

DISCUSSION

Since the 1976 coup that brought the current Argentine military regime to power, the inherent ideological differences between Moscow and Argentina's strongly anti-Communist military establishment have been partially overshadowed by commercial and political considerations on both sides.

Before 1980, the Soviets concentrated on building state-to-state relations with Argentina in an attempt to exploit serious Argentine-US disagreements over human rights and nuclear proliferation. For its part, Buenos Aires was intent on preserving its Soviet market since it enjoyed a large positive trade balance. Furthermore, as the military's human rights practices brought increasing isolation from Argentina's erstwhile allies in the West, the Soviet Union and its allies provided valuable support to Argentina on human rights votes in international forums.

In addition to such ad hoc cooperation, the relationship was expanded to include a role for the Soviets as a supplier for Argentina's nuclear program. However, persistent efforts by the Soviets to pressure the Argentines into purchasing more Soviet goods, including arms, to even out the trade balance were unsuccessful. While enjoying the commercial and political advantage of the relationship, the Argentines remained extremely wary of possible political contamination that could result from a military relationship or any inordinate in-country Soviet presence.

Recent Developments

Since January 1980 two events have given added importance to Soviet-Argentine political relations:

- The partial US grain embargo that followed the Soviet invasion of Afghanistan.
- The Falklands war.

The US partial grain embargo led to an intensification of the Soviet-Argentine commercial nexus, with Argentina stepping in as an alternate supplier. The Soviets became Argentina's primary trading partner, and a Long Term Grain Agreement was signed, followed by an accord on Soviet meat purchases. In 1980, Argentine exports quadrupled to \$1.6 billion (two-thirds of which were grain and sorghum, 10 percent soybeans, and 11 percent meat). In 1981 they nearly doubled in value to \$3.0 billion. In 1982, however, the USSR cut its imports from Argentina by almost half to a still-considerable \$1.7 billion.

Meanwhile, Argentina's imports from the USSR remained relatively insignificant. As a result, the Soviets saw their trade deficit with Argentina jump from an annual average of a few hundred million dollars to \$1.7 billion in 1980, \$3.3 billion in 1981, and \$1.7 billion in 1982. This has led Moscow to press the Argentines to purchase more Soviet goods.

Bilateral relations suffered a setback in the months before the Falklands war when President Galtieri moved Argentina solidly into the Western camp and began strongly criticizing Soviet policies. The war, however, presented the Soviets with an opportunity to regain lost ground in the face of US support for the United Kingdom. While Soviet actions during the war were limited to pro-Argentine propaganda and the provision of some intelligence information early in the conflict, they contrasted favorably in Argentine eyes with the US role in Argentina's humiliating defeat.

Soviet net gains as a result of the war are difficult to gauge, but they may include some diminution of the tensions that existed before the conflict. This factor, combined with Argentina's pressing need to preserve its Soviet markets, has helped produce since the Falklands war:

- A civil aviation agreement that expands Aeroflot service to include Argentina.
- Increased Argentine purchases of Soviet capital goods by Argentine state companies and Soviet participation in another Argentine hydroelectric project.
- In March 1983 an Argentine commitment to make counterpurchases equivalent to at least ten percent of the value of the Soviet imports.

Soviet Arms Offers

Since the mid-1970s Moscow has been trying to establish an arms support relationship as the most efficient way to build influence and reduce its trade imbalance with Argentina. Late last year the Soviets made several new approaches to the Argentines asking them to list what military equipment they might want to purchase.

Argentina's armed forces so far have rejected such Soviet offers. We believe the staunchly anti-Communist Argentine military establishment--trained in the United States and other Western countries--would be reluctant, for practical as well as political reasons, to turn to the Soviets for major arms purchases, because:

- They have been satisfied with the performance of Western arms.
- They have secured alternate Western suppliers.
- They harbor doubts about the quality of Soviet systems.
- A switch to major Soviet systems would create huge logistic problems.

The position of the military could change substantially, however, if Argentina were to encounter major difficulty in obtaining the equipment senior officers believe the military needs to make up for losses incurred and weaknesses demonstrated during the Falklands war. The Argentine Army has placed a priority on upgrading its battlefield air defense capability--a critical gap during the Falklands conflict--as well as on obtaining additional helicopters. The Air Force seeks additional ground attack aircraft.

Thus far the Argentines have tried to obtain desired equipment without turning to the Soviets.* The Army is negotiating for French helicopters and is interested in ordering some French Roland mobile antiaircraft weapon systems which they found to be successful in the Falklands conflict. The Air Force, however, has been unsuccessful in its efforts to acquire A-4 Skyhawk combat aircraft currently embargoed under US law.

