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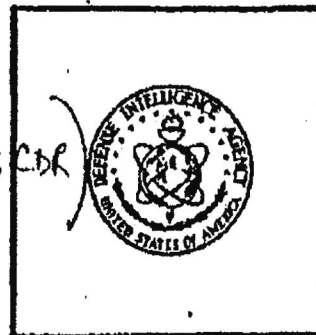
ARGENTINA
 Major General Cristino NICOLAIDES
 March 1981

(U) NAME: Major General Cristino Nicolaides
 (nee-koh-LYE-dess), Army.

*ARMY
 I CORPS, EARLY 1982*

(U) POSITION: Commander, III Army Corps, since
 10 December 1980. General Nicolaides succeeded Major
 General Antonio D. Bussi.

III CORPS and I CORPS CDR



~~(S/NOFORN)~~ SIGNIFICANCE: General Nicolaides is an
 Engineer whose branch of service traditionally is
 comprised of military "brains" with mathematics and
 scientific backgrounds, who are preferably apolitical
 and largely dedicated to applying their knowledge and
 experience to such areas as military factories,
 industrial development of the country, the building
 of arsenals, and civic action programs. General
 Nicolaides was serving as Director of Military Institutes Command, when
 assigned the command of the important III Army Corps in Cordoba, his present
 position. The December 1980 appointment came in the wake of the ruling
 Military Junta's desire to have corps commanders more in line with its
 moderate ideology, and to divest the military establishment of its remaining
 hardliners, who would be replaced with officers more aligned with the
 leadership's position.

(U) 1965

~~(S/NOFORN)~~ POLITICS:

He visited the US and the Canal Zone in 1965. Domestically, he is
 considered to be a pro-Viola man. Nicolaides is an institutionalist who would
 prefer political noninvolvement on the part of the military. Although no
 dramatic departure from the general course established by the previous Videla
 administration is expected, steps reportedly will be taken toward a return to
 constitutionality by the newly installed government of President Roberto
 Viola.

~~(S/NOFORN)~~ PERSONAL DATA: General Nicolaides was born 11 December 1927 in
 Cordoba, Argentina. His English language proficiency, if any, is not known.
 He is Roman Catholic.

(U) CAREER:

1944-1947

- Cadet, National Military Academy, 2 February 1944-1947.
 Graduated, and commissioned Third Lieutenant in the Army
 Engineers.

- Student and graduate, Engineer School.

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ARGENTINA
Major General Cristino NICOLAIDES
March 1981

- 1965 - Promoted to Lieutenant Colonel, 31 December.
- 1965-? - Commander, Amphibious Engineer Battalion. Visit to US and the Canal Zone, 1965.
- 1966-1970 - Commanding Officer, unidentified unit, Construction Engineer Battalion.
- 1970 - Attended a Strategy Course.
- 1972-1974 - Military Attache in Asuncion, Paraguay, 17 December 1972-1974.
- 1974-1975 - Director, School of Services.
- 1975-1977 - Commander, 7th Infantry Brigade, Corrientes, December 1975-1977. Promoted to Brigadier General, 31 December 1975.
- 1977-1979 - Chief, Department III (Operations), Army General Staff. Participated in a conference for Army Corps deputy commanders hosted by the Argentine Army, with the purpose of exchanging views on antisubversive (terrorismo) campaign.
- 1979-1980 - Director, Military Institutes Command, September 1979-December 1980.
- 1980-Present - Commander, III Army Corps, from 10 December 1980.

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ARGENTINA

Major General Jose Antonio Vaquero
March 1981

(U) NAME: Major General Jose Antonio Vaquero
(vah-KEH-roh), Army.

(U) POSITION: Chief of Staff of the Army, since
December 1979. General Vaquero succeeded Major
General Carlos Guillermo Suarez Mason.



(U) 1973

~~(S/NOFORN)~~ SIGNIFICANCE: The accolade, "a General's
General," typifies the present Army Chief of Staff.
His loyalty, broad expertise, aggressiveness, and
dedication have consistently qualified him for key
command positions of trust. As V Army Corps
Commander (1977-1979), General Vaquero held a key
command comprising the three southern provinces and
the national territory of Tierra del Fuego, a strate-
gically important area in the Chile/Argentina Beagle Channel dispute. In
September 1979, he was appointed to the III Army Corps command left vacant by
the dismissal and forced retirement of hardliner General Luciano Menendez for
leading the abortive "mini revolt" against the Commander of the Army. General
Vaquero is credited with having improved the combat readiness of his troops in
V and III Army Corps. He was appointed Army Chief of Staff in the wake of
presidential-hopeful General Viola's retirement from active duty, as well as
Viola's designation of General Leopoldo Galtieri to succeed him as Army
Commander, and Viola's subsequent selection to be the next President of
Argentina. The Galtieri and Vaquero appointments further ensured the
continuance of those moderate policies begun by the President Videla-General
Viola team.

~~(S/NOFORN)~~ POLITICS:

~~(S/NOFORN)~~ Vaquero
made an orientation tour of the United States and the Canal Zone in 1966. He
visited the People's Republic of China at the invitation of Chinese military
authorities in October 1980, and the Chinese Group is expected to make a
return visit to Argentina some time in 1981. Although General Vaquero was one
of the senior officers advocating military action against Chile during the
height of the Beagle Channel dispute in December 1978-January 1979, he has
generally been considered a moderate who is identified with ex-President Videla
and is his loyal supporter. General Vaquero also is a staunch
constitutionalist who would welcome a return to civilian government. He,
nevertheless, would oppose any attempt to establish a Marxist regime.

~~(S/NOFORN)~~ PERSONAL DATA: General Vaquero was born 19 December 1924 in
Buenos Aires, Argentina. He is Caucasian, of small build, erect posture, with

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ARGENTINA
Major General Jose Antonio VAQUERO
March 1981

dark hair (almost bald), and a mustache.

He does not speak English. He is a practicing Roman Catholic and the recipient of many military decorations, among them Bolivia's Condor of the Andes.

~~(S)~~ CAREER:

- 1943-1946 - Cadet, Military Academy, Buenos Aires, August 1943-December 1946; commissioned Third Lieutenant, December 1946.
- 1946-1947 - Officer, 29th Infantry Regiment, December 1946-December 1947.
- 1947-1949 - Officer, 2d Infantry Regiment, December 1947-December 1949. Promoted to Second Lieutenant, December 1948.
- 1949 - Assigned to "General Belgrano" Military High School, from December.
- 1950 - Promoted to First Lieutenant, December.
- 1951 - Assigned to Military Academy, Buenos Aires.
- 1953-1955 - Student, Superior War School, Campo de Mayo, Buenos Aires, March 1953-November 1955. Promoted to Captain, December 1953.
- 1955 - Student, Airborne School, Cordoba, as of December.
- 1958-1959 - Staff Officer, Army General Staff, December 1958-June 1959. Promoted to Major, December 1958.
- 1959 - Staff Officer, Office of the Subsecretary of War, Buenos Aires, June-July. Staff Officer, Headquarters, 4th Military Region, July-October.
- 1959-1960 - Commandant, Airborne School, Cordoba, October 1959-October 1960.
- 1960-1961 - Aide-de-Camp to Secretary of War, Buenos Aires, October 1960-February 1961.
- 1961-1962 - Guest Instructor, Bolivian Command and General Staff School, Cochabamba, February 1961-about May 1962.

