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 Document Number: 1976BUENOS02747

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PAGE 01 BUENOS 02747 01 OF 04 272248Z

70
 ACTION ARA-10

INFO OCT-01 ISO-00 SS-15 SP-02 MMO-01 PM-04 L-03 EB-07.
 CU-02 INR-07 CIAE-00 DODE-00 ACDA-07 AGR-05 AID-05
 COME-00 NSC-05 OMB-01 OPIC-03 PC-01 PER-01 TRSE-00
 USIA-06 /086 W ----- 018387

R 271512Z APR 76
 FM AMEMBASSY BUENOS AIRES
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[REDACTED] SECTION 1 OF 4 BUENOS AIRES 2747

E.O. 11652: GDS
 TAGS: PFOR, AR
 SUBJECT: CASP FOR ARGENTINA

FOR NSC-IG/-4-

REF: A) DEPT'S A 577 OF FEB 3, 1976, B) STATE 80315

1. TRANSMITTED BELOW ARE THE FIRST THREE SECTIONS OF THIS YEAR'S CASP: THE SUMMARY OF INTERESTS, THE AMBASSADOR'S OVERVIEW, AND THE MAJOR ISSUES. THE REST OF THE CASP WILL BE SUBMITTED BY AIRGRAM.

2. SUMMARY OF LONG-TERM US INTERESTS IN ARGENTINA- ARGENTINA IS IMPORTANT BECAUSE OF ITS LOCATION, SIZE, RELATIVELY ADVANCED AND SOPHISTICATED ECONOMY AND POPULATION, AND BECAUSE OF ITS TRADITIONAL HEMISPHERIC LEADERSHIP ROLE. AN ECONOMICALLY HEALTHY COUNTRY WITH A POPULAR GOVERNMENT FAVORABLY DISPOSED TOWARD US POLICIES AND INTERESTS CAN BE OF CONSIDERABLE ASSISTANCE IN GAINING SUPPORT FOR USG HEMISPHERIC AND GLOBAL OBJECTIVES, AND WOULD BE AN IMPORTANT MARKET FOR US GOODS AND INVESTMENTS.

3. ARGENTINE/US TRADE, INVESTMENT AND FINANCIAL CONTACTS ARE

Current Class: [REDACTED]

Page: 1

UNITED STATES DEPARTMENT OF STATE
 REVIEW AUTHORITY: WILLIAM E. LANDFAIR
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Current Class: [REDACTED]
Current Handling: n/a
Document Number: 1976BUENOS02747

Page: 2
Channel: n/a

PAGE 02 BUENOS 02747 01 OF 04 272248Z

ALREADY SUBSTANTIAL. WERE ARGENTINA TO DEVELOP ITS IMMENSE ECONOMIC POTENTIAL, THESE CONTACTS WOULD EXPAND CONSIDERABLY. MANY OBSERVERS CONTINUE TO POINT OUT THAT ARGENTINA HAS THE NATURAL RESOURCES AND SIZE TO BECOME A SIGNIFICANT ECONOMIC POWER. ARGENTINA'S RICH AGRICULTURAL RESOURCES, WITH IMPROVED EXPLOITATION, COULD HELP TO EASE WORLD FOOD SHORTAGES. AS AN INDUSTRIALIZED COUNTRY WITH IMPORTANT TRADE INTERESTS, ARGENTINA SHARES MANY OBJECTIVES WITH THE US INCLUDING A REDUCTION OF TRADE BARRIERS AND ACCESS TO RAW MATERIALS AT REASONABLE COSTS. ITS VIEWS ON INTERNATIONAL TRADE AND MONETARY PROBLEMS ARE INFLUENTIAL WITH THE DEVELOPING COUNTRIES AND CONSEQUENTLY ARE IMPORTANT FOR THE US.

4. POLITICALLY, ARGENTINA, AS ONE OF THE TRADITIONAL LEADERS OF LATIN AMERICA, COULD BE VERY USEFUL IN SUPPORTING, OR AT LEAST TAKING A RESPONSIBLE AND CONSTRUCTIVE APPROACH TOWARD, US POSITIONS IN HEMISPHERIC POLITICAL AND ECONOMIC FORM. ARGENTINA CAN ALSO BE USEFUL AT THE UN IN HELPING TO SWING THE VOTES OF OTHER LATIN AMERICAN STATES.

5. CONCERNING NATIONAL DEFENSE: TOGETHER WITH CHILE, ARGENTINA GEOGRAPHICALLY DOMINATES THE OCEAN ROUTES BETWEEN THE SOUTH ATLANTIC AND PACIFIC OCEANS THAT TRANSIT THE DRAKE PASSAGE, BEAGLE CHANNEL AND THE MAGELLAN STRAIT. WERE THE PANAMA CANAL NOT OPERABLE OR AVAILABLE, OR IN THE EVENT OF A PROTRACTED WAR, THIS ROUTE WOULD HAVE THE HIGHEST STRATEGIC IMPORTANCE, AS WOULD ARGENTINE PORT AND BUNKERING FACILITIES. WITH CHILE, ARGENTINA CONTROLS THE SOUTHERN TIP OF THE HEMISPHERIC LAND MASS WHICH DUE TO ITS PROXIMITY TO THE ANTARCTIC, REPRESENTS AN AREA OF CONTINUING INTEREST TO THE WORLD'S MAJOR POWERS, AS DOES THE ANTARCTIC ITSELF.

