

CABINET

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

ARGENTINA: THREAT TO BRITISH ECONOMIC INTERESTS  
IN OTHER SOUTH AMERICAN COUNTRIES

**NOTE**  
~~Brief~~ by Foreign and Commonwealth Office

1. This paper examines British economic interests in South American countries - other than Argentina - plus Mexico. It also seeks to assess the likelihood of their adopting economic measures against the United Kingdom, including the adoption of such measures under the terms of the Rio Treaty of 1947.

British Economic Interests in South America

2. Attached at Annex are the latest available figures for UK trade with, and investment in, South America, together with claims and liabilities of UK banks and ECGD liabilities. Brazil and Mexico are the most important UK markets taking 20% and 15% respectively of our exports to the area (0.4% of total UK exports in each case). This importance is also reflected in UK investment in these countries although at 50% of total investment in Latin America, Brazil has far and away the largest amount. UK bank claims amounted to some US \$32.5 billion with offsetting liabilities of US \$13 billion. By far the largest amounts were for Mexico, Brazil and Venezuela: in the case of Venezuela, liabilities (ie assets in London) exceed claims.

Similarly most of the ECGD liability is concentrated in Mexico and Brazil. Their liability in Brazil under Section II cover may increase substantially as the result of a major project on which we believe signature is imminent.

3. Our imports from Latin America as a whole were £1,016 million in 1980, about 2% of our imports from all sources. The area was not an important supplier for most imports although Bolivia and Peru provided quantities of tin and zinc. In the current depressed state of the world market and assuming that some proportion of these metals were sold elsewhere, there should not be difficulty in obtaining supplies elsewhere.

4. A Latin American export embargo should not therefore lead to great difficulties. As Latin America takes only a very small proportion of our exports an import embargo would be likely to have a significant effect on only a few companies, if any. We are, however, exposed through our investment in, and loans to, the area.

#### Impact on Major Project Business

5. Even under present circumstances, there could be some discrimination against UK companies in public sector project business. But as yet there is no sign that the Falklands dispute has had any effect in either Mexico or Brazil. In Mexico negotiations appear to be progressing smoothly on two major contracts on which decisions are expected shortly. Negotiations continue with Brazil on projects worth nearly £400 million under a Memorandum of Understanding signed last October, a contract for the supply of electronic equipment and armament for Brazilian corvettes having been recently concluded. Outside the MOU a major contract was signed on 12 April and signature of another is imminent. When the Secretary of State for Trade met the Brazilian Planning Minister on 15 April, the Brazilian side demonstrated continued enthusiasm for new business with the UK.

6. Elsewhere certain projects could be at risk. Panama, the only country to vote against the UN Resolution on the Falklands, may discontinue negotiations with a UK company on a public transport contract worth £70 million. Peru might decide to discontinue negotiations with the UK on the construction of naval port facilities at Chimbote, although it is less likely that civil contracts will be affected. A £200 million contract signed on 26 March for the supply of Hawk aircraft to Venezuela may yet be jeopardised as a result of the strength of feeling in support of Argentina.

#### Likelihood of Collective Economic Measures

7. Over the next two weeks Argentina is very likely to request official military, diplomatic and economic action against Britain in accordance with the Rio Treaty to dissuade the British Government from using force to regain control of the Islands. It is somewhat more likely that they would be able to obtain the necessary two-thirds majority in favour of some form of collective diplomatic and/or economic action (which would be mandatory) than for joint military action. (There is no precedent for joint military action against an extra-regional country but the Rio Treaty might provide a suitable umbrella for individual states to provide military assistance.)

8. Economic actions under the Treaty could range from a call for total severance of economic relations to the more moderate option of an embargo on all new government contracts going to Britain. The Latin American countries must be aware that an embargo on our exports to them would not have a severe impact on the United Kingdom economy, but similarly in general it would not harm their own economies much.

9. The halt of loan repayments would be more harmful to us, but they must be aware that if they were to take this action as parties not directly involved in the dispute it would be likely to make banks much more

cautious in lending to them and raise the cost of loans. Similar arguments apply to investment as to loans.

10. If therefore they were able to act as a collective, it seems rather more likely that they would act on trade rather than on finance and investment. But the differences of view among them over the Argentine action demonstrates that they may find it difficult to achieve a collective response and therefore adopt a policy leaving action to individual Latin American countries.