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ARGENTINA
Major General Jose Antonio VAQUERO
March 1981

- 1962-1964 - Instructor, Superior War School, Campo de Mayo, Buenos Aires, October 1962-1964.
- 1965-1968 - Commander, 2d Airborne (Paratrooper) Infantry Regiment, IV Airborne Brigade, Cordoba, December 1965-about August 1968, in rank of Lieutenant Colonel; qualified as Parachutist, December 1965. Orientation tour of US and the Canal Zone, September-October 1966.
- 1968 - Promoted to Colonel, 31 December.
- 1969 - May have attended higher strategy (Colonels) course, Superior War School, Campo de Mayo, Buenos Aires.
- 1969-1971 - Director, Academic Planning Section, Department III (Operations), Army General Staff, Buenos Aires.
- 1971-1973 - Deputy Commander and Chief of Staff, 4th Airborne Infantry Brigade, Cordoba, December 1971-December 1973.
- 1973-1974 - Promoted to Brigadier General, 31 December 1973, and given command of the IV Airborne Infantry Brigade, December 1973-October 1974.
- 1974 - Headed Argentine military delegation to Bolivia, October 1974.
- 1974-1975 - Commandant, Military Academy, Buenos Aires, November 1974-July 1975.
- 1975 - Commandant, National Defense and Security School, Buenos Aires, July-September.
- 1975-1976 - Deputy Commander and Chief of Staff, III Army Corps, Cordoba, September 1975-December 1976; Acting Commander, as of August 1976.
- 1976-1977 - Deputy Chief, Army General Staff, December 1976-November 1977.
- 1977-1979 - Commander, V Army Corps, Bahia Blanca, November 1977-1979. Promoted to Major-General, November 1977.
- 1979 - Commander, III Army Corps, Cordoba, September-December.
- 1979-Present - Army Chief of Staff, from December 1979. Official visit to People's Republic of China, October 1980.

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DEFENSE
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AGENCY

Soviet Commercial Relations with Argentina: Implications for US Strategic Interests (U)

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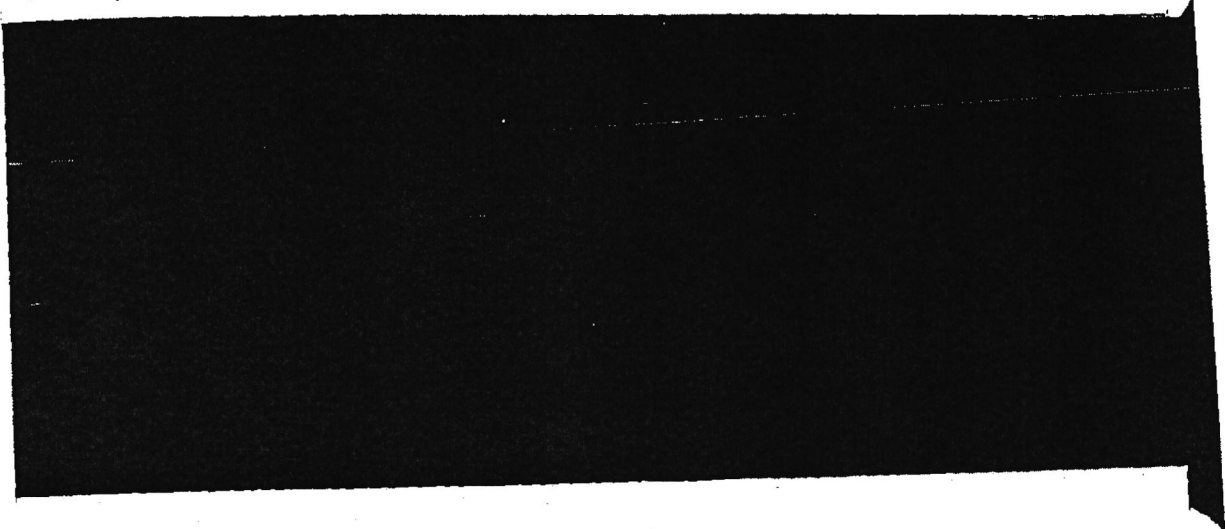
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PREFACE

~~(S)~~ This Defense Intelligence Report examines Soviet commercial activity in Argentina and evaluates the prospects of growing commercial involvement leading to a widening of Soviet influence in Argentina. The implications of Argentine-Soviet commercial relations for US strategic interests are investigated.

(U) Each classified title and heading in this report has been properly marked; all those unmarked are unclassified.



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SUMMARY

~~(S/NOFORN)~~

~~(S/NOFORN)~~ The Argentine Government rejects political collaboration with Moscow. The Argentine military, at the center of power, considers the Soviet Union a threat to the Western Hemisphere's security. If the Argentine Government should feel that broadening commercial contacts presents Moscow an opportunity to subvert Argentine security, the Government would probably break off ties, despite the economic costs.

~~(S/NOFORN)~~

In spite of the friendliness towards the US of the new Galtieri Administration, trade with the Soviet Union will continue as long as the Argentine Government considers such trade to be in the country's national interest.

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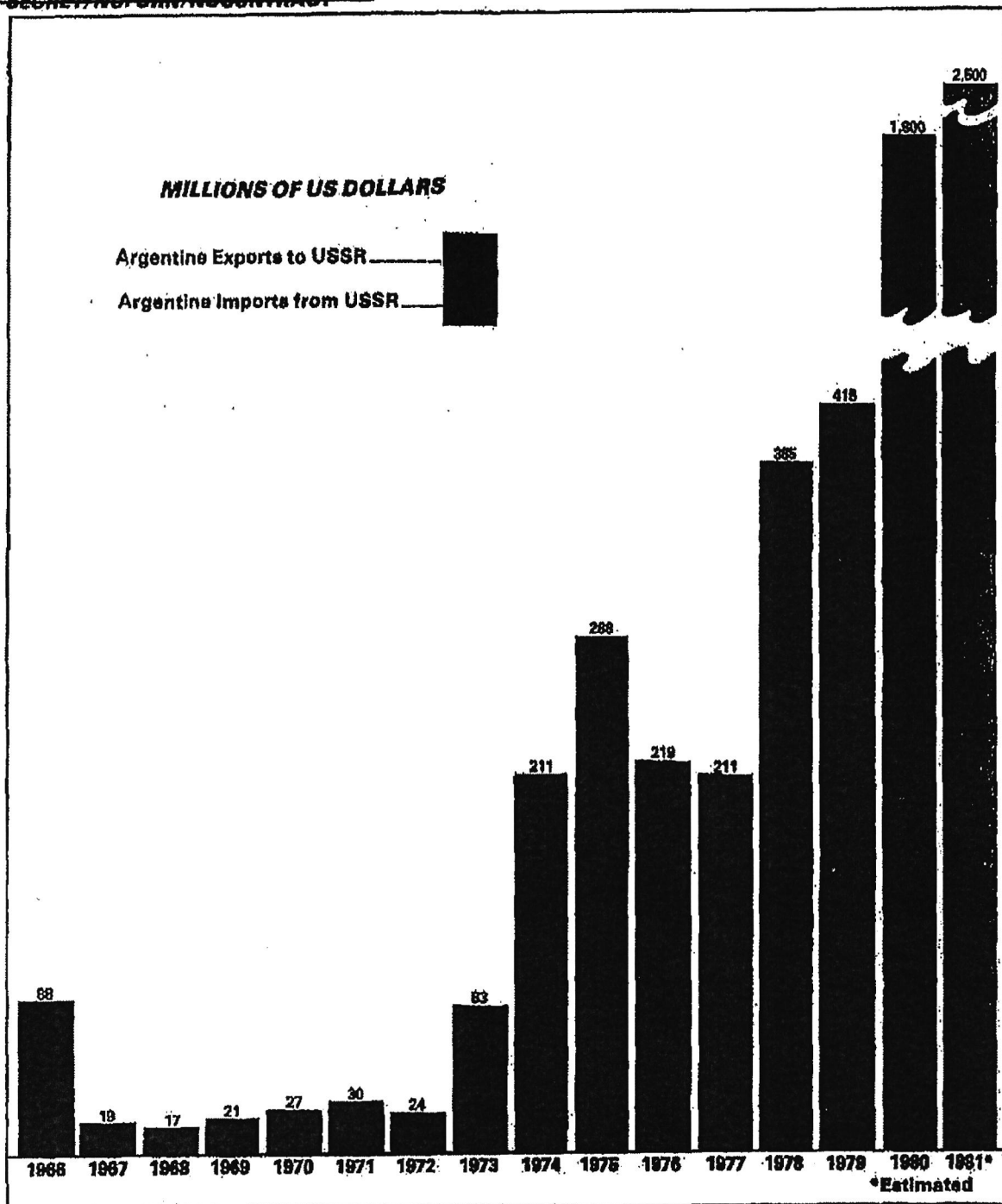


Figure 1 Argentine Trade with the Soviet Union

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1. INTRODUCTION

~~(C/NOFORN)~~ Argentina has maintained minimal diplomatic and economic relations with the Soviet Union since the 1920s. In very recent years, however, economic relations have become increasingly important. Since 1980, Argentina's exports to the Soviet Union have risen dramatically (figure 1), largely as a result of the partial US grain embargo imposed on the Soviet Union on 4 January 1980. Argentina, second to the US as a source of grain and the major source of beef, has now become a pivotal Soviet agricultural supplier.