6. FINALLY, ARGENTINA IS THE MOST ADVANCED COUNTRY IN LATIN AMERICA IN TERMS OF NUCLEAR DEVELOPMENT. IT SAYS THAT IT IS NOT INTERESTED IN DEVELOPING NUCLEAR WEAPONS, BUT IT REFUSES TO ACCEPT ANY KIND OF INSTITUTIONALIZED RESTRAINTS. WITH A VIEW TO WORLD ORDER AND REGIONAL STABILITY, IT WOULD BE VERY MUCH IN THE INTERESTS OF THE USG IF ARGENTINA WOULD SIGN THE NPT OR PARTICIPATE IN A NUCLEAR FREE ZONE.

7. AMBASSADOR'S OVERVIEW - MRS. PERON'S GOVERNMENT HAS
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Current Class [REDACTED]

Page: 2

Current Class: [REDACTED]
Current Handling: n/a
Document Number: 1976BUENOS02747

Page: 3

Channel: n/a

PAGE 03 BUENOS 02747 01 OF 04 272248Z

FINALLY FALLEN. PERONISMO HAS FRAGMENTED INTO SEVERAL ANTAGONISTIC GROUPS AND IS NOT LIKELY AGAIN TO OVERSHADOW ALL OTHER POLITICAL GROUPS. THUS, IN THE WORDS OF GENERAL VIDELA, ONE HISTORICAL CYCLE HAS ENDED AND ANOTHER HAS BEGUN. THIS CAME AS NO SURPRISE. MRS. PERON'S FAILURE HAD BEEN OBVIOUS AND THE DEMISE OF HER GOVERNMENT A VIRTUAL CERTAINTY FOR A LEAST SIX MONTHS.

8. THE HOPES RAISED BY THE 1973 ELECTIONS HAVE THUS BEEN DASHED. INSTEAD OF A STRONG NEW BEGINNING, ARGENTINA NOW FACES THE GREATEST CRISIS IN HER MODERN HISTORY. TWENTY MONTHS OF IN-COMPETENCE AND RAMPANT CORRUPTION UNDER MRS. PERON CARRIED THE COUNTRY TO THE BRINK OF NATIONAL DISASTER. THE ECONOMY WAS ON THE VERGE OF BANKRUPTCY. FOR THE FIRST TIME IN HER HISTORY, ARGENTINA FACED POSSIBLE DEFAULT ON PAYMENTS OF HER DEBTS. POLITICALLY, MRS. PERON'S ANTAGONISM TOWARD ANYONE WHO OPPOSED HER SHATTERED THE INCHOATE CONSENSUS AND EVENTUALLY LED TO THE FRAGMENTATION OF HER OWN PARTY. SOCIALLY, THE RESULT OF MRS. PERON'S GOVERNMENT HAS BEEN GROWING CYNICISM, FRUSTRATIONS AND A CRISIS OF MORALITY. AND, OF COURSE, ON TOP OF ALL THESE OTHER ILLS, ARGENTINA IS WRACKED BY TERRORISM.

9. HAD THE VACUUM OF POWER BEEN ALLOWED TO CONTINUE ANOTHER FEW MONTHS, ARGENTINA WOULD HAVE FACED COLLAPSE, MUCH ON THE ORDER OF THE WEIMAR REPUBLIC, WITH ALL THE IMPLICATIONS THAT MIGHT HAVE HAD FOR FALLING PREY TO EXTREMIST CONTROL. THE ARMED FORCES REALIZED THIS AND IN DECEMBER CALLED ON THE CIVILIAN INSTITUTIONS TO FIND SOLUTIONS. WHEN IT BECAME APPARENT THAT THE LATTER COULD NOT OR WOULD NOT DO SO, THE ARMED FORCES THEMSELVES FILLED THE VACUUM.

10. SO FAR, THE VIDELA GOVERNMENT APPEARS TO BE OFF TO A GOOD START. IT TOOK OVER WITHOUT BLOODSHED. IT HAS CHARTED A MODERATE COURSE, EARNED THE SUPPORT OF MOST ARGENTINES, LAID OUT A RATIONAL AND COGENT PROGRAM OF ECONOMIC RECUPERATION AND LAUNCHED AN IMPRESSIVE STRUGGLE AGAINST THE TERRORISTS. BUT VIDELA FACES AMONUMENTAL AND COMPLICATED TASK. HE MUST IMPOSE ECONOMIC AUSTERITY MEASURES, YET DO SO IN SUCH A WAY AS NOT TO ALIENATE PUBLIC OPINION. HE MUST COME

