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SAVING TELEGRAM

BY BAG

FM SANTIAGO

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TO SAVING FCO TEL NO 003 OF 14 APRIL 1980

REPEATED TO (FOR INFO) SAVING: WASHINGTON, BUENOS AIRES, BRASILIA, BRUSSELS, PARIS, MADRID, LIMA, LA PAZ, HAVANA, UKMIS NEW YORK, UKMIS GENEVA, MOD, BONN

CHILE: ARMS EMBARGO

1. HMG's ban on the sale of new arms to Chile dates from 1974. Other specific reprisals against the Junta's human rights violations (notably, refusal to lift restrictions on ECGD credit for British exports to Chile, and the withdrawal of an Ambassador) have since been reversed. Although now under review, the arms embargo remains. What is this costing us? To what extent should we be thinking of removing it?

2. Defence sales have in the past accounted for a substantial proportion of British trade with Chile. Partly because we have adhered so strictly to the rules relating to the arms embargo, British trade with Chile has remained virtually static in monetary terms from 1974-79 in a market which has expanded by some 120% over the same period. The British market share in Chile has fallen from 5.8% to 2.3% in the last six years. But for the embargo our market share could still be 5% or more, a difference of perhaps £40 million annually.

3. The Chilean defence establishment has traditionally looked to Britain as a major arms supplier. Particularly close links existed with the Navy and Air Force. The longer the embargo lasts, the more tenuous these links become. Memories of the excellence of British defence equipment are fading rapidly. Young officers are reaching key positions on the procurement side with no tradition of thinking British. An early change of heart thus seems called for.

4. The commercial reasons for lifting the embargo are obvious. We must have lost hundreds of millions of pounds of exports to Chile over the past 6 years and it makes no practical sense to continue to compound the loss. Apart from anything else, bilateral trade is now running at 3:1 in Chile's favour. The level of possible defence sales is hard to forecast accurately; but I believe the Chilean Navy may wish to buy over the next five years 4 submarines, 5 frigates and 3 destroyers, as well as a number of small coastal defence and fishery protection vessels. Refits for their existing British warships will also be needed. The Chileans may also need to replace about 80 aircraft in the next 14 years. These could amount to very substantial orders, let alone the large amount of small and ancillary equipment which will also be required. It is not clear what Army plans for re-equipment may be, but they can be assumed to be substantial to meet possible Peruvian and Argentine threats. UK companies have received enquiries about Main Battle Tanks and small arms weapons and there will no doubt be other contracts similar to that referred to in para 6 below. Contracts running to many hundreds of millions of

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pounds will thus undoubtedly be available for international tender over the next few years. None of this should represent any threat to British interests in the subcontinent.

5. We should not however delude ourselves that Chile cannot do without British arms; evidently the armed forces are managing to cope well for the time being in obtaining or supplying spares and servicing for such British equipment as they have. The unfortunate Rolls Royce incident (where trade unions refused to return serviced engines to the Chilean Air Force) left a bitter taste here which will last some time. Fears of possible unreliability in the supply of UK arms will have to be overcome. My talks with Admiral Merino and General Matthei of the Air Force moreover suggested that outwardly at least they were not even concerned to buy British arms or equipment at present. Despite all this I have no doubt that there should be good chances of securing worthwhile contracts even in the medium term, though obviously there will now be greater competition especially from current suppliers such as France, Spain and Brazil.

6. One possibly favourable early omen is that Racal seem well placed at the moment to take a significant part of a \$200 million contract for infantry communications equipment now being negotiated. Besides being an encouraging sign to the Chileans that the embargo is being less rigidly interpreted, this shows also the competitiveness here of some British military or quasi-military products. Their principal competitors (Thompson of France and Tadiran of Israel) are now however putting on the pressure through their respective defence attaches so that the deal is by no means safe.

