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DEPARTMENT OF STATE

Washington, D.C. 20520

April 28, 1982

NATIONAL SECURITY COUNCIL AGENDA ITEM

Next Steps on Falklands

MEMORANDUM FOR MR. WILLIAM P. CLARK
THE WHITE HOUSE

Subject: National Security Council Meeting Agenda Item
-- The Falkland Islands Dispute

Attached is a discussion paper dealing with the Falkland Islands dispute.

L. Paul Bremer, III
Executive Secretary

Attachment as stated.

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Department of State Guidelines, July 21, 1997

By dlb NARA, Date 5/26/06

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NATIONAL SECURITY COUNCIL AGENDA ITEM

Next Steps on FalklandsI. Present Situation

It is now clear that Britain will decide to take further military action -- although not necessarily an all-out assault on the islands, for which it is not ready. Growing resistance from Labour and the Social Democrats won't deter it.

Argentina may attempt a preemptive attack against the British fleet. Sinking of a capital ship, even at high cost, would satisfy Argentine honor, and maybe cause a reversal of public opinion in Britain.

Britain has the means -- whatever Argentina does -- to isolate the islands, disable the airstrip, and attack the defenders, who are likely to run short of supplies in three weeks. Casualties could be high.

As military action escalates, US citizens and businesses in Argentina will be at risk from mob action and random harassment. We also cannot rule out targetting of Americans by Argentine security forces. There are some 200 official Americans and as many as 16,000 private Americans in Argentina. We can expect similar problems elsewhere in Spanish America.

II. U.S. Objectives

- o Make clear our support for the UK;
- o preserve our ability to mediate; use the escalation in military activity to maximize the flexibility of both sides, particularly Argentina;
- o provide for the security of official and private Americans in Argentina; and
- o minimize adverse impact on our interests in Latin America.

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III. Steps to Support the U.K.

Our action should avoid feeding the perception in Argentina and elsewhere that we are directly involved in UK military action. As a general principle, U.S. measures should not exceed those taken by the UK or her EC partners. (Argentine pressure points are at Tab A.)

-- Show public support for UK:

o Presidential letter to Thatcher;

o statement for press making clear peace effort has so far not succeeded because of GOA intransigence;

o continue support for UK in OAS and UN; veto any UN resolution departing from 502 (discussion at Tab B);

o announce that we are not ready to certify Argentine eligibility for new security assistance;

o issue travel advisory for Argentina.

-- Privately warn Argentina that we could be forced to go further.

-- Reinforce with other Latins and Allies our willingness to continue mediation but make clear that Argentine intransigence blocks diplomatic solution.

-- Continue to respond promptly to UK requests for support (avoiding direct involvement in the military action itself).

-- Continue to stress publicly that assistance to UK is within normal pattern of our established relationships.

(Note: UK is largely self-sufficient and capable of resupplying itself. We expect requests for specific items of military equipment, logistical support (largely fuel) and intelligence. Only a major military reversal or an unanticipated problem would be likely to generate substantial requests for U.S. military equipment.)

o Notify Congress of GOA violation of bilateral security assistance agreement (i.e. use of US

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equipment in invasion) and suspend deliveries in the pre-1978 FMS pipeline;

- o suspend new Ex-Im Bank loans and CCC coverage to Argentina;
- o deny export licenses for munitions control list items.

(Note: We should recognize that while these actions are necessary elements of our position of support for the UK none of them will have significant material effect on Argentina. They will increase the Argentine sense of isolation. But this could have the perverse effect of fueling a bunker mentality, reducing rather than widening the GOA's political flexibility. We would not impose any economic sanctions beyond those affecting USG-supported programs.)

IV. Actions to Protect American Citizens

- Maintain emergency evacuation plans in high state of readiness (details at Tab C);
- Deliver firm warning to GOA (Costa Mendez) that we expect GOA to provide fully for security of all Americans in Argentina;
- Alert US Embassies in Spanish America to possible hostile acts.

V. Other Options

These are high cost, high risk options which have not been matched by the UK's partners, or even HMG in the case of economic sanctions.