~~(C/NOFORN)~~ Driving Soviet commercial policy toward Argentina is Moscow's attempt to increase the security of the Soviet food supply by diversifying sources of imported agricultural commodities. Although Soviet interests at the moment appear predominantly economic, Moscow would also like to widen Soviet political influence in Argentina. These efforts, however, so far have not been particularly successful.

~~(C/NOFORN)~~ Trade with the Soviet Union has been extremely profitable for Argentina, a country confronting serious internal and external economic difficulties. The rapid growth of Argentine agricultural exports (grain and meat) and a massive trade surplus in Argentina's favor (over \$2 billion in 1981, figure 1), have created a vested interest among certain elements of the Argentine business community in maintaining friendly, trouble-free relations with Moscow.

~~(C/NOFORN)~~ Despite Argentina's growing stake in trade, the Argentine military regime still remains highly suspicious of Soviet motives and objectives. Relations remain narrowly trade oriented as the staunchly anti-Communist regime has largely restricted relations to the commercial sphere, where mutually compatible interests exist. The Argentine Government views the country's relations with the Soviet Union as a limited engagement in which Buenos Aires will seek what economic and political advantages it can, but without sacrificing the country's Western orientation.

~~(C/NOFORN)~~ While this attitude continues to block any impetus toward broadening political relations, the Argentine Government has not impeded the development of commercial relations. Commercial ties with the Soviet Union are judged by the Government to be in Argentina's best national interests. Argentina's favorable trade balance with the Soviet Union helps offset the country's worsening balance of payments position.

~~(C/NOFORN)~~ While maintaining bilateral economic ties is important to both Moscow and Buenos Aires, factors internal to the relationships may eventually prove to be disruptive:

-- The Soviet Union is expressing mounting concern about the imbalance of the trade relationship. In 1981, the Soviet trade deficit with Argentina will approach \$2.3 billion while the overall Soviet hard currency trade deficit will be about \$6 billion.

-- The Argentine Government is displaying increased concern over the country's trade dependency on the Soviet Union--Argentina's largest export market (figure 2). The Argentine's basic distrust of Moscow has been further aggravated by Soviet attempts to use economic ties to advance Soviet political interests.

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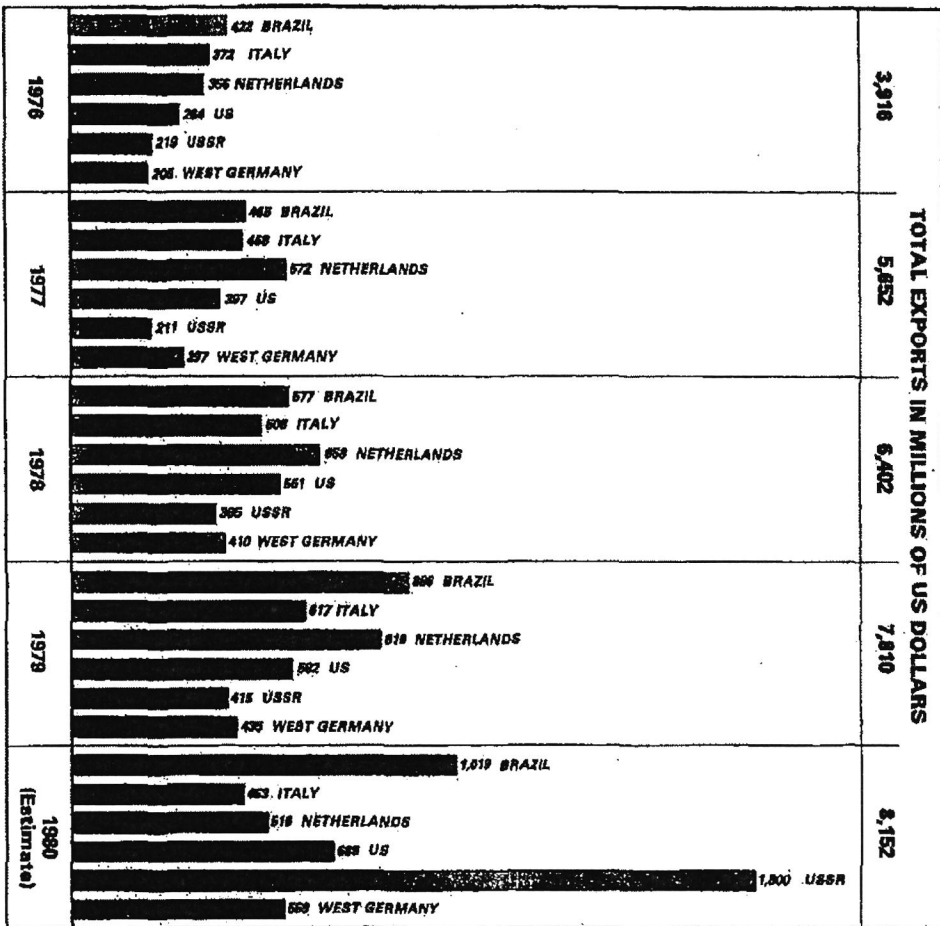


Figure 2. Argentina's Principal International Customers

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~~(S/NOFORN)~~ Even though bilateral relations remain narrowly focused, Argentina's commercial ties with Moscow pose strategic concerns for the United States. Argentina's noncompliance with US trade sanctions against the USSR in 1980 eroded the embargo's effectiveness. Argentina support of any future embargo against the Soviet Union is also doubtful. It is unlikely that Argentina would jeopardize \$2 billion worth of agricultural exports, particularly if the country's economy continues to be unstable. It would require a very difficult political decision for the military regime to defy pragmatic considerations of economic self-interest to support US political interests on this issue.

2. ARGENTINE-SOVIET COMMERCIAL RELATIONS

(U) Argentine-Soviet commercial relations have evolved incrementally. Since the 1950s, Argentina has been a residual supplier of grain to the Soviet Union, stepping up sales to the USSR whenever a poor harvest forced Moscow into the world grain market on a large scale. Trade between Argentina and the Soviet Union was at a low level but reasonably balanced until 1972; the only exceptions were in 1965 and 1966 when Moscow purchased substantial quantities of wheat. From 1972 through 1979, the Soviet Union remained a large but irregular purchaser of Argentine sorghum, wheat, meat, and other agricultural products. Due to mounting agricultural purchases, in 1978 Argentina displaced Brazil as Moscow's principal trading partner in Latin America.

(U) Moscow, however, has failed to break into the Argentine market with Soviet exports. While imports from Argentina between 1956 and 1979 amounted to \$2.6 billion, Soviet exports to Argentina totaled only \$274 million. In attempts to rectify the trade imbalance, Moscow has been pushing equipment sales, particularly hydroelectric and nuclear power equipment, and continues to be an active bidder on new projects. To support this effort, Moscow extended to Argentina a line of credit in 1974 to finance Soviet participation in hydroelectric and thermal power plant projects (table 1).

