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Foreign and Commonwealth Office

London SW1A 2AH

19 July 1985

*Dear Charles,*UK Policy towards South Africa

In my letter to you of 2 July (not to others) on the question of a message to President Botha, I drew attention to the continuing problem of the growing build-up of international pressures for economic measures against South Africa. I mentioned that the Foreign Secretary was preparing a paper on the subject which he intended to forward to the Prime Minister.

I now enclose such a paper. Its objectives are to draw the Prime Minister's attention to the growing pressures on us to adopt at least limited economic measures against South Africa; to point out that there could be economic and political retaliation against us if we became isolated in resisting such measures; to suggest that in certain such circumstances proper concern for our interests might require us to consider adopting some such measures; to do this with reference to the possible measures involved; and finally to make proposals on how to carry the matter forward in Whitehall. The references in the paper to the possible costs to us of taking economic measures against South Africa are no more than illustrative, since an accurate estimate would only be possible after careful examination in Whitehall.

The Foreign Secretary believes that there is an urgent need for a coordinated Whitehall view on both the costs of any possible retaliation against us by other countries should we become isolated (eg by vetoing alone in the Security Council), and the potential costs to us of taking different economic measures against South Africa. He considers that Ministers might suddenly be faced by a need to take very rapid choices between these unpalatable alternatives and that it is important that the risks and costs in both directions should have been carefully weighed beforehand, if they are to reach the right decisions. The Foreign Secretary recommends that this work should be put in hand as soon as possible within Whitehall.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, the Secretary of State for Energy and the Governor of the Bank of England.

*Yours ever,**Les Appleyard*
(L V Appleyard)
Private SecretaryC D Powell Esq
10 Downing Street



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UK POLICY TOWARDS SOUTH AFRICA

INTRODUCTION

1. The pressures for concerted international action against South Africa have grown sharply during 1985. The shootings at Uitenhage, the lack of progress on Namibia and the recent South African raids into Angola and Botswana have all helped to stimulate these pressures. But it is the dramatic change in US Congressional and domestic opinion in favour of active opposition to apartheid and limited economic sanctions which has given them their new force. For the first time the United States, which has always been seen as the main obstacle to sanctions, is now widely perceived as giving a lead in their adoption. As a result an international bandwagon has started to roll.

2. The strength of the support for legislation in both Houses of Congress has been remarkable. On 5 June the House of Representatives adopted by 295 votes to 127 the Anti-Apartheid Bill which would ban new US bank loans to the South African Government, new commercial investment in South Africa, the import of Krugerrands and the export to South Africa of computers and computer technology. On 11 July the Senate adopted by 80 votes to 12 the Lugar/Dole/Mathias Bill which would impose an immediate ban on bank loans to the South African Government, the sale of computers to South African agencies involved in enforcing apartheid and the export of nuclear goods and technology. Further measures would be imposed in 18 months unless there was "significant progress" towards dismantling apartheid.

3. In response to South African events and the US lead a growing majority of Western countries have now adopted or are considering adopting further measures against South Africa. The French Prime Minister has said that France would be prepared to ban investment in South Africa unless South Africa puts an end to discrimination within 18 months to 2 years and there is domestic political pressure for France to announce some measures as early as this autumn. The Nordic countries have recently banned flights by Scandinavian Airlines to South Africa and

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are considering a more far-reaching programme of action. The Australians have said publicly that they would be prepared to support a call for sanctions both in the Security Council of which they are currently a member and at CHOGM. New Zealand seems likely to go along with such action. The Canadians have just announced a tightening up of existing measures including the abrogation of the Canada-South Africa double taxation agreements with the possibility of further sanctions after a review of policy towards South Africa. In discussion at the Milan Summit we were isolated among the Ten in opposing references in the final communique to possible further measures and to strengthening the Code of Conduct.

4. At the UN in June there were three debates on South Africa in the Security Council. After the debate on Namibia the Council adopted Resolution 566 urging member states to take "voluntary measures" against South Africa and warning the South Africans that failure to implement SCR 435 would compel the Council to consider the adoption of mandatory sanctions. The resolution calls for the Secretary General to report by the first week of September and a further Council meeting is likely thereafter, though its timing is uncertain.

5. The South Africans appear so far to be undeterred by these growing pressures. We cannot be certain what if any effect they will have on South African policy. But on past form it is likely that in the short term at least they will continue with their present policies or if anything harden them. In particular, they have made it clear that they will continue to attack ANC terrorists wherever they are located. The likelihood is therefore that the situation will deteriorate further.