If the Argentines turned to the Soviets for fighter aircraft, Moscow most likely would offer the SU-22 Fitter (which Peru bought) or the MIG-23 Flogger (which is available in both interceptor and ground attack versions). Both are export models in series production and could be delivered faster than any other new aircraft sought by Argentina.

Soviet prices for combat aircraft have been rising since the mid-1970s and now are roughly equivalent to those of comparable Western hardware. Although Moscow is showing an increasing reluctance to discount its weaponry to Third World customers, the Soviets might be willing to offer Argentine a heavy discount for political reasons. Soviet credit terms are still the most

* See the annex for a fuller treatment of this issue including a detailed assessment of potential suppliers other than the Soviets.

liberal to be found, but have tightened somewhat in recent years. Soviet customers now typically pay interest at 3 to 3.5 percent over a period of five to seven years. Generally the Soviets insist on hard currency for arms and will barter only for strategic commodities.

To date the advantages the Soviets offer with respect to rapid delivery and credit terms have not been sufficient to overcome Argentine reservations:

- Significant time and additional investment would be required to get the aircraft into service and keep them operational.
- Soviet jet engines are not fuel efficient and require much more frequent overhaul than Western alternatives.
- Argentina would remain dependent on the USSR for spare parts and any major maintenance and overhaul operations.

Outlook

We believe that the Soviets hope their support during the Falklands conflict has made dealings with Moscow more attractive to the Argentines. We think the USSR will continue to cultivate its image as a distant but powerful supporter of Argentina's regional interests and to press for additional trade concessions. Moreover, the Soviets will continue to push arms sales but, in deference to Argentine sensitivities, may employ intermediaries. In keeping with the pattern elsewhere in the Third World, Moscow could enlist its East European allies or a country like Libya to play this role.

Despite their hopes and their persistent pursuit of strengthened ties, we do not believe the Soviets harbor any illusions about making a dramatic breakthrough in the near future. They are well aware of the ideological differences at work and recognize that the initiative for any significant improvement in relations must come from Buenos Aires.

For now, Argentina sees its relationship with the Soviets as a diplomatic lever on the West, especially the United States. In our view, Buenos Aires probably calculates that the specter of growing Soviet influence in Argentina will have an important short-term payoff in persuading the United States to end its embargo and to press London to resume negotiations on the Falklands dispute.

Argentina's wariness of the Soviets is deeply ingrained and acts as a significant constraint. Nonetheless, if the Argentines become convinced that they will be denied long-term access to Western military equipment in the quantity or at the level of sophistication they believe they need, we believe they could be compelled to purchase Soviet weapons. They could be further impelled to do so if they believed the United States was blocking purchases from other countries, or did not intend to lift arm sales restrictions.

Even so, the Argentines would, in our view, probably choose an incremental approach to expanding military ties with the Soviets. Buenos Aires would probably begin with small purchases of selected equipment, perhaps including anti-aircraft missiles or electronics gear. Such purchases, while filling a defense need and sending a clear signal to the West, would not require the politically risky long-term presence of Soviet technical personnel in Argentina. As a further step, Buenos Aires might also accept Moscow's offer to place aircraft--including MIG 23s--in Argentina for a year or so for test flights. Only as a last resort, in our judgment, would the Argentines commit themselves to a long-term arms relationship with the Soviets.

ANNEX

Argentina's Military Needs and Potential Suppliers

Despite persistent rumors and signals that Argentina, with the considerable trade balance it enjoys with Moscow, would purchase Soviet arms, Argentine arms negotiations and shopping patterns since the Falklands conflict suggest that Buenos Aires has not had difficulty in securing completion of deliveries from its traditional suppliers and that it continues to look to them--including the United Kingdom--for weaponry. Argentina, however, has not signed any major arms contracts since the Falklands war and appears to be trying to broaden its range of suppliers, particularly those who might dependably support Argentina's needs even in the event of an embargo.

Prospective Suppliers

Argentina continues to have a broad range of choices of Western equipment of the types it seeks, although payment problems may frustrate some arms deals. Buenos Aires is highly interested in Exocets and other air-launched missiles for its aircraft. Some Exocets came with the Super Etendards, and a few more may have been provided by middlemen or cooperative governments. But Argentina also might have a new source; it has made inquiries to Israel about the Gabriel, of which an air-launched version has been developed.

