



PRIME MINISTER

SOUTH AFRICA: PROPOSED EXTENSION OF UN ARMS EMBARGO

I have seen your Private Secretary's letter of 22 September recording your meeting with the Foreign Secretary over the weekend concerning the possibility of an extension of the United Nations arms embargo. In my minute to you of 19 September I set out two minimum conditions which seemed to me essential before coming to a decision not to veto on any account. I am greatly disturbed to see that a decision has at this stage been taken that in no circumstances will we be prepared to isolate ourselves on this particular matter. It seems unwise to me to go into any negotiation, particularly one as important as this, having already decided, even in private, not to use the ultimate sanction. I do not see how we can take a final decision on the use of a veto before we know how the final resolution emerges.

I enclose a note from my officials setting out the possible loss of trade to us if the recommendations of the UN Committee are translated into a mandatory resolution. I am worried that the dangers to our trade far exceed those stated in the note. South Africa has become one of the fastest growing markets in the world since the rise of the gold price. We can say with considerable assurance (and the South African Finance Minister was here on Wednesday indicating just this) that the South Africans are keen to steer more major projects our way. (GEC recently gained their largest overseas contract - for the Tutuka power station in South Africa - worth some £200m.) It is not as if there are many markets which are expanding at this rate and which are genuinely anxious to buy British. I am not

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sure that if we failed to veto a "dual purpose" embargo which went beyond recognisably military equipment we would not seriously damage our opportunities in South Africa.

I am by no means convinced that if we make clear the importance to us of our substantial trade in, for example, computers of an essentially civilian character and the fundamental opposition in our Parliament and outside to reneging on contracts, our position would not be fully - albeit reluctantly - understood. On my recent visit to Nigeria I found a high degree of grudging respect for our trade policy towards South Africa, and we must not allow wild statements in the Nigerian press to mislead us into a policy of weakness. Surely if we do not stick to this principle there is no end to the compromises which we shall be pressed to make down the road of sanctions affecting normal civil trade, not just in South Africa?

My conclusion is therefore that we would be wrong to decide against a veto (either in company with the Americans and/or the French or alone) at this stage. Although I am wholly against using it if we can possibly avoid doing so, we must not let the impression be created either in the minds of our delegation at the UN or in those of our allies that this is our stance until the minimum changes set out in my note have been achieved. If they are not, we should reconsider the matter without having closed any options.

I am copying this minute to other Members of OD Committee, Keith Joseph, David Howell and Sir Robert Armstrong.

Department of Trade
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SOUTH AFRICA: THE EFFECTS OF AN EXTENSION OF THE UN ARMS EMBARGO

1 Our main concern relates to recommendations 2, 6 and 7 of the UN Arms Embargo Committee (although there are many other unsatisfactory features). The terms of these recommendations are as follows:

" 2 States should prohibit the export of spare parts for embargoed aircraft and other military equipment belonging to South Africa and the maintenance and servicing of such equipment.

6 All States should prohibit the export to South Africa of 'dual purpose' items, ie items provided for civilian use but with the potential for diversion or conversion to military use. In particular, they should cease the supply of aircraft, aircraft engines, aircraft parts, electronic and telecommunications equipment and computers to South Africa. Supplies of 4-wheel drive vehicles destined for the military or police forces should also be prohibited.

7 The term 'arms and related material of all types' should be clearly defined to include all equipment intended for the military and police forces of South Africa."

2 These recommendations extend the embargo beyond items of military significance to items essentially civilian in character that are destined for use - or even that are capable of use - by the South African military or police forces. Since there can be no certainty as to the precise terms of any Resolution until a vote is taken in the Security Council, and since the definition of "dual purpose" items is equally uncertain until that same time, it is doubly difficult to quantify the effects that any extension of the embargo might have on our normal civil trade with South Africa. Those effects would, however, be four-fold and would concern: dual purpose goods (as may come to be defined) which are currently outside the embargo, and the loss of the visible exports which they represent; the loss of invisible exports



represented by the revocation of maintenance or manufacture-under-licence contracts; associated claims for compensation or claims against ECGD because of the revocation of existing contracts; and the administrative burden caused by increased controls (principally export licensing).

Visible exports

3 The loss of exports if the items specified in recommendation 6 were to remain unchanged would be as follows:

| | <u>1979 exports to South Africa</u> |
|--|---|
| aircraft | £3m (not public knowledge) |
| aircraft spare parts | £1m |
| aircraft engines | £2m |
| electronic and telecommunications equip- ment | £12m |
| computers (see para 5) | £28m |
| 4-wheel drive vehicles (part kits for assembly in South Africa) | £12m |
| | ————— |
| | £58m |
| | ————— |

In addition, other exports - other dual-purpose equipment, and purely civilian items sold to the South African military and police - would also be at risk, but we have no means of estimating the value of this. (Moreover, our export figures for 1980 are running substantially higher than in 1979).

4 If the extension of the embargo were to apply to existing contracts, major current business affected would include the Plessey radar contract (from £60-100m). This contract was the subject of certain written assurances from the previous Government who told Plessey that HMG had no intention of preventing the export of the equipment if the contract was awarded to Plessey or another UK supplier. Although this did not amount to a guarantee no doubt the South African Government and Plessey would regard it as having moral force.



5 The impact would be particularly severe on ICL. Their South African business is growing. It represents 10% of their total turnover and they have 30% of the South African computer market. Computers (other than those integral to defence systems) are particularly susceptible to a wide interpretation of "dual purpose"; they are already supplied by ICL to the South African police for administrative purposes.

Invisible exports

6 Recommendation 3 would also require us to abrogate licensing agreements and would lose us some invisible earnings without any impact on the South Africans. It is impossible to estimate the loss of invisible earnings that would be entailed by implementing recommendations 2 and 3.

Claims for compensation

7 Insofar as any of the new sanctions applied retrospectively (ie to current contracts) UK businesses would incur losses and there would be pressure on HMG to pay compensation to the companies affected. To the extent that exporters are insured these claims would fall on ECGD. Their best estimate is that, on the basis of the present recommendations, insured claims could amount to £40m (of which Plessey would at present account for £26m). Uninsured exporters would also suffer loss and would no doubt pressure for compensation. Those uninsured losses might amount to at least as much again, bringing the total to perhaps £80-100m. If the proposed ban on nuclear collaboration in recommendation 8 were to compromise RTZ's interest in the Rössing mine in Namibia, or prevent the import of uranium by BNFL, there could be additional claims.

Administration

8 Recommendations 6 and 7 would involve a substantial increase in administrative work. Whatever definition of "dual purpose" items is finally negotiated there would have to be an extension of the items subject to specific export licensing, and there would



inevitably be an increase in the number of doubtful cases. Recommendation 7 would effectively prohibit the export of all goods "intended" for the South African armed or police forces. This could probably only be implemented by requiring a declaration from exporters to Customs that goods were not to their knowledge destined for the South African forces. Enforcement of this would be particularly difficult since some exports are distributed through agents or other intermediaries and in any case there would be no way of ensuring that goods were not diverted once they had passed beyond our physical control. Some machinery, however rudimentary and ineffective, would be required to monitor such an arrangement.

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