11. Of the countries in which we have significant economic interests, Mexico has adopted a generally helpful attitude. The Mexican Foreign Minister has said privately that he did not think the Argentines would get very far in the OAS. Even if they did Mexico would not support sanctions against Britain. Brazil has a greater predisposition to lean towards Argentina in the dispute, but like some other Latin American countries would probably wish to delay the invocation of the Rio Treaty sanctions, at least until the outcome of Haig's efforts at mediation is clear. Brazil would also have to take into account the need not to affect its international credit-worthiness. In view of the size of its borrowing needs, this might be a significant factor. Venezuela, which has hitherto been most supportive of Argentina, would have to take account of its standing in the international financial community at a time when oil prices are very weak. But public pressure may now have built up to the point where there is a very real risk of Venezuela's taking diplomatic and economic action under the Rio Treaty.

12. In general, the balance which South American countries will have to strike in deciding on whether to adopt economic or other measures is between, on the one hand, popular pressures to take action in support of Argentine claims to sovereignty over the Falkland Islands and, on the other hand, the implications of supporting the unprovoked aggression

undertaken by an unpopular regime. Some countries, eg, Peru, will find this difficult to resolve given the emotive appeal of the issue. But, as the figures show, Mexico and Brazil are by far the most important states from the viewpoint of UK economic interests. As such we should do all we can to prevent the dispute affecting them. Other countries represent a far less significant economic interest.

13. Although falling outside the scope of this paper, it should be noted that if Argentina were successfully to invoke mandatory diplomatic and economic action under the Treaty, this could affect the United States too. Some legal considerations are set out in Annex B to this Brief. Some of these arguments may be difficult for the US to present without provoking the Latin Americans. How far the US would use any of these arguments is likely to depend on their political inclinations.

	UK Exports £m	UK Imports £m	SITC 7	Book Value 1978 £m	31 December 1981		ECGD Liabilities	
					Liabil- ities	Claims	Sect I	Sect II
					US\$m	US\$m	£m	£m
Mexico	188.1	111.6	121.1	98.1	1986	12139	577.1	218.9
Colombia	41.9	34.3	21.1	12.7	1058	823	26.1	0.7
Venezuela	131.7	117.6	39.7	12.7	7174	5023	51.0	0.5
Ecuador	30.9	8.8	14.8	n/a	41	749	31.2	17.2
Peru	46.5	77.5	25.1	7.7	148	657	41.7	53.1
Chile	55.7	126.3	27.5	35.6	1174	1984	24.2	14.9
Bolivia	8.7	33.2	3.1	n/a	63	152	13.9	17.3
Brazil	218.2	296.4	118.0	678.2	1240	10742	197.6	729.1
Paraguay	13.4	1.3	1.1	n/a	n/a	n/a	2.6	12.9
Uruguay	26.6	16.9	13.3	4.2	190	248	8.4	0

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ANNEX B

## Collective Action under the Rio Treaty

Whereas any State is entitled to refuse to give effect to a decision in favour of armed force, other decisions for collective action are principle binding on all States when adopted by a two-thirds majority. But we assume that the Americans, like any other dissenting state, would be able to invoke, as a means of escaping from the dilemma, Article 10 of the Treaty which states that none of its provisions conflict with states' rights and obligations under the UN Charter. The US might be willing to argue that to take coersive supportive action after an illegal attack was contrary to the Charter since it encouraged the attacker and infringed the right of the UK under Article 51 of the Charter to take measures of self-defence. It thus contradicts Article 10. This seems the best argument. Alternatively it might argue that these actions could only be obligatory in a case properly falling within the Rio Treaty; the present instance was not such a case as the action by the Argentines was itself an unlawful use of force which justified UK counter-measures. The Treaty did not require any State to back up action under the Charter of the UN, merely because two-thirds of the members tried to make the US take this action. But this line of argument might be disputed by the Argentines on the ground that it undermined majority voting. The US might also be prepared to argue that majority voting applied only to the choice of action, not to the finding that the case fell within the Treaty. There might be other arguments that the proposed action was contrary to treaties with the UK and that the case did not fall within security exception clauses of the Treaties.