

CABINET

DEFENCE AND OVERSEA POLICY (OFFICIAL) COMMITTEE

SUB-COMMITTEE ON THE SOUTH ATLANTIC AND THE FALKLAND ISLANDS

ARGENTINA:

POSSIBLE BOYCOTTS AGAINST UK TRADE WITH SOUTH AMERICA

Note by Foreign and Commonwealth Office

1. Peruvian and Venezuelan workers have imposed a boycott of British ships. The Peruvian Airport Authority Union is also refusing to handle British aircraft and cargoes. This note describes what we know of the attitude of other states in South America and seeks to assess the economic impact should they adopt similar measures.

Peruvian and Venezuelan Actions

2. In both cases the action was taken by groups of workers without official backing. The Embassy in Lima has protested to the Peruvian MFA about the boycotts there. Whilst the Embassy has been told that the actions do not represent the Government's view, the Government seems to be unwilling to take positive steps to alleviate the position. The Embassy in Caracas has recommended against raising the matter with the Venezuelan authorities. They point out that exceptions have been allowed and that, so far, the measures have been largely ineffective and applied selectively. There have been reports that Venezuelan air traffic controllers are studying the possibility of boycotting British aircraft.

Other South American States

3. We have received no reports that similar measures have been adopted in other South American states. Overall the impression derived from reporting from Embassies is that such moves are unlikely although they cannot be ruled out entirely. In the case of Brazil, the Embassy believe that any boycott by private organisations could well be deemed to be outside the law, if it suited the Brazilian authorities. Similarly, any approach by HMG to prevent or end boycotts would only be successful if the Brazilian authorities thought it in their overall interest to respond. The Ambassador in Mexico City saw the Head of the Dockers Union in Mexico's major port on 23 April and said he could not have been more well-disposed to us.

Economic Interests at Stake

4. British Caledonian is the major British airline operating to South America. Were it to lose its routes to all seven countries to which it flew in 1981/82 it would lose some £31 million of gross revenue. If British Caledonian were denied access to these routes over an extended period, the economic consequences would be severe and might call into question its ability to survive. BA flies only to Mexico and Panama, from which it derived £4.4 million of revenue in 1981/82.

5. The denial of air routes would also have some impact on the UK's trade with South America. British Caledonian has some 90% of the cargo trade with Peru carried by air, which may account for 10-15% of all trade by value. In Venezuela, air cargo probably accounts for some 7% of trade by value, just over half of which is accounted for by British Caledonian. BA accounts for 30% of air cargo traffic with Mexico.

6. The latest figures for earnings of the UK shipping industry from its trade with South America are from 1978. These are not the best guide both because of their age and because they do not give earnings by UK flag vessels

(which were the subject of the boycotts in Peru and Venezuela) but by UK operators. But they represent what is probably not an unexpected pattern: Argentina, Brazil and Venezuela are the most important while Mexico is at or near the top of the less important group of countries. UK's ship-borne trade with South America is concentrated in a relatively small group of companies.

7. As for the effect on trade should boycotts be adopted, much would depend on their exact terms and the nature of the arrangements governing ship-borne trade. In the cases of Brazil, Chile and Venezuela there is a shipping pool under which trade is divided on a 50-50 basis. Where conference terms apply, and a boycott of British vessels is unlikely to be effective in shipping trade unless it were extended to other European lines. If the boycott were of British flag vessels, trade could continue to flow by using foreign flag vessels. In the case of Peru, a British line carries 80% of Peruvian exports and 50% of UK exports. A boycott of British flag vessels would therefore operate to their disadvantage. With Mexico, British shipping lines carry only about one-third of Britain's trade. Practically all British trade with Argentina is carried by sea, of which British ships carry some 60%.

Conclusions

8. British Caledonian's stake in Latin America is large. Its loss would be a severe setback for them. A boycott of British vessels seems much less likely to have serious consequences since circumvention would probably be easy. Ships could change to flags of convenience or the lines could charter in foreign flag vessels. A boycott of British goods would of course

be much more damaging. This would need official backing in order to be fully effective. We have assessed elsewhere that it is unlikely that South American governments would wish to introduce such measures, at least for the present.

Foreign and Commonwealth Office
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