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ODO(SA)(82) 1st Meeting

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CABINET

DEFENCE AND OVERSEA POLICY (OFFICIAL) COMMITTEE

SUB-COMMITTEE ON THE SOUTH ATLANTIC

—  
MINUTES of a Meeting held in  
Conference Room C, Cabinet Office  
on MONDAY 5 APRIL 1982 at 3.30 pm  
—

PRESENT

Mr R L Wade-Gery  
Cabinet Office  
(In the Chair)

Mr J G Littler  
Treasury

Mr D Heaton  
Home Office

Mr N Boyne  
Foreign and Commonwealth Office

Lord Bridges  
Foreign and Commonwealth Office

Mr B L Crowe  
Foreign and Commonwealth Office

Colonel A G H Harley  
Ministry of Defence

Mr R M Hastie-Smith  
Ministry of Defence

Mr P Parkhouse  
Ministry of Agriculture,  
Fisheries and Food

Mr D L Jones  
Departments of the Environment and Transport

Mr C J Farrow  
Department of Industry

Mr A Fortnam  
Department of Trade

Mr A J Lane  
Department of Trade

Mr R Williams  
Department of Trade

Mr P Driscoll  
Department of Energy

Mr R J Priddle  
Department of Energy

Mr D Overy  
Export Credits  
Guarantee Department

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Mr M J Balfour  
Bank of England

Mr A M Goodenough  
Cabinet Office

Mr D H Colvin  
Cabinet Office

Mr D J S Hancock  
Cabinet Office

Commander A H R York  
Cabinet Office

SECRETARIAT

Mr C H O'D Alexander  
Commander G R G Middleton

SUBJECT

FALKLAND ISLANDS: ECONOMIC MEASURES AGAINST ARGENTINA

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FALKLAND ISLANDS: ECONOMIC MEASURES AGAINST ARGENTINA

The Sub-Committee had before them a note by the Secretaries (ODO(SA)(82) 3) covering a minute dated 5 April 1982 from the Foreign and Commonwealth Secretary to the Prime Minister examining the action proposed against the Argentinians in the economic field and the prospects for securing an agreement to parallel action by our EC partners and more widely internationally.

THE FOREIGN AND COMMONWEALTH OFFICE said that the proposal was that the United Kingdom should introduce a trade embargo against the Argentinians, covering all their exports to the United Kingdom but limited in the case of British exports to arms supplies and the provision of new export credit. We would urge our EC partners to take parallel action and similar representations would be made to other countries. As far as our own action was concerned, it had been judged unwise to introduce a complete ban on exports to Argentina; to do so would raise awkward questions of compensation for British exporters, and it was anyway likely that the Argentinians would retaliate against a ban on their exports by banning imports from the United Kingdom. The proposal to be put to our EC partners reflected the likelihood that they would not be willing to go as far as us in imposing a trade embargo. On the handling of this proposal, it was judged essential to tell our partners what we had decided to do when we approached them. The last opportunity to raise the issue in an EC forum before Easter would occur the following morning at a COREPER meeting. Our own decisions ought therefore to be taken during the rest of the day. The EC would take time to reach decisions in the matter: this meant that our own action would have to be taken under Article 224 of the Treaty of Rome.

In discussion it was argued that it might be preferable to defer our own decisions on a trade embargo until it was known what our EC partners were willing to do. The approach to our EC partners would invite them to take all the measures which we were contemplating. Against this it was argued strongly that the Government would not be prepared to delay taking action to stop imports from Argentina, nor to make such action dependent on the views of our EC partners.

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In further discussion the following main points were made -

a. The intention in aiming the ban on exports from Argentina <sup>at that</sup> not already shipped was to reduce the scale of problems arising with existing contracts. The action proposed differed significantly from what the Americans were doing in the Polish context, about which there was widespread concern, in that traders would retain their title to goods even though they would be unable to import them, and the action would be taken within the United Kingdom's own jurisdiction. There would be no legal basis for claims against the Government.

b. The Export Credits Guarantee Department (ECGD) would be exposed to Argentinian retaliation against a ban on their exports to the extent of £300 million, of which roughly one-half related to payments due to be made in 1982. Uninsured export orders to Argentina might total £100-150 million. While it was tempting to suppose that the Argentinian bank deposits in the United Kingdom would be available to cover these potential bad debts, the assets had been frozen, not expropriated. In cases where an Argentinian purchaser wished to pay a British exporter, he would not at present be permitted to do so using funds deposited in a United Kingdom bank. The Bank of England would soon have to begin to discriminate in the granting of permissions so that payments could be made for pre-zero exports and for trade conducted under irrevocable letters of credit.

c. The list of items which it was proposed that our EC partners should be urged to stop importing from Argentina should be extended to include sheepmeat and vegetable oil, even though the impact of this would be slight. Leather should not be added to the list in view of the importance of Argentinian leather to the German and Italian shoe-making industries.

d. Rather than invite our EC partners to give guidance to their banks to make no new loans to Argentina, which would place us unnecessarily in the position of demandeur, when the Argentinians would anyway become an even worse credit risk, it would be preferable simply to suggest that our partners did not encourage banks to make new loans.

e. There were strong policy objections to opposing a first tranche application by Argentina to the International Monetary Fund (IMF). If a subsequent application was made, it would be possible to mobilise EC opposition.

f. Further thought needed to be given to which countries outside the EC should be urged to support our action. The object would be to identify those which were most important for Argentinian exports. The list seemed likely to include the United States, Canada, Japan, Australia, and New Zealand. An important economic target would be Argentina's grain sales to the Soviet Union, the income from which could be seriously affected if the United States and Australia were to release large amounts of grain to the world market, thus lowering the price. The United States imported substantial amounts of Argentinian wine.

g. The proposed ban on arms exports to Argentina ought perhaps to be extended to cover vital but non-military goods.

THE CHAIRMAN, summing up the discussion, said that there was general agreement that Ministers should be advised to agree to the immediate imposition of a ban on imports from Argentina, and that this should be made known at the meeting of COREPER on the following day and announced to Parliament. Our EC partners should be invited at the COREPER meeting to agree to take parallel action as proposed in the Foreign and Commonwealth Secretary's minute and subject to the points made in discussion. [Secretaries' note: At a subsequent meeting of Permanent Secretaries it was decided that the United Kingdom's first position in COREPER should be to invite our EC partners to take the same action as we ourselves were taking.] The Secretary of the Cabinet would be minuting the Prime Minister and the other Ministers concerned accordingly later in the day.

The Sub-Committee -

Instructed the Secretaries to prepare a draft submission from the Secretary of the Cabinet to Ministers.

Cabinet Office

6 April 1982