



PM/82/45

PRIME MINISTER

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 discuss at
 21/12/82
 or next
 freeze on assets
 no. I believe
 been the
 case

Prime Minister

To note the line the Foreign
 Secretary proposes to take at the
 EC Foreign Affairs Council on
 20/21 June.

A.F.C. $\frac{18}{6}$ Economic Measures against Argentina

1. I mentioned briefly at Cabinet on 17 June that I would seek to resist any attempt by our Community partners to lift economic sanctions against Argentina before a total cessation of hostilities. Since we had so little time to discuss the matter then I thought I should set out in more detail the line I shall follow in Community discussions and elsewhere.

2. Following the Argentine surrender on the Falkland Islands we have proposed to the Argentine Government that, if they are prepared to confirm that there is now a total cessation of hostilities between the two countries, the economic measures instituted by both parties should be lifted and at the same time we would be ready to ask those countries who have imposed economic measures against Argentina to bring them to an end.

3. The economic measures in question are:

- (a) the ban on Argentine imports;
- (b) the withholding of export credit cover for new business;
- (c) the freeze on Argentine assets in the UK;
- (d) the cancellation of the operating permit for Argentine airlines.

The old Commonwealth countries, the European Community members (apart from Ireland and Italy), Norway, the United States and to some extent Japan have supported us with parallel action under either or both of the first two of these measures. Although no other country has frozen assets, some have given informal advice to their banks to make no new loans. Argentina has taken retaliatory measures, chiefly on a matching basis.



4. In addition, our friends and allies have supported us in varying degrees in imposing an embargo on all arms and military supplies for Argentina or which might reach Argentina through third countries.
5. The Argentines, in replying through the Brazilians on the repatriation of prisoners of war, have avoided replying on the cessation of hostilities. At the same time the German Foreign Minister has had conveyed to me a decision by the German Cabinet on 16 June, for which he subsequently sought and apparently obtained French support, that the Community's import ban should be lifted immediately. I have received a message from the Italian Foreign Minister that he would now like to see us opening negotiations with Argentina on a longer term settlement of the Falklands issue. There have been other indications of similar European views, including at a meeting of the Political Directors of the Ten on 14 June.
6. The matter will be discussed at and in the margins of the Foreign Affairs Council on 20/21 June. I shall argue strongly against lifting the ban (unless Argentina has by then agreed to a complete cessation of hostilities) on the grounds that what we are looking for is peace and the secure trading conditions that would follow. If the Argentines have not responded we shall be maintaining our own import ban and the Total Exclusion Zone will remain in place with consequent disruption to trade with Argentina. I hope that our partners will recognise that it is in their own interest to insist with us on a total cessation of hostilities. But if - as the evidence suggests - they press for the Council to lift the EC's measures against Argentina there and then, it will not be possible to prevent this. I would in that case seek agreement that, in lifting the import ban, our partners should:

/(a) continue



- (a) continue their arms embargo for as long a time as we can persuade them to do so and until Argentine intentions become apparent. This is in fact the most important thing that our partners can now do for us.
- (b) agree that, should the Argentines attack British forces or the Falkland Islands, the EC import ban would be reimposed. I would of course make it clear that in any case in the absence of a continued cessation of hostilities we should ourselves maintain our import ban and other economic measures, relying as we have done from the start on Article 224 of the EEC Treaty.

7. Most of our non-Community supporters will be guided by what the Community does, although New Zealand and Australia may prefer to stick with us. I propose that we should tell them that we want them to continue their measures in support of us, and that in particular we would want them to do as we ask on the arms embargo.

8. I have considered whether we should continue any of our own measures as a means of pressure to achieve our objectives even after Argentine agreement to a total cessation of hostilities throughout the South Atlantic. Apart from the arms embargo, the only measure which has much impact through our national action alone is the freeze on assets. But if this is retained, it would delay the restoration of reasonable economic relations and prolong the dangers to British firms in Argentina and the potential damage to the City of London. The assets frozen here belong mainly to Argentine firms and private citizens, not to the Government. I doubt if there is anything significant which we could achieve by maintaining the freeze which would compensate for these drawbacks.

9. As regards the economic measures taken against us by Argentina, we shall want the Argentines to make clear that

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I believe we should retain the freeze



they are removing their measures banning British imports and preventing payments to service debts to British banks, as well as their recent legislation preventing any transfer of British assets and attaching Government representatives to British firms. They should also be ready to restore air traffic links although whether we shall wish to take advantage of this is another matter. We need not object if they continue general trade restrictions and export control measures, which may be needed to conserve foreign exchange, provided there is no discrimination against us.

10. Once the blanket denial of new export credit cover for Argentine business is removed, it will be for discussion between ECGD and other Departments concerned to decide what policy should be adopted with regard to Argentina from now on, though this is bound to be very cautious, and restrictive.

11. I am copying this to OD colleagues and to the Governor of the Bank of England.

(FRANCIS PYM)

18 June 1982

Foreign and Commonwealth Office