A. Economic Sanctions -- Impose major trade and financial sanctions blocking private transactions.

Argentina's foreign debt is now estimated at about \$34 billion. Debt service this year will reach about \$11 billion, assuming all short-term credits are rolled-over. Argentina's reserves equal about \$4 billion, equal to 5 months worth of imports and this quarter is the major export season. Nonetheless, bankers are worried about the GOA's stability and, while they believe their long-term relationship with Argentina remains sound, they are tightening terms on short-term credits. If a shooting war erupts, they may refuse to roll over short-term credits. This

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will be a crushing financial blow to the GOA. It is, however, extremely unlikely that U.S. banks will call Argentina in default on its debt, even if repayment is suspended for some time. Argentina has been moving some assets out of the U.S. to Panama, thus possibly escaping an asset freeze. (Details at Tab D.)

B. U.S. Military Operations -- Movement of U.S. naval forces into the area.

Deployment could provide useful signals to the UK, Argentina, and the USSR or assist E&E operations. Deployment would have to be managed to minimize provocation to the Argentines and pretext for Soviet countermoves. At least 18 days steaming time would be required. (Details at Tab E.)

Attachments:

- Tab A - Economic and Military Pressure Points on Argentina
- Tab B - Possible Actions in the UN
- Tab C - Emergency Evacuation Contingency Planning
- Tab D - Argentine Financial Situation and U.S. Exposure
- Tab E - U.S. Military Options

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ECONOMIC AND MILITARY PRESSURE POINTS

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<u>ACTION</u>	<u>IMPACT ON ARGENTINA</u>	<u>OTHER EFFECTS</u>	<u>REVERSIBILITY</u>
<u>I - SUPPORT UK WITHOUT SANCTIONING ARGENTINA</u>			
Announce Logistical Support for UK	Significant political impact as signal of US support for UK position over that of Argentina.	Reduces US credibility as mediator. Criticized by other Latin states, exacerbating split with English-speaking Caribbean.	Not reversible.
<u>II - RESTRICT US GOVERNMENT TRANSACTIONS WITH ARGENTINA</u>			
Refuse to Start-Up New FMS or IMET	None as long as others willing to supply.	Provides opening for Soviets.	US dependability further eroded even if we offer later to resume.
Suspend FMS Pre-1978 Pipeline Deliveries (\$3.9 million)	Affects primarily spare parts; would eventually force cannibalization of US equipment. An irritant.	Could lead to sales of USSR military equipment. Reawakens Latin concerns about US reliability as a supplier.	Reversible decision by Secretary of State but Argentina may nevertheless prefer to turn to USSR.
Oppose MDB Loans	US cannot block approval of any loan except concessional IDB lending. An irritant to GOA.	Would politicize the MDBs, lessen Congressional support for our participation and anger borrowers and donors alike.	Should consult with Congress before changing vote either to oppose or to support.
Suspend Export Licenses for items on Munitions List.	Some Argentine companies will lose source of supply but would find others.	May hurt some US companies and generate Congressional heat.	Exercised by Secretary of State. Could eliminate permanently US share of market.

<u>ACTION</u>	<u>IMPACT ON ARGENTINA</u>	<u>OTHER EFFECTS</u>	<u>REVERSIBILITY</u>
<u>III - RESTRICT US PRIVATE TRANSACTIONS WITH ARGENTINA</u>			
Delay Commercial Arms and Ammunition Export Licenses	same as previous	same as previous	Exercised by Secretary of Commerce. Could eliminate permanently US market share.
Suspend CCC credits	Unused credits amount to \$2.0 million.	Possibly prevent sale of some US commodities.	Exercised by USDA.
Suspend Eximbank Credits and Insurance.	There are no applications for credits pending but a few for insurance. An irritant to GOA.	British have requested this action. Possible loss of US private sector contracts if new applications received. Could cause loss of Eximbank contracts in other Latin countries.	Requires Presidential action to override the Chafee Amendment. He can reverse action.
Graduate Some or Most of Argentine GSP-eligible Exports.	Would make certain Argentine exports to US more expensive but might not affect trade flow much. An irritant affecting private sector markets.	Using GSP as a political weapon would set a bad precedent internationally since legal authority for GSP relates only to import sensitivity. Some imports in US would be more expensive to consumers. Could drive Brazil and Mexico to more supportive role for Argentina.	An Executive Order which can be reversed quickly.