~~(S/NOFORN)~~ Argentine import requirements for the industrial products that the Soviets are currently exporting (pipes, turbines) are not great, nor does Argentina need Soviet oil. The prospects of increased sales of Soviet manufactured goods also appear dim. Soviet efforts to increase sales of manufactured goods are negated by marketing difficulties (absence of spare parts, inadequately developed dealerships and service networks, consumer resistance, etc.). In order to protect the agricultural trade relationship with the Soviet Union, the Argentine Government is permitting limited Soviet commercial participation in the public sector.

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Table 1
Soviet Economic Credits and Grants to Argentina, 1974-80

Date Extended	Projects	Millions US Dollars Extended	Drawn	Status
February 1974	Line of Credit*	175.0	38.6	
	--Hydroelectric turbines			
	Salto Grande	42.4		UC
	--Thermal power generators	119.7		
	San Nicolas			
	Lujan De Guvo			
	Costanera			UC
	Bahia Blanca			UC
	--Preinvestment Studies for			
	Parana Medio	7.4		C
	--40 trolley buses			
August 1978	Grant--Turbine for Salto Grande	7.5		

UC - under construction; C - completed.

~~SECRET/NOFORN/NOCONTRACT~~

* (U) Credit is open ended. Additional amounts added as contracts are signed.

(C) Most recently, in October 1981, Argentina and Paraguay awarded the contract to supply and install 20 turbines and generators at the Yacyreta hydroelectric complex. The Soviet Union bid as a member of a consortium which won the \$50 million contract. However, Soviet participation is minor; it will supply only the turbines, which comprise a low percentage of the total cost. This further reduces Soviet hopes of redressing the massive trade imbalance that it has incurred with Argentina for the past few years.

~~(S/NOFORN/NOCONTRACT)~~ Since 1975, Moscow has supplied nuclear-related equipment to Argentina. In March 1980, talks in Moscow on the possibilities for cooperation in peaceful uses of nuclear energy led to a Soviet promise to meet Argentina's enriched uranium needs if the US did not. In 1981, the Soviet Union provided 12 tons of enriched uranium and 5 tons of heavy water, while continuing to supply other nuclear-related equipment.

~~(C/NOFORN)~~ The impetus for the expansion of Argentine-Soviet commercial relations came from the partial US grain embargo imposed on Moscow in the wake of the Soviet invasion of Afghanistan. The embargo negated Soviet attempts in 1980 to meet planned objectives for feed grains and food stuffs by importing from the

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US 25 million metric tons (mt) of grain in the 1979-80 LTA* (17 million metric tons over the 8 million metric tons guaranteed under the terms of the US-USSR Grain Agreement of 1976). Record Soviet purchases of Argentine grain in 1980--9 million metric tons--helped offset the 17 million metric ton gap in Soviet grain import requirements for 1980 resulting from the embargo.

~~(S/NOFORN/NOCONTRACT)~~ To soften the impact of the embargo, Moscow, by drawing down on existing stocks was able to offset partially the loss of the 17 million metric tons of embargoed US grain. The Soviet Union was also able to make up half of this loss by developing alternative market suppliers and by importing substantially more grain from already established suppliers.

Table 2
Soviet Grain Harvester
(Million Metric Tons)

Year	Plan	Actual
1976	207	224
1977	213	196
1978	226	237
1979	227	179
1980	235	189
1981	236	158

~~S/NOFORN/NOINTEL/NOCONTRACT~~

~~(S/NOFORN)~~ Argentina became the largest beneficiary of the windfall profits, which resulted from Moscow's scramble to find alternative sources of grain. In 1980, Argentine agricultural exports skyrocketed to \$1.8 billion and accounted for the more than 400 percent increase in export earnings over the 1979 level figure 1. In 1981, Argentina revenues from agricultural sales to the Soviet Union exceeded \$2 billion.

(U) In 1980, Moscow purchased 52 percent of total Argentine wheat exports, 84 percent of total corn exports, 28 percent of total soybean exports, and virtually all of Argentina's sorghum exports. Heavy Soviet purchases continued into 1981; last year Moscow purchased over 75 percent of total Argentine grain exports.

~~(S/NOFORN/NOINTEL/NOCONTRACT)~~ Even with the lifting of the US embargo, Argentina displaced--albeit temporarily--the US as the major exporter of grain to the Soviet Union in 1981. During 1981, Argentina exported over 15 million

* (U) LTA - Long Term Agreement Year, October-September.

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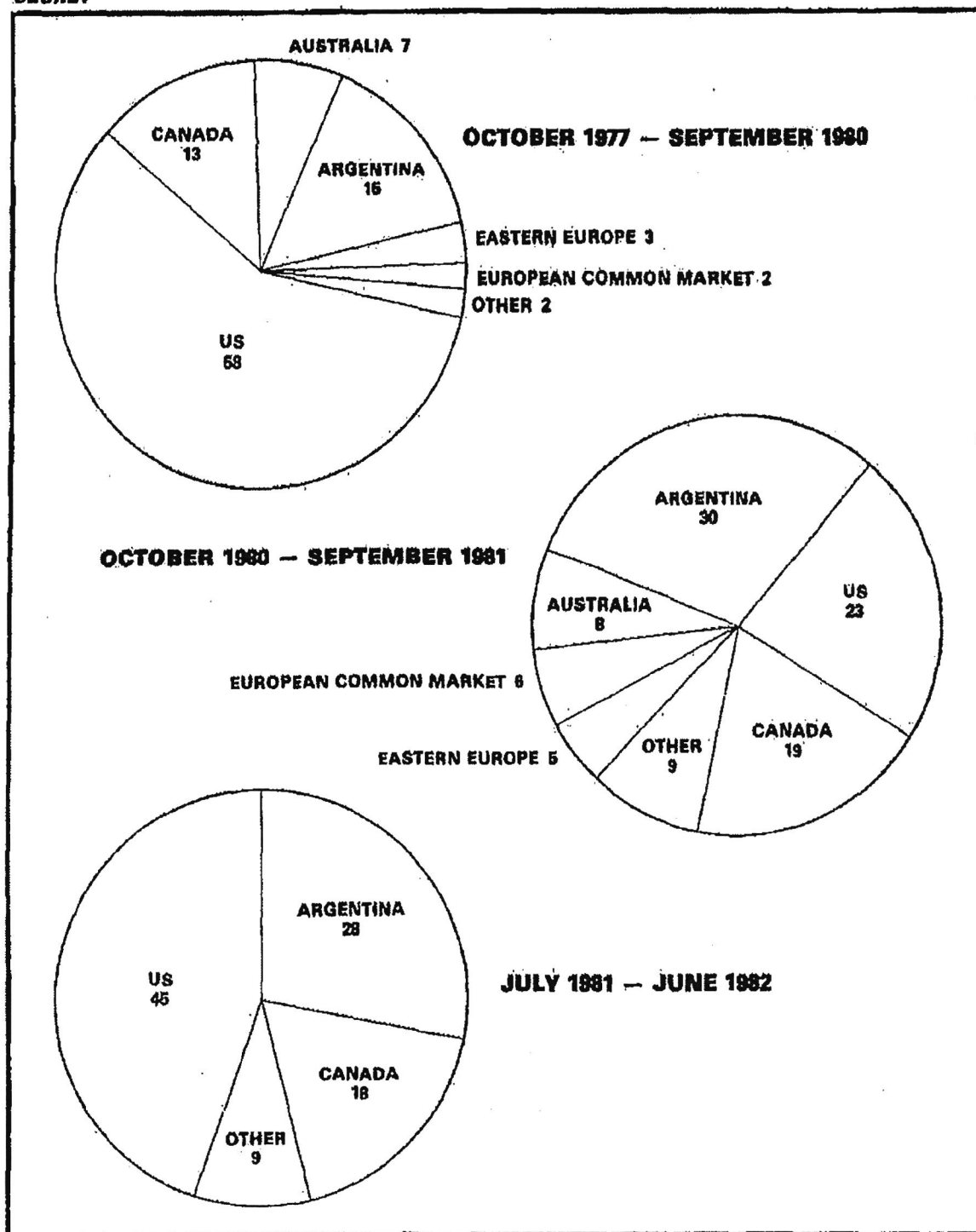


Figure 3. USSR: Grain Imports, Source of Origin (In Percent of Total)

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metric tons of grain (a 60-percent increase over the 9 million metric tons exported in 1980). The breakout of 1981 grain exports to the USSR is as follows:

<u>Types of Grain</u>	<u>Purchased</u> (As of November 1981)
Corn/Sorghum	11.9 mmt
Wheat	2.9 mmt
Soybeans	.7 mmt

(mmt = million metric tons)

(U) The US embargo, by limiting Moscow's access to its principal grain supplier also occasioned a dramatic realignment of supplies of Soviet grain imports. Argentina has increased its market share the most from this realignment (figure 3).