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Current Class: [REDACTED]

Page: 3

Current Class: [REDACTED]
 Current Handling: n/a
 Document Number: 1976BUENOS02747

Page: 4
 Channel: n/a

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 PAGE 01 BUENOS 02747 02 OF 04 272250Z

70
 ACTION ARA-10

INFO OCT-01 ISO-00 SS-15 SP-02 MMO-01 PM-04 L-03 EB-07
 CU-02 INR-07 CIAE-00 DODE-00 ACDA-07 AGR-05 AID-05
 COME-00 NSC-05 OMB-01 OPIC-03 PC-01 PER-01 TRSE-00
 USIA-06 /086 W ----- 018458

R 271512Z APR 76
 FM AMEMBASSY BUENOS AIRES
 TO SECSTATE WASHDC 5402

[REDACTED] SECTION 2 OF 4 BUENOS AIRES 2747

TO GRIPS WITH AND DEFEAT THE TERRORISTS, YET AT THE SAME TIME AVOID SERIOUS VIOLATIONS OF HUMAN RIGHTS. AND HE MUST DO ALL THIS WHILE HOLDING OFF THE HARD-LINERS AND MAINTAINING COHESION WITHIN THE ARMED FORCES. THE LATTER MAY BE HIS MOST DIFFICULT TASK. THERE ARE ALREADY SOME SIGNS OF FISSURES. THE CHANCES THAT THE MODERATES CAN SUCCESSFULLY GOVERN ARGENTINA ARE NO BETTER THAN FAIR. IF THEY SUCCEED, THE CHANCES FOR NATIONAL RECONCILIATION AND ECONOMIC RECOVERY ARE VERY GOOD. IF THEY FAIL, ARGENTINA'S SITUATION WOULD BECOME EVEN MORE COMPLEX, AND PERHAPS DESPERATE. SHOULD THE DOOR BE OPENED TO THE HARD-LINERS, THE LATTER WOULD PROBABLY MOVE VENGEFULLY AGAINST THE PERONISTS--OF WHATEVER STRIPE--THUS TOTALLY ALIENATING LABOR AND AGAIN POLARIZING THE COUNTRY. THESE WOULD BE EXACTLY THE CONDITIONS THE EXTREME LEFT HOPES FOR. WITH THE COUNTRY POLARIZED AND POPULAR OPINION SWINGING AGAINST THE GOVERNMENT (AS IT INEVITABLY WOULD AGAINST A REPRESSIVE MILITARY DICTATORSHIP), THE EXTREMEISTS WOULD HAVE AN EXCELLENT CHANCE OF BUILDING A POPULAR BASE AND MAKING BID FOR POWER.

11. CLEARLY AN ARGENTINA TORN BY CIVIL WAR AND/OR CONTROLLED BY EXTREMISTS WOULD RUN COUNTER TO ALL US INTERESTS. US INVESTMENTS WOULD PROBABLY BE LOST. US EXPORTS TO ARGENTINA WOULD DROP MARKEDLY. MORE IMPORTANTLY, WE WOULD FACE A HOSTILE ARGENTINA IN HEMISPHERIC FORA AND THE STABILITY OF THE WHOLE

Current Class: [REDACTED]

Page: 4

Current Class: [REDACTED]
 Current Handling: n/a
 Document Number: 1976BUENOS02747

Page: 5

Channel: n/a

[REDACTED]

PAGE 02 BUENOS 02747 02 OF 04 272250Z

SOUTHERN CONE WOULD BE THREATENED.

12. ON THE OTHER HAND, A STABLE ARGENTINA WITH A HEALTHY ECONOMY, AN ARGENTINA RULED BY A RESPONSIBLE, COOPERATIVE GOVERNMENT AND WITH STRONG INSTITUTIONS, WOULD IMPLY IMPORTANT BENEFITS TO US INTERESTS. US INVESTMENTS WOULD BE SAFE. TRADE WOULD INCREASE. ARGENTINE AGRICULTURAL EXPORTS COULD DO MUCH TO HELP SOLVE THE WORLD FOOD SHORTAGES--AND THUS CONTRIBUTE TO WORLD ORDER. AND SUCH AN ARGENTINA COULD BE MAJOR FORCE FOR STABILITY IN THE SOUTHERN CONE AS WELL AS AN IMPORTANT AND USEFUL PARTNER TO THE US IN HEMISPHERIC AND WORLD FORA.