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<u>ACTION</u>	<u>IMPACT ON ARGENTINA</u>	<u>OTHER EFFECTS</u>	<u>REVERSIBILITY</u>
<u>III - RESTRICT US PRIVATE SECTOR TRANSACTIONS WITH ARGENTINA (CONT'D)</u>			
Embargo Selected US Exports	Small short-to medium-term economic impact. Could turn to other suppliers.	US could permanently lose market share. Usually used only for security related items. Would stimulate Latin solidarity with Argentines.	Export Control Act exercised by the Secretary of Commerce but loss of market share to US companies could be permanent.
Embargo Most US Exports	Severe medium-term economic effect on Argentine private sector. If EC embargo extended, could affect 50 percent of Argentine imports and cause severe contraction.	Displace \$2 billion or so of US exports, hurt some individual US firms and provoke Congressional fallout. Could cause long-term loss of US market and possibly violent anti-American demonstrations in other Latin countries as well as in Argentina.	Under authority of Export Control Act exercised by the Secretary of Commerce. If retained two-three months, would permanently affect US share of Argentine market.
Jawbone Bankers	GOA needs \$7.6 billion in new BOP borrowings and rollovers of \$11 billion. If cutoff achieved, would have severe economic impact in one to three months.	Probably jeopardize GOA repayment of existing credits, making financial community nervous, particularly given the problems of Eastern European borrowers. We have not interfered in private decisions in Poland and USSR. Bankers will be reluctant to go along.	May leave commercial bankers reluctant to re-extend exposure to GOA and Argentine private sector and leave Argentina short of credits. Could undermine confidence in US banking ties.

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<u>ACTION</u>	<u>IMPACT ON ARGENTINA</u>	<u>OTHER EFFECTS</u>	<u>REVERSIBILITY</u>
<u>III - RESTRICT US PRIVATE SECTOR TRANSACTIONS WITH ARGENTINA (CONT'D)</u>			
Embargo All US Exports and/or Imports	Severe economic impact in medium term affecting 50 percent of Argentine imports if EC embargo extended and 10-15 percent of exports, sharply contracting output.	Foreign investors in US would be greatly concerned by use of IEEPA. US financial markets could be disrupted. Solidify Latin support with possible concrete actions in support of Argentina.	Requires Presidential exercise of Internal Emergency Economic Powers Act (IEEPA). Impact on US financial markets and confidence of foreign investors in US would remain.
Freeze Argentine Assets	Possible default and economically traumatic. Affect some \$5 billion of Argentine financial assets.	Could cause significant long term weakening of dollar and disruption of financial markets still wary after Iran freeze. Considered but not used on Libya. Same impact on Latins as total embargo.	Requires Presidential exercise of International Emergency Economic Powers Act (IEEPA). Serious long-term unease in financial markets even if reversed.

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Possible Follow-Up Actions in the UN1. UN Security Council (UNSC)

Argentina has made it clear that it will abide by UNSC Resolution 502 and will withdraw its forces if the UK complies by ceasing all hostilities, military and economic. The USSR, although it did not veto Resolution 502, has since expressed full support for Argentina. Argentina's offer to comply with Resolution 502 also may convince the non-aligned members of the UNSC who voted for Resolution 502 to shift their positions if the UK mounts a major attack. In that event, Argentina might ask for a UNSC meeting and submit a new resolution endorsing the OAS decision and implementation of Resolution 502. The aim would be to shift the onus on the UK to comply, notwithstanding its position that it is acting in self defense and in compliance with Resolution 502. Such a new resolution which refers to Resolution 502 and which calls on the UK to cease hostilities could attract the necessary nine votes, in which case the UK would be forced to veto the resolution. Should there be a stalemate in the UNSC, Argentina could call for an emergency session of the General Assembly.