PROBLEM SCENARIOS

6. Expected or possible developments which will greatly increase the pressure on us to change our policy towards South Africa and adopt some form of measures include the following.

- (a) The passage of US legislation on economic measures. It is now expected that Congress will pass legislation possibly this month, but more probably after the summer recess. If it does, President Reagan may well not veto it and there

will be immediate international attention on whether others, like ourselves, are prepared to act similarly.

- (b) CHOGM. We can expect a concerted Commonwealth attempt to get us to agree a reference to some form of economic measures in the wording of the communique. We could well be alone in resisting this.
- (c) There is a continuing possibility of further South African raids against their neighbours or violent acts of internal suppression either of which would be followed by strong calls for specific UK action.
- (d) A further Security Council Resolution. This could be a response to (a) or (c) or a follow up to SCR 566 on Namibia. Namibia provides the UN with a continuing locus standi for action against South Africa aimed at compelling it to relinquish that territory. The Security Council can also treat any new South African attacks against its neighbours as a threat to international peace and security requiring Chapter VII action. Over apartheid the Council's legal position is less clear since it is dealing with the internal system of a member state. The context for Security Council action could thus vary considerably although the underlying motive would be much the same. In the most difficult case the Council would call for limited mandatory measures which other Western members could accept, or alternatively propose taking certain mandatory measures unless South Africa made certain specified changes within a specified time frame (eg 1-2 years). The State Department have assured us that the US Administration intend to veto any mandatory sanctions in the Security Council. However we cannot be sure that this position would hold for a very limited package or if some intervening South African provocation had changed the atmosphere in Washington. Ministerial decisions might suddenly be required on whether to veto alone (and risk facing the reality of political and economic retaliation by other countries) or go along (at some cost and possibly setting a most unwelcome precedent).
- (e) Growing pressure in the Ten. All our EC partners are likely to support some form of action against South Africa, particularly if the Americans take action. The pressure

would be for measures to be decided by the Ten in Political Co-operation on the economic/political but non-trade front (agreement on trade measures by the Community as a whole would be more difficult; Greece and Denmark, for example have in the past opposed retaliatory trade measures taken for political reasons).

ARGUMENT

7. We continue to believe and to argue publicly that economic measures are unlikely to be effective in getting the South Africans to change their policy. The South Africans have long prepared themselves both mentally and economically to withstand such pressures. Indeed, there are good arguments that such measures would be counter-productive and serve only to strengthen the influence of more reactionary elements in South Africa. They would moreover be difficult to enforce. They would hurt the black community and South Africa's black neighbours. And their economic impact might be to increase unemployment and so feed the cycle of violence. These arguments have considerable strength. But they are not likely to change the views of those, including some of our Western partners, who feel compelled for domestic or other reasons to take concrete action against South Africa. They are also challenged by some black leaders in South Africa and by the Front Line States both of which argue that they would be prepared to make the necessary sacrifices. The supporters of sanctions will point to the fact that it is impossible to say categorically that the South Africans would never be prepared to make some concessions in response to the threat or real prospect of increasing international isolation and a lowered standard of living. They are also likely to argue against us that we have no other positive short term solution to offer; that the point has been reached where "something" has to be done and that limited measures could have a salutary psychological impact. It will be pointed out that we accepted the mandatory arms embargo, that we endorsed mandatory sanctions against Rhodesia and that we argued strongly for sanctions against Iran, the Soviet Union and Argentina. In each case we subordinated our (and others) economic interests to the consideration that for political reasons some action had to be taken.



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8. Given the strength of the international pressure for at least limited economic measures there may be certain circumstances where it could be more costly to us politically and economically to stand out against these or any future consideration of them than to go along with them. It then becomes a question of weighing up the risks and costs in both directions taking into account the positions of other countries. This needs to be done in advance. We could be forced by circumstances to make very rapid decisions. These decisions will need to be as well informed as possible and co-ordinated beforehand within Whitehall. Sir J Thomson could be assisted at the UN in resisting a damaging new resolution by being given clear guidelines with which to negotiate an acceptable text.