13. IN MY VIEW, THEN, BRINGING ABOUT THIS VISION--THAT IS, OF THE KIND OF STABLE ARGENTINA OUTLINED ABOVE, WITH THE BENEFITS IT IMPLIES FOR US--REPRESENTS OUR LONG-RANGE OBJECTIVE HERE. ADMITTEDLY, THIS IS BASICALLY SOMETHING THE ARGENTINES MUST DO FOR THEMSELVES. WE CANNOT DO IT FOR THEM. BUT WE CAN HELP, AND OUR POLICIES AND ACTIONS IN ARGENTINA SHOULD BE WEIGHED AND JUDGED IN TERMS OF WHETHER OR NOT THEY CONTRIBUTE TO THAT OBJECTIVE. FOR THE SHORT TERM, THE MODERATE VIDELA GOVERNMENT WILL PROBABLY BE THE PRINCIPAL INSTRUMENT WITH WHICH WE CAN WORK TOWARD OUR OBJECTIVES. IT OFFERS AT LEAST A CHANCE WHICH WE SHOULD NOT MISS. IT TOO APPEARS TO AIM FOR THE SORT OF STABLE ATMOSPHERE IN WHICH THE INSTITUTIONS EVENTUALLY CAN DEVELOP AND BECOME STRONG. IT WILL NEED FINANCIAL ASSISTANCE AND SOME ENCOURAGEMENT OR MORAL SUPPORT. SO LONG AS IT IS FOLLOWING A MODERATE COURSE, AVOIDS SERIOUS VIOLATIONS OF HUMAN RIGHTS AND APPEARS TO BE MOVING ARGENTINA IN THE RIGHT DIRECTION, WE SHOULD TURN A SYMPATHETIC EAR TO THESE NEEDS. SUCH A SUPPORTIVE POLICY SHOULD, OF COURSE, BE IMPLEMENTED IN A MOST DISCREET MANNER. I AM WELL AWARE OF THE PITFALLS OF OVER-IDENTIFICATION. WE SHOULD HELP BUT AT THE SAME TIME KEEP OUR DISTANCE. AND AT EVERY STEP ALONG THE WAY WE SHOULD CAREFULLY RE-EXAMINE THE DIRECTION IN WHICH THE ARGENTINE GOVERNMENT IS EVOLVING--SO THAT WE ARE CERTAIN ITS POLICIES ARE STILL IN LINE WITH THE ACHIEVEMENT OF OUR OVERALL OBJECTIVES. (SHOULD VIDELA BE MOVED ASIDE AND REPLACED BY ANOTHER MILITARY FIGURE, FOR EXAMPLE, WE WOULD OBVIOUSLY WISH TO RE-EXAMINE THE SITUATION CLOSELY.) I AM CONVINCED THAT WE CAN DO THIS, AND THAT WE CAN FIND WAYS TO HELP WITHOUT APPEARING TO FALL INTO AN UNSEEMLY EMBRACE. WE MANAGED TO KEEP OUR BRIDGES

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Current Class: [REDACTED]

Page: 5

Current Class: [REDACTED]
 Current Handling: n/a
 Document Number: 1976BUENOS02747

Page: 6
 Channel: n/a

PAGE 03 BUENOS 02747 02 OF 04 272250Z

OPEN TO THE MILITARY PRIOR TO THE COUP WITHOUT INSPIRING CHARGES OF HAVING ENGINEERED IT ONCE IT CAME. I AM CONFIDENT WE CAN BE AS CIRCUMSPECT IN MANAGING OUR RELATIONS IN THE POST COUP PERIOD.

14. ARGENTINA SINCE THE COUP HAS AN UNUSUAL OPPORTUNITY TO RE-ESTABLISH ITSELF AS A VIABLE SOCIETY, NOT ONLY IN THE SOURTHERN CONE BUT ALSO IN THE WESTERN HEMISPHERE AND IN WORLD ORGANIZATIONS. THE NEW GOVERNMENT HAS SET OUT WITH GOOD INTENTIONS, BUT I FEAR THAT MILITARY BLINDNESS AND THE MENTALITY OF THE OLIGARCHS AT PRESENT PREVAILS. THE LITTLE MAN AND LABOR ARE FOR THE MOMENT FORGOTTEN. IN AN AGE OF DRASTIC SOCIAL AND ECONOMIC CHANGE, THIS CAN LEAD TO CHAOS. I DO NOT SEE THE VISION WHICH IS SO BADLY NEEDED HERE--AND, I MIGHT SAY, ELSEWHERE IN THE WORLD.

15. ISSUE ANALYSIS -

16. STATEMENT OF ISSUE NO. 1 - WHAT SHOULD BE THE OVERALL US POSTURE VIS-A-VIS ARGENTINA UNDER THE NEW GOVERNMENT?

17. IMPORTANT ASSUMPTIONS

A. THE JUNTA, LED BY VIDELA, WILL TRY TO PURSUE A MODERATE COURSE, ADHERING TO A RULE OF LAW AND NOT ADOPTING

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PAGE 01 BUENOS 02747 03 OF 04 272300Z

70
 ACTION ARA-10

INFO OCT-01 ISO-00 SS-15 SP-02 MMO-01 PM-04 L-03 EB-07
 CU-02 INR-07 CIAE-00 DODE-00 ACDA-07 AGR-05 AID-05
 COME-00 NSC-05 OMB-01 OPIC-03 PC-01 PER-01 TRSE-00

Current Class: [REDACTED]

Page: 6

UNCLASSIFIED

Current Class: [REDACTED]
Current Handling: n/a
Document Number: 1976BUENOS02747

Page: 7
Channel: n/a

USIA-06 /086 W

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R 271512Z APR 76
FM AMEMBASSY BUENOS AIRES
TO SECSTATE WASHDC 5403

[REDACTED] SECTION 3 OF 4 BUENOS AIRES 2747

POLICIES CONFLICTIVE WITH BASIC HUMAN RIGHTS. IT WILL MAKE A SINCERE EFFORT TO DEFEAT THE TERRORISTS, GET THE ECONOMY GOING AND MOVE THE COUNTRY TOWARD ELECTIONS WITHIN A REASONABLE TIME FRAME.