~~(C)~~ The market realignment caused by the embargo has now been uninstitutionalized as Argentina, on 10 July 1980, secured from the Soviet Union a multiyear grain marketing agreement. This agreement covers a 5-year period and provides for the shipment of 4.5 million metric tons of coarse grains and soybeans annually.* The agreement is a letter of intent. Actual deliveries will be determined by Soviet need, the size of the Argentine crop, and by other market factors as well as by political considerations.

~~(C)~~ What the grain marketing agreement means for Argentina is that even though the Soviet Union has reinstituted substantial purchases of grain from the US, Argentina still retains its enhanced position as supplier of grain to Moscow. Prior to the agreement, trade in grain was erratic and was driven by Soviet purchases designed to cover intermittent and transient gaps between import needs, determined by the size of the domestic harvest, and purchases from established suppliers, principally the US. In the wake of the embargo, the Soviet Union has now become Argentina's principal grain export market.

~~(C)~~ The Soviet Union has also emerged as a major buyer of Argentine beef. In 1980, with sales of 88,000 tons of beef, the Soviet Union, for the first time, was Argentina's largest market outlet for beef. To cement this relationship, in April 1981, the Soviet Union signed a letter of intent to purchase between 60,000 and 100,000 tons of Argentine beef annually during 1981-85. The agreement is valued at \$1 billion.

3. COMMERCIAL RELATIONS: THE SOVIET PERSPECTIVE

a. Summary

~~(C, NOFORN)~~ Because of chronic domestic agricultural problems, the Soviet Union has been a net importer of agricultural products, principally grain, over

* (U) For details of the agreement, see table 4.

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the past decade, with its purchases rising substantially in the last few years (table 3). Soviet agricultural problems occurred at a time when the national leadership assigned a high priority to labor productivity growth as a means for correcting the worsening performance of the Soviet economy. To achieve the desired gains in labor productivity, the leadership has relied on a policy of improving the quality of the Soviet diet. The pursuit of this policy has resulted in the Soviet Union becoming the world's largest importer of grain.*

~~(S//NOFORN)~~ To reduce the vulnerability of the Soviet food supply, since 1980 Moscow has diversified its foreign suppliers of agricultural products. Trade with Argentina is a critical element of this Soviet policy.

b. Soviet Grain Import Program

~~(S//NOFORN/NOCONTRACT)~~ Moscow's need for so much imported grain arises from the dismal performance of the agricultural sector. Agricultural imports** in 1981 again reached a record high, accounting for over 40 percent of total Soviet hard currency imports.

Table 3

	<u>Soviet Hard Currency Agricultural Imports</u>					
	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981^{a/}</u>
Total hard currency imports (billion US \$) ^{b/}	14.8	13.7	16.6	21.2	26.2	29-30
Agricultural imports (billion US \$) ^{b/}	4.1	3.2	3.8	5.5	8.8	12.5
Agriculture's share of the total (percent)	27.7	23.4	22.9	25.9	33.6	41.7-43.1

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^{a/}(U) Estimated

^{b/}(U) Current prices

* ~~(S//NOFORN/NOCONTRACT)~~ Between June 1981 and July 1982, the Soviet Union is expected to import about 45 million mt of grain. The Soviet Union is followed by West Europe (30 million mt), Japan (25 million mt), and the PRC (12-15 million mt). These four markets will account for about 50 percent of total worldwide grain purchases.

** (U) In the early 1970s, with the advent of detente, the Soviets sought trade with the West primarily as a means of obtaining urgently needed industrial technology. With the failure of agriculture, the share of agricultural products in Soviet hard currency imports--tables 3 and 6--rose steadily and progressively drained Soviet hard currency resources. This development was unanticipated and unplanned for. It also has limited Moscow's ability to purchase Western technology.

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~~(S//NOFORN//NOCONTRACT)~~ Despite Moscow's efforts, shortages of food continue and are still mounting. Rationing has become increasingly frequent and widespread since last winter. Although some work stoppages occurred in 1981, to diminish this potential for labor unrest, the leadership has allowed the proliferation of special food distribution systems. Once reserved for the Soviet elite, these systems have now become common at the factory level.

~~(S//NOFORN)~~ A more serious concern for the leadership is the adverse effect of stagnating per capita growth of consumption on labor productivity. Gains in labor productivity are being counted upon to obtain 90 percent of the growth of industrial output and the entire growth of agricultural output under the current Plan. The leadership fears that if consumer welfare stagnates that this will reduce worker motivation and hence productivity. Moscow thus faces a dilemma: it is relying upon a strategy of promoting efficiency and productivity--to an extent not found in earlier periods--to propel overall economic growth. But unless the leadership provides sufficient increases in food, particularly meat and other consumer goods, the needed increases in labor productivity might not be obtained--thus the leadership's strategy might fail.

~~(S//NOFORN//NOCONTRACT)~~ With the third consecutive poor harvest in 1981, imports of grain now play a more critical role than ever before. Because of the shortfall of 66 million metric tons, imports of 45 million metric tons will be needed to help meet Soviet grain requirements for 1981-82. About 125 million metric tons of grain are required for the livestock sector and the remainder for human consumption, seed, industrial use, and reserves. Insofar as the Soviet Union cannot grow coarse grains in sufficient quantities, imports of these grains (corn and sorghum) predominate and are vital to maintain an acceptable meat supply.

~~(S//NOFORN)~~ Further aggravating the Soviet food supply situation, meat production for 1981 of 15.2 million metric tons lies between the extremely low 1980 level of 13.1 million metric tons, and the unsatisfactory 1979 level of 15.5 million metric tons. Due to this poor beginning in the threshold year of the current Five-Year Plan, meat production targets for the entire Five-Year Plan period are unlikely to be reached. With mounting internal supply difficulties, the beef agreement with Argentina will provide an important supplement to domestic supplies.

~~(S//NOFORN//NOCONTRACT)~~ The agricultural import bill has soared as Moscow has sought to compensate for domestic shortfalls through purchases in the West. In 1980, the Soviet hard currency trade balance recorded a deficit--largely due to the volume of agricultural imports--which was 25 percent higher than in the previous year (\$2.4 billion as against \$2 billion). Exports of gold, arms, and services enabled the Soviets to run a substantial current account surplus of \$2.8 billion in 1980, but this figure was lower than the all time high of \$5.3 billion in 1979.

~~(S//NOFORN//NOCONTRACT)~~ In 1981, a further worsening of the Soviet hard currency position occurred, resulting from the massive agricultural import bill, soft oil prices in the West, and stepped up aid to Poland. The trade deficit is \$6 billion, with little relief in sight in the years ahead. With its hard currency bind increasing, the Soviet Union has been seeking short-term bank credits for grain and other commodities normally bought on a cash basis and has been dipping into its hard currency reserves to finance this deficit. Indicating

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the strains on Soviet reserve, Soviet assets in Western banks dropped from \$8.6 billion in 1980 to \$7 billion in 1981, while liabilities to these banks increased from \$7.7 billion to \$8.5 billion.