ASSESSMENT OF POSSIBLE POLITICAL AND ECONOMIC RETALIATION AGAINST UK IF ISOLATED IN REFUSING TO TAKE ANY MEASURES

9. If Britain were the only major industrialised country to oppose the imposition of economic measures against South Africa, eg by vetoing alone, we should inevitably be identified by African and Non-Aligned leaders as the principal defenders of apartheid. We could also expect to be denounced by influential sections of opinion in Western Europe and North America. It would be impossible to insulate the effect of this from other international issues of importance to us. There would be a direct effect on our interests within the Commonwealth and at the UN (an example of this would be the likely loss of sympathy and support for our position on the Falklands). There would also be considerable domestic and Parliamentary criticism, particularly if our action was followed by active retaliation against our interests elsewhere in the world.

Extent and Scope of such retaliation

10. The immediate pressures for direct action against our interests would probably come from individual African countries. There could well be attempts to orchestrate such action in the Commonwealth, the OAU and the non-aligned movement. The extent and scope of such retaliation would depend on several factors: eg the particular nature of the South African offence for which sanctions was demanded; the nature of the sanctions demanded and vetoed; and the extent to which the UK was able to take alternative action such as other measures against South Africa which would reduce the

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criticism.

Countries taking retaliation against the UK

11. Within Black Africa, Nigeria is a natural pace-setter and its position would be crucial. The Nigerians know that our bilateral economic relations matter to us, and they have the means, eg through selective allocation of import licences, substantially to damage our interests there. UK visible exports were £768m last year (and £427m to April 1985); the book value of UK direct investment was about £700m when last measured in 1981 (and is now estimated to be over £2bn). This investment (other than in oil) yielded net earnings of almost £100m in 1983. ECGD cover totals £2.85 billion, and UK banks' exposure is \$2.5 billion. Logic and economic common sense shows that there would be considerable constraints on the Nigerians imposing sanctions: British-associated companies in Nigeria already have a majority of Nigerian shareholders; Shell (Nigeria) is needed to maintain oil output and sales; and Nigeria airways' determination to keep London as its centre for European operations will tend firmly to limit any attempt to retaliate against British Caledonian. The Nigerians also face acute balance of payments difficulties. Excessive discrimination, for example against new imports from the UK, would risk damaging the confidence of banks and others involved in negotiations over Nigeria's debt, and a suggestion of more extreme measures such as formally blocking remittances or expropriation of investments would seriously jeopardise Nigeria's prospects for attracting the finance it needs. However, opposition to apartheid has for Nigeria become akin to a crusade, and Nigerian reactions on Southern African issues will be determined by emotion, not logic. The Federal Military Government may well act first and think afterwards, and are quite capable of imposing economic sanctions over such an issue without regard to the consequences for themselves. There is the further risk that our commercial rivals will consider it in their own trading interests to mitigate Nigerian self-inflicted damage.

12. It is difficult to forecast how Zimbabwe, Tanzania and Zambia would react. The two last, like Nigeria, are in profound economic crisis. Our aid is important to Zambia, and our policies over Zimbabwe and now Mozambique have earned us considerable goodwill

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among the Front Line States. But Tanzania will be quick to condemn us and could go as far as to break off diplomatic relations. In general the Front Line States (apart from Angola) might prefer to limit their action to some quick, symbolic gesture. But once others, eg Nigeria, had taken a strong lead, they would in time feel bound to join no matter how reluctantly.

13. Outside Black Africa the reactions of leading non-aligned countries such as India and Algeria would be important. Communist countries, including Communist members of the non-aligned movement such as Cuba, would no doubt exploit the situation as far as they could. There would also be the opportunity for other non-aligned countries, which have axes of their own to grind with us, to egg on the others. Argentina for example might seek to influence the non-aligned against us.

Nature and effectiveness of possible retaliation

14. Retaliation could take two forms - political or economic. If the political reaction gathered momentum there could be increasing calls for economic retaliation to "teach Britain a lesson." The more isolated we were from our Western partners the easier it would appear to others to confine such action to Britain and British interests.

15. On the economic side retaliation could range from discrimination against UK trade to blocking of remittances to the UK and expropriation of UK assets. Government supported action against UK exports and contractors is the most likely widespread response. Future contracts would probably be more at risk than existing ones but current contracts might also be affected. If many countries operated an effective embargo on trade with the UK the effects could be substantial. Sub-Saharan African countries other than South Africa itself, the group perhaps most likely to take concerted action, took £1816m of UK visible exports (2.6% of the total) last year and also provided a large but unquantified market for UK services. Countries of the non-aligned movement, who might also be prevailed upon to take action as a group, took £10.7bn of UK visible exports (15% of the total), and, similarly a large amount of services exports. This compares with £1.2bn of UK visible exports

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to South Africa last year. Really effective action by either of these groups could therefore have a significant effect on UK trade flows, sterling, and ultimately on UK living standards.