If the UK is faced with the need to veto such a resolution, it might consider supporting, as an alternative, a reiteration of Resolution 502 calling for a simple cease fire and mutual withdrawal, and adding a call for UN good offices to pursue a negotiated settlement. We should work to discourage a resolution designed to place the onus on the UK. We would prefer the alternative of a reiteration of 502 coupled with a call for negotiating and for good offices, but we should defer to the UK.

2. General Assembly (GA)

A major outbreak of hostilities, coupled by a UK veto in the Security Council, could lead to an emergency session of the UNGA, which would favor Argentina. The NAM has always supported Argentina's claim of sovereignty, but it was earlier divided because of Argentina's first use of force. It would likely rally around Argentina in the General Assembly. The UK, NATO allies and the US would be in a minority and could not defeat a UNGA resolution which condemns the UK.

An alternative we might consider at that point would be to try to encourage a UNGA resolution which recommends that the Security Council and the Secretary General work to establish some kind of UN role to encourage peaceful

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settlement. By that time, if the British had achieved a major military advantage, both Argentina and the UK might support a UN peace-making role.

3. Secretary General (SYG)

If the US good offices runs its course, it would be in our interest to encourage the UK and Argentina to accept the Secretary General as an intermediary.

Perez de Cuellar is prepared to play a role if both parties are willing. The Secretariat has been studying possible UN participation in peace-keeping or in some form of interim UN administration of the territory. For example, a trusteeship-like arrangement can be established to temporarily shelve the sovereignty question while both sides withdraw. The UN could administer the territory alone or with one or both parties for a limited period of time. UN intervention with our support could convince both parties to gracefully withdraw their forces and return to the negotiating table. This would permit the SYG to use his good offices as mediator, assign a special mediator, or call on several member states to undertake a mediation. There would be a strong sentiment among UN members to pursue such a course, since it would not prejudice the sovereignty claims of either party. However, given Argentina's unwillingness to cooperate with US good offices to date, it would probably not accept a major UN intermediary role that defers resolution of the sovereignty question, unless it is faced with military defeat.

Drafted: IO/UNP:^WHLee:bmc
4/28/82 - ext. 22184

Cleared: IO/UNP:^{PCW}PCWilcox

Emergency Evacuation Contingency Planning
for Argentina

A Policy and Security Contingency Planning Group has been set up to monitor E&E requirements in Argentina. Authority to commence evacuation remains with Department.

There are between 14,000 and 16,000 Americans in Argentina. About 7,000 are registered at Embassy. Official American community numbers 182 employees and dependents.

President Galtieri has assured us all precautions would be taken to prevent incidents against official or private Americans. We have reinforced our concern formally through diplomatic channels to Foreign Minister.

- The registered 7,042 American citizens represent 3,562 households with 2,560 in the metropolitan Buenos Aires area, rest spread throughout the country.
- Ambassador in touch with private American community leaders. Given the numbers, structured warden system not feasible. Embassy can work through community organizations to inform Americans of developments. American Chamber member companies, some 200, will be channels for information.
- Permissive evacuation plan assumes GOA guarantees safety and permits unrestricted use of airport facilities. Contingency plans for non-permissive situation are being developed now.
- Pan Am ready to proceed on request. Response time measured in hours. U.S. military air possible, but Pan Am is faster.
- Montevideo is designated safehaven. Rio de Janeiro is alternate if security threats materialize in Uruguay.

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Financial Situation/U S. Exposure

Argentina's foreign debt is now estimated at about \$34 billion - \$20 billion owed by the public sector and \$14 billion by the private sector. Service on the public debt in 1982 will amount to \$9.7 billion (\$7.2 billion of principal repayments and \$2.5 billion of interest). An additional \$2.0 billion in interest is due on Argentina's private sector debt this year.

GOA officials maintain that they will need no new net credit inflows through the second quarter. They point out that Argentina's reduced level of economic activity (down 6% last year with some 50% of industrial capacity idle) has limited the demand for imports sharply.

Argentina's gross reserves still amount to about \$5.0 billion (of which \$1.0 billion in bilateral swaps arrangement in non-convertible currencies appear to be somewhat more restrictive than first thought). These swaps must be cleared (in hard currency) within 30 to 60 days. Assuming all of the gold can be converted to liquid resources and ignoring the bilateral swap arrangements, Argentina's reserves are equivalent to 5 months worth of imports. It should also be noted that the second quarter is traditionally the period in which harvests are brought in and exported, and thus is the peak period for foreign exchange earnings.