Surface-to-air missiles (SAMs) are being sought in several places. The Italian Aspide has been chosen to equip the West German Meko frigates (the first is in Argentine hands and the second is scheduled to arrive in late July). French Defense Ministry sources indicated in mid-November that Argentina wanted three to five Roland mobile SAM systems. The Roland shares a West German Marder tracked chassis with the Argentine TAM tank. This simplifies spares and maintenance, and possibly permits saving some money by partial local production. Argentina appears close to buying a dozen Swiss Oerlikon 35-mm antiaircraft guns and may have purchased seven Contraves Skyguard radar fire-control systems to go with them.

A possible new arms connection is Romania, the Warsaw Pact's maverick arms supplier. It reportedly has delivered artillery gun tubes to Argentina, and there appear to be ongoing Argentine-Romanian discussions on the Soviet-designed SA-7 SAM and the French Puma helicopter, which Romania makes under license. Argentina has probably decided to buy French-made Pumas, but could look to Romania for spares in the event of an embargo.

South Africa is another potential arms supplier. A South African broker has suggested that an Argentine firm cooperate in marketing the new South African G-5 155-mm gun (an advanced fieldpiece, probably designed in cooperation with Israel's Soltam firm and possibly incorporating Space Research Corporation range-enhancing technology). Although South Africa has

an established arms relationship with Chile, it is avidly seeking exports for its growing military industry, and this approach might be an opening gambit. Like Israel, South Africa has had to develop an arms industry under embargo conditions, starting from what were primarily French production licenses. Moreover, the level of Israeli-South African technical cooperation is high.

The Argentines have probably followed their European naval purchasing commission's recommendation against equipping their new frigates with British Sea King helicopters. They are discussing the Agusta A-109 (possibly with a production license) and the AB-212 with the Italians.

The Aircraft Problem

Argentina's first priority after the Falklands was to make up war losses, particularly in frontline combat aircraft. To this end, Buenos Aires purchased (during the war) the last two dozen of Israel's Nesher (Mirage III) inventory, and probably all of Tel Aviv's remaining Mirage spares as well. Argentina also bought the 10 Peruvian Mirage 5s loaned during the war. France has now delivered the balance of the Super Etendard carrier strike planes (with Exocet missiles) ordered before the war, bringing Argentina's inventory to 14 aircraft and between 5 and 10 missiles. Replacement of A-4 losses, however, has not been possible; Washington learned of Israel's attempts to transfer A-4s through a Venezuelan intermediary and the deal fell through.

Western Options. From a logistic and absorption standpoint, French combat aircraft remain the Argentines' best choice for force improvement:

- French warplanes are widely exported, making it possible to acquire used Mirage IIIs and 5s fairly cheaply from many sources, particularly in the Middle East, where many states are going for their next--and more expensive--generation of combat aircraft. Moreover, parts for Mirages would be available from other countries if France, for the sake of its relations with Britain, were forced to delay or embargo parts shipments.
- The Argentine Air Force already has training, ground handling, maintenance, and overhaul experience with Dassault aircraft, and Israeli and French advisers and technicians already in Argentina--or soon to arrive--could provide assistance. The Mirage family, moreover, enjoys a high degree of commonality of components between models.
- Improved French aircraft are available. On the low end of the price scale, Dassault has prototyped an improved Mirage 3NG (new generation) strike aircraft; it has better avionics, a more powerful engine, and greater maneuverability than its predecessor. Because it is a follow-on aircraft, it could be put into production quickly. Another relatively low-cost option would be the Mirage F-1, which is available in interceptor, attack, armed trainer, and reconnaissance

versions. Ecuador operates this aircraft, and South Africa can maintain it. At the moment, France has particular economic imperatives to sell more Super Etendards; the French Navy's requirement has been filled, and Argentina to date is the only export buyer of this aircraft. Iraq, however, may also obtain some Super Etendards. Dassault would like to extend the Super Etendard production run into at least 1983, and might be willing to offer better than usual terms. On the high end of the technological/price scale is the Mirage 2000, which has now entered production. This is an F-16-type multiple-mission aircraft, and an offer to Argentina might carry with it, like the sale to India, a coproduction arrangement. Britain, however, might lodge strong objections to advancing Argentine air capabilities to this level.

--France has been a very forthcoming arms supplier in the Third World. It has been known to delay arms deliveries to, or actually draw down the inventory of, its own forces in order to satisfy export orders. Paris also claims the sacredness of "prior contract" even under changed circumstances. France, for example, not only continued arms deliveries to Iraq after it attacked Iran, but also made fresh arms deals with Baghdad. In addition, the French usually provide government-backed financing for their military sales. Overseas arms sales account for some 5 percent of total exports and an even larger percentage in monetary terms, and the arms industry accounts for about 5 percent of the industrial workforce.

