

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

FO(SA)(82)24

COPY NO 86

16 April 1982

CABINET

DEFENCE AND OVERSEA POLICY (OFFICIAL) COMMITTEE  
SUB-COMMITTEE ON THE SOUTH ATLANTIC AND THE FALKLAND ISLANDS

---

ARGENTINA: ECONOMIC RETALIATION AGAINST THE UNITED KINGDOM

Note by Foreign and Commonwealth Office

---

1. This paper considers the scope for action against British economic interests in Argentina and the implications for HMG and firms concerned. Some tentative conclusions are at paragraphs 11-13.

ECONOMIC INTERESTS

2. Argentina has already retaliated against the United Kingdom by banning payment for imports of goods and services from the UK (including payment of dividends on our investment there) and suspending repayments of loans from the UK. We understand that on 13 April Argentina also imposed a formal ban on imports from those countries which have taken economic sanctions against her. Further

action remains open to the Argentine authorities, including the confiscation of British assets. So far, retaliation by Argentina has been limited to matching UK actions against her. It seems likely, therefore, that confiscation will not be implemented short of similar action by the UK or the outbreak of hostilities.

Exports

3. British exports to Argentina are predominantly of machinery and power generation equipment. In 1980 they amounted to £173 million. Full figures are not yet available for 1981, because of the Civil Service strike. They are likely to be down on 1980 and, because of the recession in Argentina, prospects for 1982 were already for a further significant drop, even before the Falklands crisis. Argentina is nevertheless our third largest market in Latin America but ranks only 42nd in our world table. About 60% of our exports are covered by ECGD, who have firm commitments for business worth £290 million.

4. Restrictions on British exports to Argentina are not likely to have a significant impact on our trading position worldwide. The possible imposition of sanctions by other Latin American countries is considered in a separate paper. With one possible exception, there are unlikely to be serious industrial or employment consequences in the UK. But John Brown Engineering are involved in two power generation contracts, both nearing completion. On one, JBE could be at risk for up to £7 million if commissioning proved impossible, although the legal situation is unclear at this stage. A loss of this magnitude, particularly if added to possible difficulties on the Soviet pipeline contract, could have severe implications for the company.

Direct Investment

5. The UK has about 8% of Argentina's foreign investment. The book value of our investments may be around £250 million, which represents about 15% of our total investment in South America.

6. We have consulted the companies that we know to have significant investments in Argentina. Details are in the Annex. Several significant holdings, including Unilever, Shell and Pilkingtons, are held in other countries, notably the Netherlands. In these cases, confiscation would seem to be less likely than in the case of UK

holdings. In no case do companies' investments in Argentina appear to be significant in relation to their global operations.

7. In the banking sector, Barclays Bank and Lloyds Bank International (locally, the Bank of London and South America) lend on the domestic Argentine market. They are rumoured to have lost deposits heavily. Barclays have been calling in loans as they were due and generally running down their operations. They are likely to hold this position for the next few weeks but would ultimately have to consider whether to maintain a presence. LBI would have more to lose from confiscation. Their subsidiary BOLSA has 38 branches and is the third largest foreign-owned bank in Argentina. They also have two local subsidiaries, one in insurance broking and one in unit trust fund management. Nevertheless, Sir Jeremy Morse has reassured shareholders that the risks lie 'well within our prudential capacity'.

Financial Interests

8. The claims of UK banks (British and foreign) on Argentina were \$5.8 billion at the end of 1981. The claims of British banks alone were \$3.6 billion at end 1981, making us Argentina's second largest creditor after the USA. Nevertheless, with the possible exception of LBI, it does not appear that possible losses in Argentina would be significant for any UK bank in terms of their global operations.

9. The Argentine decision to suspend foreign currency payments to the UK will mean delays in loan repayments, payments for imports and payments of dividends to shareholders in the UK. The Argentine authorities have set up an Escrow account in New York in which payments to the UK will be held. Nevertheless, the Falklands crisis has already caused grave misgivings among international bankers and will have made it much more difficult for Argentina

to raise new credit. So long as the present economic team survives, the authorities will probably try to avoid a formal repudiation of loan repayments, which would seriously affect Argentina's creditworthiness in the longer term. (The consequences of this are being examined in a separate paper.)

#### Transport

10. British Caledonian serves Buenos Aires on its route via Sao Paulo to Santiago (Chile). As far as we know, the Argentines have not yet suspended B Cal's operating permit. But since we have suspended the permit for Argentine Airlines to fly into London, retaliation seems inevitable. The loss of their Buenos Aires business would cost B Cal about £9 million per year. They are at present considering the best route for them to use into Santiago without over-flying Argentina. Anglo/Argentine shipping business is divided 50:50 in line with Argentine legislation. British shipping interests have hitherto earned about £12 million per year.

#### CONCLUSIONS

11. Hitherto, the economic and financial measures taken by Argentina against Britain have closely matched the measures we have ourselves taken against them. The Argentine authorities have also taken precautions against being declared in default on their international loans. Their existing measures could be reversed fairly rapidly if the Falkland Islands crisis was solved by negotiation.

12. If hostilities begin, the Argentine authorities could move to much harsher measures, such as restrictions on the domestic operations of British companies and ultimately confiscation of assets. These could not easily be reversed. The consequences could be the loss of an export market worth about £150 million per year and of direct investments worth about £250 million. The claims on HMG might amount to £290 million on ECGD for export credit cover and £8 million for investment insurance, though there might also be demands for compensation against uncovered trade debts and confiscated investment. Nevertheless, Argentine

retaliation, even on this scale, would not do significant damage to total British exports, industry or employment.

13. The repudiation of Argentine debts to British banks (worth \$3.6 billion) would be more serious. Argentina would have strong reasons for avoiding this, even after hostilities had begun, because of the damage it would do to her reputation in the international capital market. Even so, in the emotional climate which fighting would generate, such a step cannot be ruled out.

Foreign and Commonwealth Office  
16 April 1982

The following information was given to us in strict confidence by the companies concerned, all of whom are trying to avoid publicity on the extent of their holdings in Argentina. We believe that it covers all holdings in the UK valued at over £1m. Too much importance should not be given to precise figures, which inevitably make fairly arbitrary assumptions on, eg, exchange rates. In general, they are likely to understate the value of the investment rather than the reverse; in particular, some figures of net book value do not include working capital.

Lloyds Bank International

Capital at end-1981 some £30m:

(£22m in premises and equipment and £8m working capital).

ICI

£33m (£15m fixed assets; £18m working capital).

Union International

Net book value some £4m.

Coates Patons

Net book value £1.5m.

British American Tobacco

Net book value £27m.

Glaxo

Book value £4.5m.

Lucas

Net book value £6m.

Barclays Bank

Capital £8m.

Wellcome

Book value £1.7m.

GEC

Book value £1m.

Dunlop

Mainly a building: estimated sale value end 1981 £1m.

EMI

Recording company, capital value £1m.

Gestetner

Premises £1m.

Spirax-Sarco

Net asset value £1m.

Reckitt and Colman

Book value £3.1m.

Marley

Assets approaching £1m.