B. THE JUNTA HAS ALREADY BEGUN TO SETTLE THE INVESTMENT PROBLEMS WE HAD PENDING SINCE I CAME TO THIS POST IN FEBRUARY 1974.

C. THE NEW GOVERNMENT WILL CONTINUE TO NEED FOREIGN CREDITS AND INVESTMENTS.

D. HARD-LINERS IN THE ARMED FORCES WILL BE WATCHING FOR FAILURES OR WEAKNESSES ON THE PART OF THE MODERATES WITH THE AIM OF INCREASING THEIR OWN INFLUENCE OR OF SEIZING POWER.

E. THE EXTREMISTS/TERRORISTS WILL REMAIN A SERIOUS THREAT TO INTERNAL ORDER AT LEAST FOR ANOTHER SIX MONTHS TO A YEAR UNDER THE BEST OF CIRCUMSTANCES. THE THREAT COULD EVEN INCREASE. INDEED, SHOULD THE MODERATE JUNTA FAIL IN ITS TASKS, THE RESULTING SITUATION WOULD BE SUCH THAT THE EXTREME LEFT MIGHT EVENTUALLY HAE A SHOT AT SEIZING POWER.

18. ISSUE RESOLUTION - THE US SHOULD FOLLOW A CAUTIOUSLY

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PAGE 02 BUENOS 02747 03 OF 04 272300Z

SUPPORTIVE POLICY TOWARD THE NEW JUNTA -- CAUTIOUS AT LEAST UNTIL IT PROVES ITS DURABILITY AND DEPTH OF COMMITMENT TO MODERATION; IF AND WHEN IT ESTABLISHES THESE CREDENTIALS, WE SHOULD SUPPORT IT WITHOUT MAJOR RESERVATIONS. A SUPPORTIVE POLICY WOULD INCLUDE SYMPATHETIC ATTENTION TO REASONABLE REQUESTS FOR ASSISTANCE (SEE ISSUE NO. 2). WE SHOULD USE OUR SUPPORTIVE POLICY, IN TURN, TO ENCOURAGE THE JUNTA TO ADOPT REASONABLE ECONOMIC AND INVESTMENT POLICIES, TO CONTINUE TO RESPECT HUMAN RIGHTS AND TO CONTINUE GENERALLY

Current Class: [REDACTED]

Page: 7

UNCLASSIFIED

Current Class: [REDACTED]
 Current Handling: n/a
 Document Number: 1976BUENOS02747

Page: 8
 Channel: n/a

ALONG ITS PRESENT MODERATE COURSE. FOR THE TIME BEING, WE SHOULD KEEP SOME DISTANCE BETWEEN OURSELVES AND THE NEW JUNTA AND NOT GIVE IT (OR WORLD PUBLIC OPINION) THE IMPRESSION THAT IT HAS A BLANK CHECK FROM US. FURTHER, WHILE OUR FIRST CONSIDERATION SHOULD BE FOR OUR RELATIONS WITH THE GOVERNMENT, WE SHOULD ALSO MAINTAIN OUR CONTACTS AND RAPPORT WITH THE POLITICAL PARTIES AND THE LABOR UNIONS, WITH A VIEW TO THE TIME, HOPEFULLY IN THE NOT-TOO-DISTANT FUTURE, WHEN THEIR ACTIVITIES ARE RESUMED.

19. REASONS - WE DO NOT WANT TO SEE EITHER THE MILITARY "HAWKS" OR THE LEFT-WING EXTREMISTS INCREASE THEIR INFLUENCE, LET ALONE TAKE POWER, IN ARGENTINA. BASICALLY, OUR INTERESTS WILL BEST BE SERVED IF (A) THE MODERATES WIN OUT, AND (B) THEY CONTINUE TO ADOPT ECONOMIC AND POLITICAL POLICIES WHICH CONTRIBUTE TO ARGENTINE NATIONAL RECONCILIATION AND PROSPERITY AND AT THE SAME TIME IMPROVE CONDITIONS FOR US TRADE AND INVESTMENTS. A SUPPORTIVE POLICY IS INDICATED ON BOTH COUNTS. FIRST, IT WOULD HELP TO STRENGTHEN THE MODERATES AGAINST THE EXTREMES OF BOTH LEFT AND RIGHT. SECONDLY, IT WOULD GIVE US SOME LEVERAGE WITH THE MODERATES TO ENCOURAGE THEM IN THE RIGHT DIRECTION. ONE REASON THEY HAVE BEEN SO ALERT TO THE HUMAN RIGHTS PROBLEM AND TO PROTECTING THEIR IMAGE ABROAD IS THAT THEY NEED INTERNATIONAL FINANCING. THE SAME CONSIDERATION CLEARLY PLAYS A ROLE IN THEIR DETERMINATION TO SOLVE OUR VARIOUS INVESTMENT PROBLEMS. SO THAT ACCESS TO FINANCING CONTINUES TO SERVE AS AN INCENTIVE, HOWEVER, THERE MUST BE REWARDS COMMENSURATE WITH PROGRESS IN THE RIGHT DIRECTION. IN SHORT, THE JUNTA MUST SEE THAT ITS MODERATE COURSE IS PAYING OFF IF IT IS TO FEEL COMPELLED TO STICK TO IT.