~~(S/NOFORN/NOCONTRACT)~~ Moscow's response to its hard currency bind indicates Soviet priorities: agricultural imports are the primary concern. While some imports of grain and other foods are being deferred, the volume of nonagricultural imports is falling. Selected purchases of chemical and other industrial materials are being cut. Except for the Urengoi gas pipeline project, Soviet orders for new plants and equipment are sparse. The hard currency bind is serious enough to influence Soviet economic relations with Eastern Europe. Moscow has told its East European partners that they can no longer count on massive Soviet economic assistance, mainly in the form of highly subsidized exports of crude oil.

~~(S/NOFORN/NOCONTRACT)~~ The Soviet food supply is likely to continue to rely heavily upon Western imports over the near term. Even with a return to more normal grain crops of 215 million metric tons of grain, the Soviet Union will continue to need substantial imports--25 to 30 million tons annually--for at least the next several years just to raise per capita meat consumption by 1 or 2 percent annually.

~~(S/NOFORN)~~ The vulnerability of the Soviet food supply position is increasing with this continued growth of Western imports. Moscow has sought to lessen the Soviet vulnerability by diversifying the foreign sources of supply of agricultural commodities--a policy which was given even more priority with the imposition of the partial US grain embargo. Since 1980, Moscow has concluded grain agreements with Brazil and Canada as well as with Argentina (table 4).

Table 4

USSR: Existing Non-US Grain Agreements

ARGENTINA (1 January 1980-31 December 1985)

- Authorizes the USSR to purchase 4 million mt of corn and sorghum and 500,000 tons of soybeans annually.
- Purchases in excess of these quantities will be authorized only after consultation.
- Purchases will be made at prevailing market prices.
- Quantities stipulated in the agreement and additional amounts agreed upon will not be affected by an embargo.

CANADA (1 August 1981-31 July 1986)

- Authorizes the USSR to purchase from the Canadian Wheat Board a minimum of 4 million mt of wheat, barley, and oats in 1981-82. The minimum commitment will increase half a million tons per year to reach 6 million tons in the fifth and last year of the agreement.
- Quantities stipulated in the agreement will include grain shipments to Cuba on Soviet account.
- Prices will be negotiated every 6 months.

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Table 4 (Continued)

- Quantities stipulated in the agreement will not be affected by any restrictions imposed by the Canadian Government. Unlike the Argentine agreement, additional amounts agreed to by both parties may be subject to embargo.

BRAZIL (1 January 1982-31 December 1986)

- Authorizes the USSR to purchase a minimum of 500,000 tons of soybeans and 400,000 tons of soybean meal annually.
- Beginning in 1983, approximately 500,000 tons of corn will be exported to the USSR annually, if available.
- Prices will be negotiated.

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~~(C/NOFORN/NOCONTRACT)~~ While trade with Argentina offers Moscow a reliable source of agricultural products, the trade deficit with Argentina has a serious destabilizing impact on the overall Soviet balance of trade. Since 1979, the trade deficit with Argentina has been the most dynamic element of Soviet hard currency trade (figure 4). From Moscow's perspective, 1981 proved no better: By the end of September, Soviet imports reached \$2.5 billion while Soviet sales to Argentina amounted to only \$140 million. The 1981 Soviet trade deficit with Argentina could equal 40 percent of the estimated \$6 billion total Soviet hard currency trade deficit for 1981.

~~(C/NOFORN)~~ With little hope for redressing the trade imbalance, Moscow will probably continue to accept these large deficits. Given the mounting Soviet reliance on agricultural imports and resultant concern over the vulnerability of the Soviet food supply, trade with Argentina should continue as a top Soviet priority.

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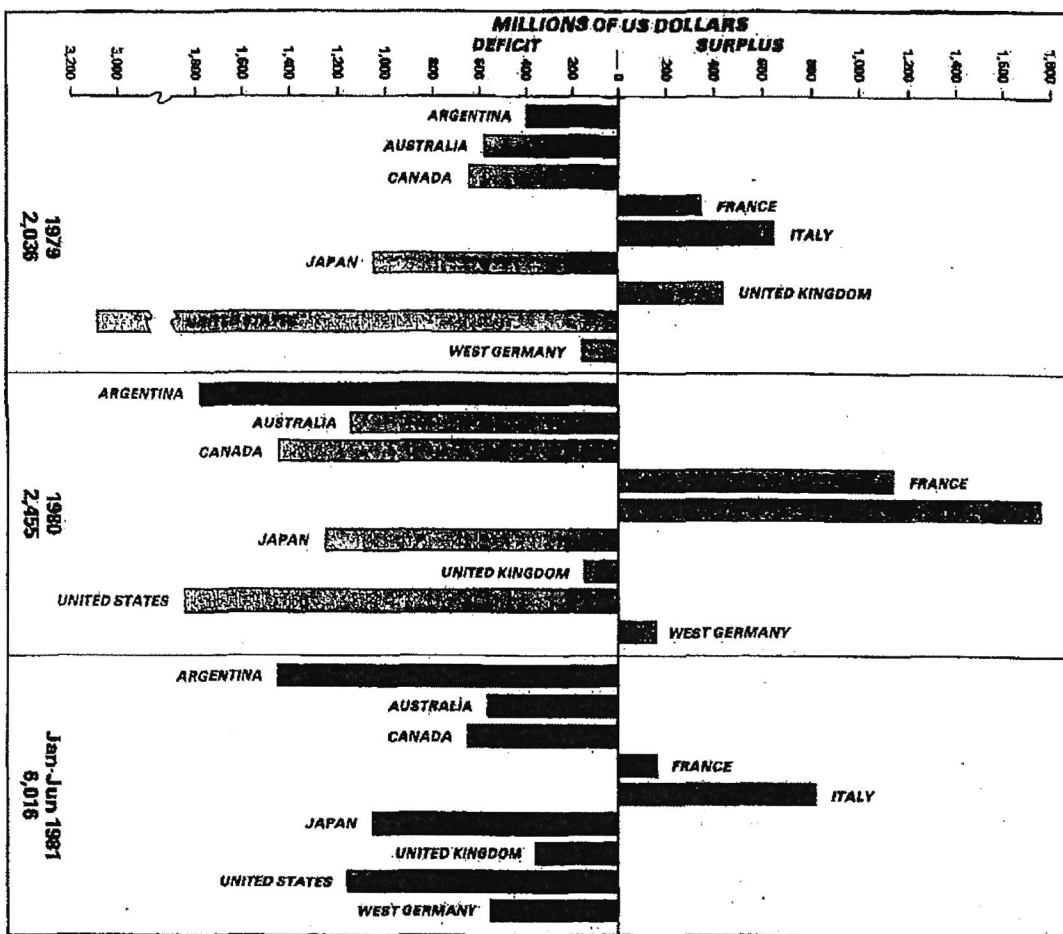


Figure 4. USSR: Hard Currency Trade Deficit

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Table 5

USSR: Hard Currency Exports

	Exports, free on board					
	1970		1975		1980	
	Million US\$	Percent of Total	Million US\$	Percent of Total	Million US\$	Percent of Total
Total	2,201	100	7,835	100	23,498	100
of which:						
Fuels	493	22	3,887	48	15,095	64
Crude oil and petroleum products	387	18	3,276	41	12,028	51
Natural gas	13	1	220	3	2,706	12
Coal and coke	93	4	391	5	362	2
Machinery and equipment	140	6	560	7	1,388	6
Ferrous metals	129	6	167	2	246	1
Chemicals	67	3	256	3	765	3
Wood and wood products	365	17	712	9	1,476	6
Agricultural products	205	9	572	7	478	2
Grain	22	1	3	Negl	0	0
Other	183	8	569	7	478	2
Consumer goods	76	3	215	3	152	1

Source: Soviet foreign trade data.