Roughly 40% of Argentina's debt is short-term and must be rolled-over annually. This is the real key to Argentina's financial viability. Most bankers and other lenders are loathe to interrupt ongoing short-term arrangements. But if the bankers come to believe that Argentina's position is untenable, they will refuse to rollover these lines of credit. Argentina would then be forced to repay some \$12 billion dollars over the next year, clearly a crushing financial burden.

Bankers are already expressing substantial concern about Argentina's ability to service its debt. They appear to believe that almost any outcome short of a negotiated settlement will result in political instability in Argentina. Treasury reports that the Japanese bankers are reducing their exposure and that other lenders are boosting spreads (interest rates) to discourage Argentine borrowing.

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The exposure of the nine largest U.S. banks in Argentina is about \$5.0 billion or 19% of their capital. Total U.S. banking exposure in Argentina is on the order of \$7.0 billion.

In recent days the GOA has not been making normal deposits in the U.S. This includes overnight money as well as cash deposits. Instead, the Argentines appear to be shifting some of their assets to Panama. Banking officials believe that this action is in response to rumors circulating in Argentina to the effect that the U.S. is planning an asset freeze. The effect of this movement, however, is to put some Argentine resources out of the reach of U.S. banks should they declare a default and to increase their uncovered exposure. This increases the bankers' risk and may be reflected in their future short-term credit roll-over decisions.

Default

It is extremely unlikely that U.S. banks would call Argentina in default. The bankers value their relationship highly (as apparently do the U.K. banks) and feel that eventually Argentina will make good on its debt.

The most likely to consider calling a default are the small regional banks with light exposure. However, post-Iran loan syndication require that a majority of the banks involved be in favor before a default can be invoked. U.S. banks have also lent to Argentina through club-loans (i.e. non-syndicated loans) which do not require majority vote for default, but these are a small part of Argentina's external debt. With the limited Argentine assets available to be attached, the fact that U.S. law requires no write-downs of bad loans until the end of the fiscal year, and the difficulty in organizing a positive vote in syndicates, it is extremely unlikely that U.S. banks will force a default. Rather, they will allow Argentina to build up arrears, as they have done recently with Poland and Costa Rica among others, in the hope that the bad loans will be turned around eventually.

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The unguaranteed claims of individual UK, other West European and Japanese banks on Argentina are lower on average, both in absolute terms and as a percent of capital, than is the case for U.S. banks. Some other countries' banks (e.g. Brazil) could also have significant exposure. The total unguaranteed claims of Western banks are now equal to \$22 billion, roughly twice the claims on Poland or half of the total claim on the Soviet Bloc less Yugoslavia. Earlier analyses concluded that even a total loss on lending to Poland could be managed without significant official intervention, but that loss on all lending to the Soviet Bloc could well require widespread official support. While exposure in Argentina is greater than in Poland, it is more evenly distributed, and thus it is not unreasonable to assume that the impact on Western banks of a total loss could be contained.

Were a default to be called, the short-run impact on Argentina would be to relieve them of their huge debt service requirements. In the longer-term, of course, a default would be extremely damaging to their credit standing, an outcome Argentina can afford even less than Poland. GOA officials are cognizant of this and are working to find a orderly arrangement to continue servicing the debt.

USG Leverage

The U.S.G. cannot force a default and an asset freeze would be largely ineffective (it may free more assets -- by relieving Argentina of its repayment obligations -- than it ties up, at least in the near-term). A cutoff of EXIM funds would probably have little economic impact on Argentina (or the U.S.). The EXIM had six preliminary commitments, with a total value of \$130 million, outstanding with Argentina as of February 28. These commitments expire between May 29 and October 30 and will almost certainly be honored unless the Chafee Amendment is invoked. (The Chafee Amendment to the export Import Bank Act prohibits EXIM from denying credit for political reasons except where the President explicitly determines it is in the national interest).

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