20. UNTIL IT IS CLEAR THAT THE JUNTA IS FIRMLY WEDDED TO

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 PAGE 03 BUENOS 02747 03 OF 04 272300Z

AND STRONG ENOUGH TO IMPOSE ITS MODERATE POLICIES, HOWEVER, WE MUST APPROACH OUR RELATIONSHIP WITH IT WITH SOME CAUTION. SO FAR IT HAS LOOKED GOOD, BUT IT IS STILL VULNERABLE TO SEVERE STRESSES AND STRAINS. WE WOULD NOT WISH TO BECOME OVERLY IDENTIFIED WITH A GOVERNMENT WHICH MIGHT (UNDER PRESSURE FROM THE RIGHT) SHORTLY BEGIN TO CRACK DOWN HARSHLY ON LABOR LEADERS AND SOME OF THE CONSTITUTIONAL PARTIES. THAT DOES NOT SEEM LIKELY AT THE MOMENT, BUT IS A POSSIBILITY WHICH CANNOT YET BE DISCOUNTED. UNTIL IT CAN BE, OUR RELATIONS WITH THE JUNTA SHOULD BE FRIENDLY AND BUSINESSLIKE BUT NOT

Current Class: [REDACTED]

Page: 8

Current Class: [REDACTED]
Current Handling: n/a
Document Number: 1976BUENOS02747

Page: 9
Channel: n/a

OVERLY CORDIAL.

21. ALTERNATIVES - THE COUNTRY TEAM SEES NO REASONABLE ALTERNATIVE TO THE COURSE OF ACTION DESCRIBED ABOVE.

22. STATEMENT OF ISSUE NO. 2

HOW SHOULD THE U.S. HANDLE ECONOMIC RELATIONS WITH THE NEW MILITARY GOVERNMENT?

23. IMPORTANT ASSUMPTIONS

A. THE MILITARY GOVERNMENT UNDER GENERAL VIDELA SEEKS TO IMPLEMENT A PROCESS OF ECONOMIC STABILIZATION AND RECOVERY. THE MILITARY ARE LIKELY TO DECONTROL AND OPEN UP THE ECONOMY, SEEKING CLOSE ECONOMIC RELATIONS WITH DEVELOPED WESTERN COUNTRIES. IT'S PROBABLE THAT THE GOA WILL SEEK PARTICULARLY CLOSE ECONOMIC TIES WITH THE U.S. AND WILL LOOK TO THE U.S. FOR ECONOMIC AND POLITICAL SUPPORT. ECONOMIC RELATIONS WITH THE SOCIALIST WORLD WILL CONTINUE, BUT ON A REDUCED LEVEL. AS WE SEE ITN THE JUNTA'S FIRST PRIORITY WILL BE TO REORGANIZE THE ECONOMY AND IMPLEMENT AN EFFECTIVE FRAMEWORK FOR ECONOMIC RECOVERY. THE GOA PLANS TO INTRODUCE TAX REFORMS TO RAISE FISCAL REVENUES, TO REDUCE AND RATIONALIZE THE PUBLIC SECTOR, TO GRADUALLY RESTORE A REALISTIC PRICE STRUCTURE, TO IMPLEMENT NEW FOREIGN INVESTMENT REGULATIONS TO STIMULATE INFLOWS, TO PROVIDE PRICE AND OTHER INCENTIVES TO RAISE AGRICULTURAL PRODUCTION, TO GRADUALLY STRENGTHEN THE EXTERNAL SECTOR, ELIMINATING UNNECESSARY CONTROLS AND EVENTUALLY IMPLEMENTING A FREE, SINGLE EXCHANGE RATE, TO INTRODUCE MORE FLEXIBILITY

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PAGE 04 BUENOS 02747 03 OF 04 272300Z

IN DOMESTIC FINANCE BY ELIMINATING THE PERONIST DEPOSIT

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Current Class: [REDACTED]

Page: 9

Current Class: [REDACTED]
 Current Handling: n/a
 Document Number: 1976BUENOS02747