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Table 6

USSR: Hard Currency Imports

	<u>Imports, free on board</u>					
	<u>1970</u>		<u>1975</u>		<u>1980</u>	
	<u>Million US\$</u>	<u>Percent of Total</u>	<u>Million US\$</u>	<u>Percent of Total</u>	<u>Million US\$</u>	<u>Percent of Total</u>
Total	2,708	100	14,257	100	26,017	100
of which:						
Fuels	8	Negl	497	3	700*	3
Crude oil and petroleum products	8	Negl	497	3	700*	3
Natural gas	0	0	0	0	0	0
Coal and coke	0	0	0	0	0	0
Machinery and equipment	927	34	4,593	32	6,039	23
Ferrous metals	279	10	2,567	18	3,469	13
Chemicals	208	8	742	5	1,565	6
Wood and wood products	84	3	214	2	203	1
Agricultural products	615	23	3,856	27	8,800	34
Grain	101	4	2,323	16	4,400	17
Other	514	19	1,533	11	4,400	17
Consumer goods	260	10	430	3	745	3

Source: Soviet foreign trade data.

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* (U) Estimated

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4. COMMERCIAL RELATIONS: THE ARGENTINE PERSPECTIVE

a. Summary

~~(S/NOFORN)~~ Pragmatic considerations of economic self-interest motivate the Argentine Government's export policy toward the Soviet Union. The Soviet market has proven large and extremely profitable at a time when Argentina urgently needs foreign exchange to cope with a serious balance of payments problem. There are, however, certain constraints on what the Argentines consider a beneficial trade relationship: the Government's basic distrust of the Soviet Union has been further augmented by a concern over the degree of economic dependency on the Soviet Union and by irritation at Soviet attempts to use economic ties to further political objectives.

b. The Faltering Argentine Economy and Trade with the USSR

(U) In 1980, Argentina registered a trade deficit of \$3.2 billion, the first since the 1975 deficit of \$500 million, and also ran a record current account deficit of \$4.9 billion on its balance of payments. Aggravating balance of payments problems, Argentina's foreign indebtedness steadily increased from \$5.2 billion in 1975 to \$11 billion in 1979. In 1980, Argentina's total public and private foreign debt reached \$19 billion, making the country the third largest non-OPEC debtor nation among Third World countries. As a result of this rapid growth of indebtedness, debt service repayments steadily rose from \$790 million in 1975 to \$1.5 billion in 1979, further straining Argentine foreign exchange reserves and contributing to the current account deficits.

(U) Argentina's balance of payments problems are linked to the country's principal domestic economic problem: inflation. The country's balance of payments difficulties in 1980 were precipitated by government policies designed to bring inflation under control. Rampant inflation cannot usually be dealt with except at the price of unemployment and a loss in real wages. Under mandate from

the military junta to minimize the economic and social dislocation of such policies, then Economy Minister Martinez de Hoz achieved--at first--a tour de force: inflation was brought back down under two digits, with full employment and no loss in real wages. But this was achieved only at the cost of a massive transfer of resources to the service and public sectors, adding to the already sizable public debt in the process. To sustain economic activity, the Government expanded the money supply, sowing seeds of additional inflationary pressure.

(U) Export-led recovery was another key element of the Government's policy. The peso was devaluated in hopes of stimulating industrial activity by enhancing the country's trade competitiveness and stopping the flight of domestic capital. To lessen the inflationary impact of devaluation, import tariffs were further reduced to encourage imports and prevent domestic firms from raising prices too sharply. However, the ineptly managed devaluation refueled inflation and led instead to general economic stagnation. The devaluation was not deep enough to achieve the desired boom in exports because the Government still adhered to its policy of using an overvalued peso as an anti-inflationary instrument. With a policy that held the devaluation of the peso far below the rate of domestic inflation, export incentives for domestic firms were ineffective. Expecting further devaluation, the flight of domestic capital increased as Argentines rushed to purchase US dollars. The import cuts permitted further

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foreign incursion into the country's market and resulted in a loss of sales to domestic firms. While the Government successfully controlled inflation, the continued flight of domestic capital, the rise in debt service payments, and the negative trade balance all operated to widen the country's balance of payments deficit.

~~(C/NOFORN)~~ By 1981, the Argentine economy was experiencing the full effects of the Government's past ineffectiveness: a deep industrial recession, rising unemployment, falling real wages, and a return to three-digit inflation. The large public sector deficit (financed mainly by further money creation), the fear of higher inflation and expectation of further devaluation, and political and economic uncertainties kept interest rates at extremely high levels. These forces operated to depress investment activity and dampen consumer demand and further deepen the country's economic malaise. The unemployment rate is particularly troublesome to the Government. A brief strike by automobile workers was quickly put down and a threatened general strike never materialized. Nevertheless, the unemployment situation raises the possibility of social unrest and prompts increasingly vocal disenchantment with the military junta.

~~(C)~~ The deteriorating state of the Argentine economy has become the country's major political issue. A casualty of the economic crisis was former President Eduardo Viola, who was fired by the military junta on 11 December 1981--mainly because of his poor performance in handling the economy. The new President, Army Commander in Chief Leopoldo Galtieri, has begun to institute measures that, it is hoped, will alleviate some of the country's economic problems. Agricultural exports to the Soviet Union remain one of the few positive indicators in a generally dismal economic picture.

~~(C/NOFORN)~~ The foreign trade account in 1981 improved dramatically, showing a surplus of \$2.4 billion. This is a result of booming agricultural exports and of the series of devaluations finally taking effect. While agricultural trade with the Soviet Union does not directly help the country's depressed industrial sector--one of the Government's principal concerns--the healthy trade surplus of over \$2 billion with the Soviet Union has bought time for the government by reducing the prospects of even wider balance of payments deficits. The trade surplus offset debt service obligations of \$2.2 billion; this helped lower the country's current account deficit to \$2.1 billion from the record deficit of \$4.9 billion in 1980.

~~(C/NOFORN)~~ The new Soviet market, however, has proven to be a mixed blessing. Argentine leaders are concerned about the amount of economic dependence on the Soviet Union that has grown along with the profits. Despite attempts to diversify further Argentine agricultural markets by signing letters of intent to sell grain to the People's Republic of China, Mexico, and Iraq, the Soviet Union in 1981 still purchased over 75 percent of total Argentine grain exports--a figure not likely to change much in 1982.*

* ~~(C/NOFORN)~~ Because of last year's drought, Argentina will not be able to match the record level of 1981 exports (15.4 million metric tons). Argentine grain exports are expected to reach 12.5 million metric tons during the current marketing year.

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~~(S/NOFORN)~~ Perhaps the most important constraint on Soviet-Argentine economic ties is the Argentine Government's basic distrust of the Soviet Union and its view that Communism is the greatest threat both to the Western Hemisphere and to the country's own security. The current military government stakes its rationale for existence on its ability to oppose Communism. The first priority of the military regime upon taking power in 1976 was to wage a war against the leftist insurgency. The justification for the 2-year "dirty war" and the thousands of "disappeared" people was to save Argentina from a Communist takeover.

~~(S/NOFORN)~~ The regime, however, has so far avoided the linkage of economic and political issues in relations with the Soviet Union. The Argentine Government has pragmatically pursued economic contacts with the Soviet Union, taking Soviet hard currency for Argentine products but refusing to enter into any agreement that would bring large numbers of Soviets into the country. Moscow has tried for several years to gain permission for Aeroflot to establish routes and open offices in Argentina, but without success. TASS, the Soviet news agency, has also been denied permission to operate in Argentina. No bilateral fishing agreement has been reached, despite persistent Soviet efforts.

~~(S/NOFORN)~~ The Argentines have also been wary of establishing an arms supply relationship with Moscow. Since 1979, the USSR has been offering attractive arms packages to the Argentine military, but no arms agreements have been signed and members of the military hierarchy have stated repeatedly that they do not want Soviet military equipment. The remote possibility that the Argentine military might procure arms from the Soviet Union has receded even further with the warming of Argentine-US relations under the Reagan administration.

