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TO IMMEDIATE WASHINGTON

TELEGRAM NUMBER 1573 OF 26 AUGUST

YOUR TELNO. 2811: ARGENTINA: FINANCIAL SANCTIONS AND AIR SERVICES

1. FOLLOWING SUMMARISES DISCUSSIONS WITH ARGENTINES ON AIR SERVICES:

(A) ON 5 AUGUST THE BANK OF ENGLAND TOLD THE ARGENTINE CENTRAL BANK THAT WE WANTED TO LIFT RESTRICTIONS RECIPROCALLY IN A NUMBER OF FIELDS, INCLUDING AIR SERVICES. THE ARGENTINES FORESAW DIFFICULTIES, ESPECIALLY ON AIR SERVICES, IF THE RESTRICTIONS WERE TREATED AS A PACKAGE.

(B) AFTER DISCUSSIONS IN WHITEHALL AND CLEARANCE WITH MINISTERS, THE BANK OF ENGLAND WERE ASKED ON 11 AUGUST TO TELL ARGENTINE CONTACTS THAT WE DID NOT INSIST ON COUPLING THE RECIPROCAL REMOVAL OF COMMERCIAL AND FINANCIAL RESTRICTIONS, PROVIDED THE REMOVAL OF FINANCIAL RESTRICTIONS EXTENDED TO ALL QUOTES INVISIBLE UNQUOTES TRADE, INCLUDING AIR SERVICES.

(C) ARGENTINE CONTACT SAID HE COULD ONLY DELIVER AN INDICATION THAT ARGENTINA WOULD NOT DISCRIMINATE AGAINST UK AIRLINES.

(D) SINCE WE BELIEVE THAT THE ARGENTINES NO LONGER WANT TO FLY TO LONDON, THIS WAS TOO VAGUE. THE BANK WERE AUTHORISED ON 13 AUGUST TO TELL THEIR ARGENTINE CONTACTS THAT (STILL WITHIN A PACKAGE INCLUDING FINANCIAL RESTRICTIONS) WE COULD NOT ACCEPT LESS THAN AN ASSURANCE THAT ARGENTINA WOULD OPEN TALKS WITHIN SAY A MONTH, ACCORDING TO B-CAL TREATMENT NO LESS FAVOURABLE THAN AIR FRANCE AND LUFTHANSA AS REGARDS FLIGHTS TO ARGENTINA AND OVERFLYING RIGHTS: WHEN EITHER AIRLINE RESUMED SCHEDULED SERVICES TO ARGENTINA, B-CAL WOULD ALSO BE GIVEN A PERMIT TO RESUME.

(E) THE BANK PUT THIS TO THE ARGENTINES, WHO REPLIED ON 16 AUGUST THAT THE MINISTRY OF FINANCE COULD ONLY OFFER ON LANDING

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RIGHTS THAT THE UK WOULD NOT BE DISCRIMINATED AGAINST ON ECONOMIC OR COMMERCIAL GROUNDS (BUT THIS WOULD NOT GUARANTEE MFN TREATMENT) AND THAT ONCE FINANCIAL RESTRICTIONS WERE OUT OF THE WAY, NEGOTIATIONS COULD PROCEED AT AN EARLY STAGE. ON OVERFLYING THEY COULD GUARANTEE NOTHING.

2. THERE HAVE BEEN NO CONTACTS WITH THE ARGENTINES SINCE THEN. HAD THERE BEEN, WE WOULD HAVE BEEN PREPARED TO OFFER THE FOLLOWING REFINEMENTS TO THE POSITION IN (D) ABOVE:

(A) AS FAR AS OVERFLYING IS CONCERNED, WE ONLY HAVE IN MIND B-CAL'S FLIGHTS BETWEEN BRAZIL AND CHILE (PARA 5 OF OUR TELNO 1543).

(B) ON AIR SERVICES, WE ARE ONLY ASKING FOR THE SAME TIMESCALE AS THE FRENCH AND GERMANS TO NEGOTIATE AN AGREEMENT OR TO RESUME FLIGHTS, AND A GUARANTEE THAT B-CAL WILL BE ALLOWED TO RESUME SERVICES SUBJECT TO A SATISFACTORY COMMERCIAL ARRANGEMENT BEING WORKED OUT. (IF, AS WE BELIEVE, THE ARGENTINES WANT TO FLY TO PARIS AND FRANKFURT BUT NOT TO LONDON, B-CAL COULD NOT EXPECT TO NEGOTIATE EXACTLY THE SAME TERMS AS AIR FRANCE AND LUFTHANSA, WHO WOULD BE SHARING THEIR TRAFFIC WITH THE ARGENTINES. IN SUCH CIRCUMSTANCES IT WOULD BE NORMAL COMMERCIAL PRACTICE FOR B-CAL TO PAY SOME PRICE TO THE ARGENTINES FOR BEING THE ONLY DIRECT OPERATOR BETWEEN LONDON AND BUENOS AIRES. WE CAN ACCEPT THAT, WITHIN REASON: WE COULD NOT ACCEPT B-CAL'S TOTAL EXCLUSION.)

(C) NO DE-COUPLING OF AIR SERVICES ISSUES FROM FINANCIAL RESTRICTIONS.

3. YOU MAY GIVE ENDERS THE PROPOSAL AT PARA 2 ABOVE, WITH THE AUTHORITY TO PUT IT TO THE ARGENTINES AS PART OF A PACKAGE ALSO COVERING FINANCIAL RESTRICTIONS. YOU SHOULD DRAW ON PARA 1 OF THE ABOVE TO EMPHASISE THAT THE HISTORY OF THE CONTACTS TO DATE, TAKEN WITH THIS LATEST REFINEMENT, CLEARLY INDICATE OUR WILLINGNESS TO EXPLORE ANY PROPOSAL, PROVIDED THE OUTCOME IS A RESUMPTION WITHIN A REASONABLE TIMESCALE

(A) OF B-CAL'S OVERFLIGHTS FROM BRAZIL TO CHILE, AND

(B) OF B-CAL'S OPERATING PERMIT FOR BUENOS AIRES.

IN THE PROCESS OF ACHIEVING SUCH AN OUTCOME WE WOULD ACCEPT THAT CHANGED ECONOMIC AND COMMERCIAL CONDITIONS MAY REQUIRE

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NEGOTIATING A NEW BASIS FOR AIR SERVICES BETWEEN THE TWO COUNTRIES. BUT WE CANNOT ACCEPT THAT THERE SHOULD BE NO AIR SERVICE BETWEEN LONDON AND BUENOS AIRES IF SERVICES ARE RE-INTRODUCED FROM PARIS AND FRANKFURT. IF ENDERS' DEFINITION OF MOST FAVOURED NATION TREATMENT (PARA 3 OF TUR) ACCORDS WITH THAT POSITION, WE WOULD BE HAPPY FOR SCHLAUDEMAN TO PRESS OUR CASE WITH THE ARGENTINES AT WHATEVER LEVEL HE THINKS FIT. THOUGH WE RECOGNISE THERE MAY BE DELAY IN DOING SO. WHILE THE NEW ARGENTINE ECONOMICS PERSONNEL SETTLE IN.

4. FOR YOUR OWN INFORMATION. WE ARE OF COURSE LOOKING AT THE SITUATION DAY BY DAY. BUT YOU SHOULD GIVE THE AMERICANS NO REASON TO SUSPECT THAT WE SHALL CHANGE THE LINE IN OARA 2 ABOVE.

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