Page: 10
 Channel: n/a

PAGE 01 BUENOS 02747 04 OF 04 272301Z

70
 ACTION ARA-10

INFO OCT-01 ISO-00 SS-15 SP-02 MMO-01 PM-04 L-03 EB-07
 CU-02 INR-07 CIAE-00 DODE-00 ACDA-07 AGR-05 AID-05
 COME-00 NSC-05 OMB-01 OPIC-03 PC-01 PER-01 TRSE-00
 USIA-06 /086 W

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R 271512Z APR 76
 FM AMEMBASSY BUENOS AIRES
 TO SECSTATE WASHDC 5404

[REDACTED] SECTION 4 OF 4 BUENOS AIRES 2747

NATIONALIZATION SYSTEM, TO PROVIDE NEW STIMULUS AND REWARD FOR PRIVATE ACTIVITY IN MINING AND PETROLEUM, AND TO RESOLVE OUTSTANDING FOREIGN INVESTMENT DISPUTES, ETC.

B. IF THESE REFORMS ARE SUCCESSFULLY IMPLEMENTED, AND THE GOVT'S POLITICAL AUTHORITY IS SUSTAINED, THE WAY SHOULD BE PAVED FOR ECONOMIC RECOVERY, PERHAPS BEGINNING IN EARLY 1977. AROUND THAT TIME, SOME SUBSTANTIAL NEW FOREIGN INVESTMENT INFLOWS MIGHT BE ANTICIPATED IF ECONOMIC AND POLITICAL DEVELOPMENTS ARE FAVORABLE.

C. WE BELIEVE THIS GOVT WILL BE ABLE TO IMPLEMENT ECONOMIC REORGANIZATION AND RECOVERY ALONG THE LINES OUTLINED ABOVE ALTHOUGH THE PROCESS WILL BE DIFFICULT. THE CLOCKWORK PRECISION AND GENERAL MODERATION OF THE COUP HAS ENHANCED THE JUNTA'S PRESTIGE BOTH DOMESTICALLY AND ABROAD. THE GOA NOW HAS THE POLITICAL AUTHORITY TO IMPLEMENT REFORM MEASURES WHICH THE PERONIST GOVT LACKED. THERE IS STRONG SUPPORT FROM THE PRIVATE SECTOR FOR THE JUNTA'S PROGRAM AND, THUS FAR AT LEAST, ACCEPTANCE BY THE LABOR UNIONS. IN GENERAL, THE CLIMATE CLEARLY IS FAVORABLE TO CHANGE AS THE PERONIST STATE-CONTROLLED REDISTRIBUTION ECONOMY WAS A MANIFEST FAILURE EVEN TO ARDENT SUPPORTERS. MOREOVER, THE JUNTA SENSIBLY APPEARS TO BE FOLLOWING A

Current Class: [REDACTED]

Page: 10

Current Class: [REDACTED]
 Current Handling: n/a
 Document Number: 1976BUENOS02747

Channel: n/a

PAGE 02 BUENOS 02747 04 OF 04 272301Z

MODERATE PACE OF IMPLEMENTATION, AVOIDING UNPOPULAR "SHOCK TREATMENT." NEVERTHELESS, THE JOB OF IMPLEMENTING ECONOMIC RECOVERY IS LIKELY TO BECOME INCREASINGLY DIFFICULT IN THE DAYS AND MONTHS AHEAD. ECONOMIC PROBLEMS CONFRONTING THE GOVT ARE TRULY MONUMENTAL. INFLATION CURRENTLY IS RUNNING AT AN ANNUAL 566 PERCENT RATE AND IT IS NOT ANTICIPATED THE ANNUAL RATE FOR 1976 CAN BE REDUCED MUCH BELOW 600 PERCENT. GROSS DOMESTIC PRODUCT GROWTH LAST YEAR WAS MINUS 1.4 PERCENT AND PRODUCTION AND INVESTMENT ARE LIKELY TO REMAIN SLUGGISH IN 1976 DUE TO SLACK DEMAND AND IMPORT SHORTAGES. MOST ANALYSTS FORESEE SOME INCREASED RECESSION AND UNEMPLOYMENT AS THE INESCAPABLE SHORT-TERM RESULT OF MEASURES NECESSARY TO STIMULATE BROAD BASED ECONOMIC RECOVERY. RISING LABOR HOSTILITY TO THE ECONOMIC PROGRAM CAN BE ANTICIPATED AS THE PINCH OF AUSTERITY IS INCREASINGLY FELT IN COMING MONTHS. SALARY POLICY WILL BE A KEY ELEMENT DETERMINING THE SUCCESS OR FAILURE OF THE ECONOMIC PROGRAM. WHILE THE COUNTRY EMBARKS ON LIBERAL ECONOMIC REFORM, NATIONALIST AND STATIST SENTIMENT REMAINS STRONG IN SOME QUARTERS AND COULD SURFACE AGAIN IF THE MILITARY MAKES SOME MISSTEPS. SOME ARMED FORCES ELEMENTS SHARE THESE PROCLIVITIES AND MAY INTERFERE WITH LIBERALIZATION EFFORTS - PARTICULARLY WHERE THEIR OWN INTERETS ARE TOUCHED. THE TERRORIST SITUATION WILL REMAIN A MAJOR THREAT. THE GUERRILLAS WILL CERTAINLY SEEK TO CAPITALIZE ON GROWING LABOR HOSTILITY AND LATENT NATIONALISM. IN SUM, THE MILITARY IS OFF TO AN EXCELLENT START IN A GENERALLY FAVORABLE CLIMATE, BUT RESISTANCE TO ITS ECONOMIC PROGRAM IS LIKELY TO INCREASE.