The President said that Argentina's position in the world "is not compatible with equivocal or vague positions" that weaken the nation's Western roots, nor in "giddy pursuit and flirtations" with ideologies that "distort" the nation's permanent interests.

~~(S/NOFORN)~~ Argentine distrust for the Soviet Union has deepened with Soviet attempts to use economic ties to manipulate Argentina. These attempts do not appear to have been successful; however, during November 1981, there were reports of Soviet pressure on the Argentine military to buy Soviet arms in order to rectify the trade imbalance. There were also reports of Soviet attempts to convince Argentina not to participate in the Sinai peacekeeping force envisaged by the Camp David accords. Concern for the Soviet market was reportedly a minor factor influencing the Argentine postponement of the decision to accept the invitation. However, there is no real evidence that Soviet pressure has had an effect on Argentine political decisions, or has influenced the country's political orientation in any way.

~~(S/NOFORN)~~ The USSR has continued to be supportive of Argentina in the international fora on human rights issues and backs Argentina against Chile in their ongoing border dispute over three islands in the Beagle Channel. The latter action on the Soviets' part may be less to gain Argentina's favor than to oppose Chile, the one country in the world where a Communist government was overthrown by a rightist dictatorship. Argentina does not object to Soviet support on such matters, but has not provided significant political favors in return.

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~~(S/NOFORN)~~ It appears likely that the new administration will continue to pursue commercial relations with the Soviet Union, despite the various constraints. President Galtieri's new Economic Minister, Roberto Aleman, has made it clear that economic ties with the Soviet Union will definitely continue as long as they are in the national interest. Factors other than economic self-interest also make continuance of ties with Moscow likely. Perhaps most important is the regime's self-perception of Argentina as not only a regional power but also a world power. Argentina has a long tradition of aloofness in foreign affairs from the US. Hence, Buenos Aires sees no contradiction in supporting US policy on political issues in East-West relations, while pursuing profitable economic relations with the Soviet Union.

5. ASSESSMENT

a. Implications for US National Security Interests

~~(S/NOFORN)~~ Buenos Aires, while engaging in limited cooperation with the Soviet Union, defines Argentine strategic interests in terms of the stated allegiance to Western ideals and values. The Argentine military, at the center of power in the Government, considers the threat to the security of the Western hemisphere in a way which is fundamentally congruent with the US's view: the Soviet Union is perceived as seeking global dominance and as attempting to destabilize the Western Hemisphere.



~~(S/NOFORN)~~ Although the US is the largest Soviet grain supplier this year (table 7), Moscow has diversified its suppliers so that a unilateral US embargo would not be effective. US leverage is being further eroded by Moscow's policy of seeking to meet as much as possible of its remaining grain import requirements for 1982 from non-US suppliers. Therefore, if an embargo against the Soviet Union were to be effective, it would have to include all or most major exporters, but particularly Argentina.

~~(S/NOFORN)~~ While no official statements have been made, it is unlikely that Argentina would support a grain embargo against the Soviets. In spite of overtures of friendliness to the US on the part of the new Galtieri Administration, it would be up to the military government to defy pragmatic considerations of economic self-interest to support the US. The Argentine decision would be based on the importance of agricultural sales to the Soviets in keeping the country's balance of payments deficits within manageable dimensions. The decision would also reflect the Government's assessment of an embargo's effect on the troubled economy, and on popular discontent with the economic malaise and perception of the military's ineptness in managing the economy.

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Table 7

USSR: Grain Imports, July 1981 - June 1982
(million metric tons - mmt and percent)

<u>Country</u>	<u>Projected Total</u>		<u>Sale and Commitments*</u>		<u>Shipped** July - December</u>
	<u>mmt</u>	<u>Percent</u>	<u>mmt</u>	<u>Percent</u>	<u>mmt</u>
Total	45.0	100.0	38.9	100.0	21.8
United States	18.0	.40	12.5	.32	6.2
Argentina	12.5	.28	12.5	.32	6.9
Canada	8.0	.18	8.0	.20	4.8
EC***	3.0	.07	2.8	.08	2.1
Australia	1.2	.03	1.2	.03	0.4
Eastern Europe	1.0	.02	1.0	.03	0.7
Other	1.3	.03	0.9	.02	0.7

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* (U) As 31 December 1981

** (U) Estimated

*** (U) Including wheat flour and grain equivalent of mixed feeds

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b. Outlook: Soviet Argentine Relations

~~(C/NOFORN)~~ The Argentine regime has steadfastly avoided the linkage of political and economic issues in its relations with the Soviet Union. Past efforts made by Moscow to improve its political standing have met with little success. The likelihood that Soviet efforts will soon meet with success appear dim.

~~(C/NOFORN)~~ In spite of growing commercial ties, Argentina's foreign trade orientation will remain westward. Finance capital, technology, and export markets for industrial products--all needed for the country's economic development--are found mainly in the West.

~~(C/NOFORN)~~ The only country capable of pushing the Argentines into severing economic ties with the Soviet Union is the USSR itself. If the always distrustful Argentines felt that the Soviets were attempting to use economic ties for their own political ends at the expense of Argentina, or were in any way trying to subvert the Argentine populace, the Argentine Government would sever relations in spite of the severe economic losses that would follow. But as long as Argentina can continue the profitable economic relationship while keeping the Soviets at arms length, it will probably do so.

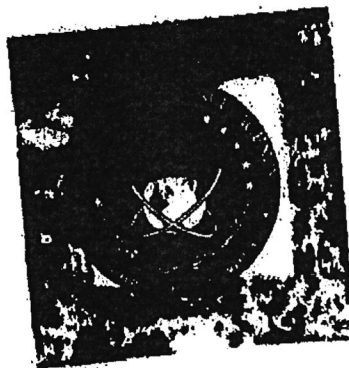
~~(C/NOFORN)~~ With no relief in sight from the need for substantial agricultural imports, trade with Argentina should remain a top Soviet priority. Argentine-Soviet trade is likely to remain substantial (Soviet agricultural imports should run at least \$10 billion annually through 1985), and Moscow also hopes that the continuing commercial involvement will mute the "image of the Soviet threat." Moscow will continue to rely on trade as a leading edge of its effort to improve relations with Argentina. At a minimum, Moscow can be expected to encourage nationalist sentiments in Argentina with the expectation that this development would adversely affect US regional interests.

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DEFENSE INTELLIGENCE AGENCY
WASHINGTON, D.C. 20321



11 JUN 1982

0-43,136/DB-4

MEMORANDUM FOR THE SECRETARY OF DEFENSE

SUBJECT: Defense Intelligence Agency (DIA) report, "Soviet Commercial Relations with Argentina: Implications for US Strategic Interests" - INFORMATION MEMORANDUM

The Defense Intelligence Agency (DIA) has recently published the enclosed Defense Intelligence Report entitled, "Soviet Commercial Relations with Argentina: Implications for US Strategic Interests," April 1982. We are forwarding you a copy of this report, as the Agency feels it would be of high interest to you.

This study is particularly timely as it explains the underlying economic interest of the Soviet Union in Argentina, as well as Argentina's need for Soviet business. It is quite conceivable that as a consequence of the current crisis, relationships between these two countries could be enhanced.

At the time this study was written, the Galtieri Administration and the US were moving towards more friendly relations. Even though the Falkland crisis has reversed this trend, the analysis of Soviet-Argentine relations is still pertinent.

Coordination within OSD is not required.

Enclosure:
DDI-1900-17-82,
"Soviet Commercial
Relations with
Argentina: Implications
for US Strategic
Interests," April 1982,
(S/NOFORN/NOCONTRACT/
MINTEL) 1 Cy

James A. Williams
JAMES A. WILLIAMS
Lieutenant General, U. S. Army
Director

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