7. There are of course limitations on how far one can go merely by interpreting the arms embargo more liberally. For Britain to make a significant impact on the Chilean defence market, there will presumably have to be a public announcement. For political reasons, a rider might be advisable along the lines of Mr Ridley's recent statement that no arms would be sold which might be used for internal repression. This would at least help counter some of the fiercer criticism the move will undoubtedly arouse in Britain and from some quarters in Chile. The Chilean military establishment on the other hand would probably understand. Or we could move to the sort of pragmatic position the French have adopted (and which has netted them such valuable defence contracts here recently). But this would of course involve a much more robust stand based essentially on likely commercial advantage.

8. The major constraints appear to be:

DOMESTIC

(a) As Mr Peter Shore remarked to you recently, the Labour Party (and presumably many trade unionists, students etc) would consider such a step "a major shift in the British attitude towards repressive régimes and most provocative." As seen from here, it may be that the political storm it would arouse would be comparable, but hopefully no more severe, than that accompanying the announcement of my own appointment. You countered Mr Shore's argument by calling it illogical in that we already sold arms to Argentina where the régime was just as repressive and undemocratic as that in Chile, if not more so.

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Moreover while we have a dispute with Argentina we have none with Chile. I note that the Naval Attaché's 1979 Annual Report from Buenos Aires described our (unsuccessful) efforts to sell Type 21 Frigates to the Argentine Navy; the recent sale of 8 Lynx Helicopters; the possibility of Racal being awarded a contract for a coastal communications system; and hopes that other arms such as the Sea Harrier may eventually be sold to the Argentine armed forces. Despite the safeguards mentioned by Mr Ridley (no British arms or equipment which could be used for internal repression or against the Falkland Islands) a large and tempting selection thus seems to be on offer to Argentina. This apparent illogicality in our treatment of Chile and Argentina over arms is frequently pointed out to me by Chilean officials, and they certainly have a point.

CHILEAN

(b) The Chilean democratic opposition (such as it is) would undoubtedly be disappointed by any public termination of the arms embargo. They would regard it as a further prop to the régime and a betrayal of our stand on human rights violations. They were dismayed by my appointment but have now somewhat grudgingly acknowledged the validity of the argument that an Ambassador can help influence the Chileans at higher levels than can a Chargé. It will be a hard task to persuade them that human rights violations can continue to be criticised by Britain whilst trading in all fields with Chile, but I doubt if this really matters very much either way. It can be pointed out to them that the French, Belgians, Spanish and Germans (though the latter here stoutly deny it) do a brisk trade in arms with Chile whilst continuing to vote against her in the UN. Chile's human rights record is anyway much better than in 1974, even though improvement has slowed in 1979. Overall, it would seem fair to rate Chile's record today as probably better than Argentina or Cuba, but worse than that of the Andean Pact countries.

9. A separate though related issue concerns the re-appointment of a Defence Attaché. The last Attaché left in early 1978. In my view, an Attaché should be restored to the Embassy, but only after the announcement that the arms embargo has been lifted and possibly only after a few defence contracts have been obtained. My Commercial Department and I can of course pursue arms sales up to a point as we have excellent connexions with the agents and the agents with the armed forces, but to get to the armed services direct it is obviously better to wear a uniform. Other gestures which would help arms sales would be to invite a few Chilean officers to the United Kingdom for training within the armed forces (perhaps naval officers with a background in electronics). We could follow with a British naval visit to Valparaiso. The French and Spaniards have done just this recently with great success.

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10. Subject to the views of the Department, who will be better placed than I to judge domestic implications, I would thus recommend:

- (i) a progressive liberalisation in our interpretation of the current arms embargo beginning as soon as possible;
- (ii) considering ending the embargo (and the need for export licencing) later this year by public announcement;
- (iii) qualifying such an announcement by saying that no arms would be sold which might be used for internal repression;
- (iv) restoring a Defence Attaché at this Embassy in mid-1981;
- (v) arranging a Royal Naval visit to Valparaiso for the second half of 1981;
- (vi) inviting Chilean officers for training in the UK in late 1981/early 1982.

HEATH

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