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Rie Austin (4)
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ARGENTINA: ANNUAL REVIEW FOR 1986

THE HEAD OF BRITISH INTERESTS SECTION AT BUENOS AIRES TO THE
SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS

SUMMARY

1. Present government has lasted longer than any other democratic administration since 1961. However, Parliament remains weak. Elections in 1987 (paragraphs 1-3).
2. Military morale is low and a coup d'etat is unlikely. FICZ resented and offers some risks. Multilateral control remains best solution (paras 4, 5).
3. Economy suffers from stagflation and Austral Plan controls will continue. Foreign debt increasing (paragraphs 6-8).
4. UK exports still banned. Visa traffic more than doubles to 35,000 (paras 9, 10).
5. Fishing controls worsen relations. We should abolish our other restrictions and put blame for present impasse more publicly on Argentina. Talks on sovereignty still sought but discussion of other subjects now more likely (paragraphs 11-14).



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EMBAJADA DE SUIZA
BASSY OF SWITZERLAND

SECCION DE LOS INTERESES BRITANICOS
BRITISH INTERESTS SECTION

1425 BUENOS AIRES.

Dr. Luis Agote 2412

Casilla de Correo 2050

Tel. ~~824-7971/79~~ 803 7070

14 January 1987

Ref.:

The Rt Hon Sir Geoffrey Howe QC MP
Foreign and Commonwealth Office
London

Sir

ANNUAL REVIEW FOR 1986

By the end of 1986 the Argentine government had reached the half way point in its 6 year term of office. This is longer than any democratically elected government of Argentina since 1961. It is due both to the President's continuing popularity and to the electorate's rejection of extremist alternatives, military or civilian.

2. During 1986 there were many changes in President Alfonsin's Cabinet as he replaced old Radical Party cronies with young and able, if politically colourless, technocrats. However, the government's legislative programme proved ineffective due to indifference and indiscipline in the House of Representatives and the Peronist majority in the Senate. Parliament in Argentina remains a weak and ineffective instrument of democracy. Real power lies with the President, but it is manifested more through decree than debate.

3. The President's proposal to move the Federal Capital 400 miles south to Viedma, to stimulate decentralisation and the economic
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development of Patagonia, came as a surprise. However, the plan is controversial and seems unlikely to be implemented for many years. Proposals for constitutional reform in 1987, which would create the post of Prime Minister and allow Presidents to serve two continuous terms of office, face an uphill battle in Parliament. If successful they could allow President Alfonsin to continue in power until well into the next decade, thus promoting a safe and popular consolidation of democracy in Argentina. However, much will depend on the result of the November 1987 elections to appoint governors, provincial legislators and half of the House of Representatives. These will either demonstrate continuing Radical Party support or signal the possibility of a Peronist victory in 1989. Inevitably they will dominate political activity in the second half of 1987, to the detriment of effective legislation and government. They will also limit the government's room for manoeuvre on problems such as the Falklands.

4. The government's relationship with the armed forces has improved under the new Defence Minister Jaunarena, who is a moderate and pragmatic Radical. However, the services continue to suffer from poor morale due to low pay, reduced budgets and inadequate equipment. Their dissatisfaction about the threat of human rights trials finally persuaded the government to pass legislation which placed a 60 day time limit on future charges against military personnel. Nevertheless, some hundreds of cases remain to be decided and the judiciary has so far shown a healthy independence on the subject. The relationship between

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the government and the military is gradually improving. Present conditions do not favour a coup d'etat. However, one should never underestimate the virulence of Argentine nationalism, particularly among the armed forces. It has long been a threat to weak governments and a temptation to Presidents seeking to divert attention from economic problems or declining popularity.

5. The British declaration of a 200 mile fishing limit around the Falklands containing a 150 mile conservation zone (FICZ) was unexpected. It provoked an angry reaction. Nevertheless, Argentine coastguard vessels seem unlikely to penetrate the FICZ. Their "rules of engagement" are being redefined but will be cautiously applied following their sinking of a Taiwanese trawler in May. However, incidents could take place at the edge of the FICZ if Argentina decides to either arrest trawlers as they leave it or detain unlicensed vessels fishing between the 150 and 200 mile limits.

6. It remains to be seen if a multilateral solution to this problem can be agreed. If not, British attempts to introduce licencing on a government to government basis will be strongly resisted by Argentina, while undisciplined fishing by Far Eastern vessels will make it difficult to avoid incidents. It may be tempting for us to retain unilateral control of fishing. However, we should continue to seek a multilateral system. It offers the best solution to the conservation problem, is less dangerous and could make a contribution to the wider aspects of the Falklands dispute.

