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TO IMMEDIATE F C O

TELEGRAM NUMBER 2803 OF 23 AUGUST 1982.

ARGENTINA: FINANCIAL AND COMMERCIAL SANCTIONS AND AIR SERVICES.

1. I SPOKE THIS AFTERNOON TO ENDERS, RE-EMPHASISING OUR VIEW THAT THE ARGENTINIANS WOULD HAVE TO GIVE US SATISFACTION ON AIR SERVICES IF THEY WANTED FINANCIAL SANCTIONS LIFTED.

2. ENDERS SAID THAT IT WAS CLEAR FROM NUMEROUS CONTACTS BETWEEN AMERICAN AND ARGENTINIAN OFFICIALS IN THE LAST TEN DAYS THAT THE LATTER DID NOT ACCEPT THAT THE LIFTING OF FINANCIAL SANCTIONS WOULD ONLY BENEFIT ARGENTINA OR THAT THEY SHOULD GIVE WAY TO THE UK ON OVERFLIGHT CLEARANCES AND LANDING RIGHTS FOR BRITISH CALEDONIAN, WHICH WAS REGARDED (PARTICULARLY BY THE AIR FORCE) AS A MATTER OF NATIONAL SECURITY.

3. ENDERS EXPLAINED THE ARGENTINIANS DID NOT NECESSARILY SEE THAT ARGENTINA'S FINANCIAL POSITION WOULD BE SERIOUSLY DAMAGED BY FAILURE TO REACH EARLY AGREEMENT ON A FINANCIAL PACKAGE. THE COUNTRY'S FINANCIAL PROBLEM WAS ESSENTIALLY A SHORT TERM ONE, (THE CURRENT ACCOUNT DEFICIT WAS ONLY DOLLARS 1.5 BILLION PA) AND, UNLIKE MEXICO, ARGENTINA DID NOT NEED ANY NEW CREDIT. THUS MANY ARGENTINES BELIEVED THAT A SUSPENSION OF PAYMENTS WOULD BE AN ACCEPTABLE WAY OUT. ENDERS SEEMED TO DRAW A DISTINCTION BETWEEN THIS AND A FORMAL MORATORIUM.

4. ENDERS CONTINUED THAT IF WE CONTINUED TO INSIST ON LINKAGE, THE ARGENTINIANS WOULD PROBABLY TAKE NO IMMEDIATE ACTION ON THE FINANCIAL SIDE. THE TURN-OVER OF OFFICIALS IN BUENOS AIRES WAS SO RAPID, AND EXPERIENCE SO LIMITED, THAT THE FINANCIAL TEAM DID NOT LOOK FAR AHEAD AND COULD NOT BE COUNTED UPON TO TAKE PRUDENT FINANCIAL DECISIONS. IN ANY CASE, HE ADDED, THE DECISION-MAKING PROCESS IN ARGENTINA WAS NOW SO FRAGMENTED THAT IT WAS VIRTUALLY IMPOSSIBLE TO GET AGREEMENT ON ANY POLICY; (HE MENTIONED THAT FOREIGN MINISTER LANARI HAD BEEN ENTIRELY UNAWARE OF OUR DISCUSSIONS ABOUT THE LIFTING OF ECONOMIC AND FINANCIAL SANCTIONS WHEN HE HAD SPOKEN TO ENDERS LAST WEEK IN SANTO DOMINGO. HE WAS CONFIDENT THAT THE AIR FORCE WERE NOT AWARE OF THEM EITHER AND THOUGHT THEY WOULD TRY TO PUT A STOP TO THEM IF THEY KNEW).

5. I REPLIED THAT IN SPITE OF THIS ASSESSMENT WE HOPED THAT THE AMERICANS WOULD CONTINUE TO URGE THE ARGENTINIANS TO MEET US ON THIS ISSUE. ENDERS SAID THAT HE WOULD HAVE ANOTHER WORD WITH THE UNITED STATES AMBASSADOR AT BUENOS AIRES AND ASK HIM IF THERE WERE ANY HITHERTO UNEXPLORED CHANNELS WHICH COULD BE USED. HE AGREED

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THAT IT WAS ESSENTIAL THAT THE ARGENTINES SHOULD BE 100 PERCENT CLEAR ABOUT HMG'S POSITION. HE WAS NOT SURE THAT THEY UNDERSTOOD THAT THIS CARRIED THE FULL ENDORSEMENT OF BRITISH MINISTERS. IN THIS REGARD, HE ASKED ABOUT THE EXTENT OF OUR OWN DIRECT CONTACTS WITH THE ARGENTINES THROUGH THE BANK OF ENGLAND AND THE CENTRAL BANK. IT WOULD BE HELPFUL TO LET ME KNOW WHAT I MAY TELL ENDERS ABOUT THESE CONTACTS BY 241300Z.

6. SEE MIFT FOR FURTHER POINTS ARISING FROM MY TALK WITH ENDERS.

THOMAS

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