--There may be a French-Argentine aircraft deal in the works. The Director of OFEMA, the French Government's military aircraft and missile export agency, was in Argentina last December. We do not know what matters were discussed, but in any event France can be counted upon to offer stiff competition to any movement by Argentina toward Soviet combat aircraft.

Over the longer term, there are several alternatives that Argentina might pursue to improve its air forces at the lowest possible cost. It might consider:

--Extending the range of its existing Mirage aircraft by modifying them for air refueling, either by adapting the "buddy" system to the Mirages (in which one aircraft refuels two others) or by fitting probes to the Mirages and modifying civil Boeing 707's with tanks and refueling drogues. Israeli expertise would be available to support this project.

--Enhancing the combat power of the aircraft it now has by installing improved munitions (air-to-ground and air-to-air missiles, "smart" bombs) and electronics. Again, Israel offers considerable expertise and combat experience in this area.

--Increasing the pace at which the Argentine aviation industry is developing. This might involve acquiring Mirage-III or -5 tooling from France (or, for that matter, similar Kfir airframe tooling from Israel) or leapfrogging to progressive manufacture of the Mirage F-1 or Mirage-2000. This would be particularly attractive in that it would provide jobs at home and enhance military self-sufficiency; the Soviets have not been inclined to enter aircraft co-production with clients (India excepted) or to provide them with in-country heavy maintenance or overhaul capabilities.

The Soviet Alternative. For an attack aircraft, Moscow would be likely to offer the SU-22 Fitter (which Peru bought) or the MIG-23 Flogger, which is available in both interceptor and ground attack versions. Both aircraft are export models in series production, and could be delivered faster than any other new airplane sought by Argentina. Used Fitters or Floggers could be made available even more rapidly. Current production rates are 15 per month for export- and domestic-model Fitters, and roughly 40 monthly for all Flogger variants.

Soviet prices for combat aircraft (and other major weapon systems) have been rising since the mid-1970s, and have reached a point where they are roughly equivalent to those of comparable Western hardware. Although the possibility of a heavy discount to get the Soviet foot in the Argentine door cannot be ruled out, Moscow has shown an increasing disinclination to discount its weaponry to Third World customers. Where once the USSR granted arms or discounted by as much as 50 percent, discounts now probably average about 20 percent when they are made at all. Arms sales account for around 15 percent of Moscow's hard currency earnings, which are badly needed to buy sophisticated Western tooling for Soviet industry.

Soviet arms credit terms are still the most liberal to be found, but have tightened somewhat in the last several years. Typically, Soviet customers pay interest of 3 to 3.5 percent--though some are charged 7 to 10 percent--and repayment periods have declined from ten years or more to five to seven years. Generally, the Soviets insist on hard currency for arms, and will barter only for strategic commodities.

For the Argentines, however, an arms deal with the Soviets would have several major disadvantages:

- Despite rapid delivery, significant time and additional investment would be required between acquiring the aircraft and getting them into service, and in keeping them operational.
- Soviet combat equipment is designed for high-intensity conflict. Soviet units typically train at lower levels than their Western counterparts, and usually use only about one-fifth of their equipment; the rest is held to keep combat readiness high. For a

military establishment trained to operate in the Western mode, where all the equipment is used hard to maintain personnel proficiency, Soviet equipment has drawbacks. Soviet jet aircraft engines, for example, are good for only about 600 hours between major overhauls, compared to some 1,500 hours typical of Western units. Nor are they designed with fuel efficiency in mind. If the Argentines have done a life-cycle cost analysis of Soviet aircraft, they may find them no bargain. We have no definitive reporting on what the Peruvian experience has been (and doubtless it has been shared with the Argentines) but it is worth noting that Lima, failing to get the F-16A from the United States, has bought the French Mirage 2000 rather than turning to the MIG-23.

The Soviet system of weapons support for export customers is an extension of the system that supports Moscow's own forces. It is highly centralized, with maintenance and overhaul being done as far to the rear as possible. Only minimal amounts of spares are supplied to the operating units. Although this is sufficient for Soviet forces, for the export customer this means long distances between the weapon and its support and delays in restoring equipment to operational status. As noted, the Soviets rarely if ever provide the client with major maintenance and overhaul facilities. While this creates significant--if unintentional--political leverage for the Soviets, the Argentines would find it an additional constraint in view of their recent embargo experience.