7. The government's economic policy continues to be contained within the broad framework of the Austral Plan. Short term control of the economy has been more or less maintained, but investment remains low, public sector expenditure continues to rise and there has been little real economic growth. In 1986 inflation was the lowest for 12 years. However, at 82% it was still three times the official estimate. In July the government signed a series of economic integration agreements with Brazil and announced plans to reform the public sector. There is high level political commitment to both these projects but even if effective their impact will be long term. On the whole, economic policy during the first half of 1987 is likely to provide more of the same. However, if the Radicals do badly in the run up to the November elections, price and income controls will be eased and the official inflation estimate of 42% could double.

8. Argentina's foreign debt is \$50 billion and increasing. The government agrees that it should be paid but argues for softer loans claiming that this is a political issue. In practice it seems unlikely that they will ever be able to repay such a large sum. Nevertheless, negotiations with the IMF, creditor banks and the IBRD are likely to be successful. Basically, the creditors have loaned too much money to foreclose, while the debtor knows that he can obtain fresh funding only by paying his dues to the international credit system.

9. Trade with the United Kingdom received a boost in 1986 when the Argentine government lifted its administrative ban on British /goods.

goods. By September imports from the United Kingdom had reached \$7 million while Argentine exports to the United Kingdom had risen to \$25 million. Unfortunately, following the UK declaration of a 200 mile limit the ban was re-established. Hopefully this will be temporary.

10. Despite political differences, the number of Argentines visiting Britain continues to rise. In 1986 we issued 35,000 visas to them - an increase of 140% on 1985. The visa fees of £557,000 usefully funded all our local costs, while the tourist income of at least £20 million made a useful contribution to our invisible earnings. Travel agents assure us that more tourists would visit Britain if visas were abolished.

11. During most of 1986 UK/Argentina relations improved. Restrictions on visas and trade with Britain were relaxed and relations with local parliamentarians became easier. However, although there was little they could do about it, the FICZ produced an angry reaction. This was well managed by the President but Foreign Minister Caputo was criticised for provoking the British decision. Increased support for Argentina in the United Nations and the personal backing of the President has helped him to recover his standing. However, in future his foreign policy will receive closer Cabinet scrutiny.

12. The Argentine government will continue to seek talks with Britain to include, or at least not ultimately exclude, the future relationship between the Islands and Argentina. At present we

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are seen as unwilling to discuss the sovereignty problem simply because we see no acceptable solution to it. The fact that there is none at present is Argentina's fault, more than ours. However, by refusing to discuss our differences we are seen, and not only by Argentina, to be at least partly responsible. Our policy in 1987 should therefore be to place responsibility for the present impasse more directly and more publicly on Argentina.

13. We should end the remaining restrictions which we imposed following the conflict in 1982 - visas, export licences (for other than arms) and the Falkland Islands Protection Zone. These are no longer necessary and enhance the bargaining value of the reciprocal Argentine controls. We should offer publicly to abolish them in exchange for reciprocity and a guaranteed cessation of hostilities. If this can be linked to a multilateral solution to the fishing problem, so much the better. Let Argentina be forced publicly to justify a refusal to cooperate, or finally begin the process of normalisation.

14. Our ultimate goal should be, not to devise some magical constitutional formula to meet Argentine hopes, but to act in a way which will encourage Argentina to join us in creating a climate in which future governments can seek an appropriate reconciliation, in whatever form that may take. Failing this, let Argentina be seen to share responsibility for the present situation. In my view the Argentine government would be willing, during the first half of 1987, to break their previous "linkage" of sovereignty to other parts of the problem, provided they can achieve an end to

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our unilateral control of fishing and the Protection Zone, particularly if they can involve the United States or the UN Secretary General in negotiations. Otherwise they will leave it to 1988, after the elections in both countries. We may be tempted to do likewise. However, this would be a potentially dangerous attitude in a situation which is no longer static. With time, it festers rather than heals.

15. I am copying this Despatch to HM Ambassadors in Montevideo, Santiago, Asuncion, Brasilia, Washington, Berne, to UKMIS New York and UKREP Brussels and to the Governor of the Falkland Islands.

I am, Sir,

Yours faithfully

C. J. Sharkey

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