24. ISSUE RESOLUTION

RECOMMENDATION: IF THE MILITARY FOLLOWS A MODERATE POLITICAL COURSE AND SEEKS TO IMPLEMENT AN ECONOMIC PROGRAM ALONG THE LINES OUTLINED ABOVE, THE US SHOULD FOLLOW A SUPPORTIVE POLICY. FOR EXAMPLE, THE US EXPORT-IMPORT BANK MIGHT APPROVE THREE PENDING LOAN REQUESTS, TWO IN THE PUBLIC AND ONE IN THE PRIVATE SECTORS. IN THIS REGARD, THE EMBASSY'S RECOMMENDATION WOULD BE TO APPROVE THE PUBLIC SECTOR LOANS TO COMPLETE THE FIRST STAGE OF THE PETROQUIMICA BAHIA BLANCA PROJECT AND THE ONE NEEDED TO INITIATE THE

PAGE 03 BUENOS 02747 04 OF 04 272301Z

Current Class: [REDACTED]

Page: 11

Current Class: [REDACTED]
Current Handling: n/a
Document Number: 1976BUENOS02747

Page: 12
Channel: n/a

SECOND STAGE; AND THE PRIVATE SECTOR LOAN FOR ALPARAGATA'S TEXTILE PLANT IN CATAMARCA. THESE APPROVALS MIGHT BE ANNOUNCED DURING ECONOMY MINISTER MARTINEZ DE HOZ'S VISIT TO WASHINGTON NOW PLANNED FOR LATE JUNE. AGREEMENT TO IMPLEMENT THE AID HOUSING GUARANTY FOR AN ADDITIONAL \$14 MILLION WOULD BE ANOTHER IMPORTANT ACT. THE SIGNING CEREMONY COULD BE CAREFULLY DESIGNED TO ACHIEVE MAXIMUM POLITICAL IMPACT. THE USG SHOULD BE PREPARED TO MAKE KNOWN ITS FAVORABLE IMPRESSION OF THIS GOVT TO US COMMERCIAL BANKS, ALTHOUGH CONTINUING TO AVOID DIRECT INVOLVEMENT IN BANK CREDIT DECISIONS. MOST IMPORTANTLY, THE USG SHOULD SUPPORT GOA DEBT REFINANCING OR RESCHEDULING REQUESTS (IF THE PROGRAM IS GOOD AND OUR OWN PROBLEMS ARE SUCCESSFULLY RESOLVED).

25. REASONS FOR RECOMMENDATIONS:

THE MILITARY GOVT UNDER GENERAL VIDELA HAS INITIATED AN ECONOMIC RECOVERY PROGRAM WHICH PROMISES SUBSTANTIAL OPPORTUNITIES TO EXPAND US TRADE, INVESTMENT AND FINANCIAL INTERESTS. CLEARLY THE TASK OF REORGANIZING THE ECONOMY AND PROMOTING ECONOMIC RECOVERY IS A DOMESTIC AFFAIR WHICH MUST BE UNDERTAKEN BY THE ARGENTINE GOVT AND PEOPLE. NEVERTHELESS, US COOPERATION IN THE EFFORT COULD HAVE A SIGNIFICANT IMPACT. IT COULD EVEN HAVE A DIRECT BEARING ON THE EVENTUAL SUCCESS OR FAILURE OF THE EFFORT. WITH US SUPPORT, PROSPECTS FOR SUCCESSFULLY IMPLEMENTING ECONOMIC REFORM, WHILE AT THE SAME TIME FOLLOWING A MODERATE POLITICAL COURSE, ARE IMPROVED. SOME INTERNATIONAL COOPERATION WILL HELP TO AVOID DEEP SEATED DOMESTIC RECESSION WHICH WOULD FAVOR THE TERRORISTS AND ADVERSELY AFFECT US INTERESTS HERE. THE NEW MILITARY JUNTA IS PARTICULARLY SENSITIVE OVER FOREIGN REACTION, ESPECIALLY US REACTION, TO ITS POLICIES IN VIEW OF THE CHILEAN SITUATION. FOR THIS REASON, WE BELIEVE AN EARLY US GESTURE OF COOPERATION WOULD BE ESPECIALLY WELL RECEIVED BY THE MILITARY AND MIGHT PAY DIVIDENDS IN OUR BILATERAL RELATIONS FOR YEARS TO COME.

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Current Class: [REDACTED]

Page: 12