16. Recent experience provides some examples. In 1980 the Saudi Arabian Government discriminated strongly against UK suppliers for a period following the 'Death of a Princess' row. A major diplomatic effort had to be made to restore the situation and there was considerable anxiety in British business circles. The trade figures suggested however that UK visible exports were little affected over the year as a whole. In 1981-83 Malaysia's public sector 'buy British last' policy had a significant but still limited effect on UK trade, with business lost estimated at somewhere in the region of 10% of the value of UK exports to Malaysia. Indonesia's sanctions against the UK in 1980-81 demonstrated that economic retaliation can be made substantially more effective if the political will were there. Much would depend on how actively governments pursued the policy and whether any official reluctance to buy British was confined to the public sector or had to take account of difficulties and cost of replacing British suppliers. Discrimination against British suppliers would probably not affect all or even most British exports to a particular country. But any such discrimination would provoke considerable concern among British firms and receive widespread publicity. We should be under great pressure to get such discrimination removed.

17. On the political side we could expect very strong criticism from the Commonwealth. Nigeria, Tanzania and others might seek to promote specific action to condemn us. The Bahamas, who will be hosts of CHOGM, are also known to be especially tough towards South Africa and apartheid. The OAU would be likely to take political action and a number of countries could be expected to respond to an OAU proposal that member countries should ask for the recall of the British Ambassador or High Commissioner. There would be the possibility of violence against the British High Commission or Embassy in certain countries, eg Nigeria, Tanzania, Angola, Zimbabwe. The non-aligned could be expected to orchestrate denunciation of the UK at their regular meetings and in the UN. There would be renewed pressure on the UK's status as a Permanent

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Member of the Security Council. We should not be able to prevent the adoption of resolutions by the General Assembly condemning us and calling on member states to take action against us. This would be particularly the case if we were perceived as having frustrated action by the Security Council in relation to Namibia for reasons which did not relate to our own national security interests.

LIST OF ECONOMIC MEASURES AND THEIR COST

18 . It may be useful at this point to illustrate the sort of economic measures against South Africa which have been under active discussion elsewhere and their likely cost to us. The list is not exhaustive and the assessment of their cost is at this stage no more than an internal FCO estimate intended simply for illustration. It would be necessary to examine many of the measures listed in EC and GATT terms to consider the legal constraints in departing from the general principles of freedom of imports, common rules for exports or freedom of inter-Community trade. The measures in a rough ascending order of severity for us are the following:

i) Prohibition of imports of South African minted gold coins.

Comment: No significant effect.

ii) Observance of an oil embargo.

Comment: In practice we already operate a ban on the export to South Africa of North Sea oil. But formal observance of a wider ban would bring the loss of £7m of petroleum products exports.

iii) Withdrawal of some or all of our trade promotion support facilities (including export promotion staff in South Africa, general BOTB facilities, ECGD services).

Comment: The withdrawal of staff/BOTB facilities would have some cost to us depending in part on what our competitors did. The withdrawal of ECGD cover would be more damaging. The latter would run counter to ministerial assurances that the availability of ECGD cover would be governed by commercial, not political considerations. The withdrawal of such facilities in our 12th largest export market could inflict serious damage on our Balance of Payments and export opportunities. The market is proportionately more important to us than to any of our competitors. The possibility of South African retaliation, perhaps by restrictions of payments, could not be ruled out.

iv) Suspension of air services to South Africa.



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Comment: The ending of South African flights to the UK might be acceptable but the ending of British Airways flights to South Africa would be commercially very damaging. It would be difficult presentationally to limit ourselves to unilateral action against South African Airways and allow British Airways to go on flying; in any case it would be open to the South Africans to take reprisals.

v) Ban on sale of computers and computer parts.

Comment: Potential loss of £80m p.a.

vi) Prohibition of new loans or other forms of credit to South African Government.

and/or Prohibition of new investment in and bank loans to the South African private sector.

Comment: South African dependence on short term loans, especially from the banks, could make them particularly nervous of a halt to such debt being rolled over. This might provoke them in the worst case, to force a default on outstanding debts to banks and other creditors while aiming to continue trading on cash terms. Any halt on new direct investment would put at risk annual net income flows of some £200m per annum to the UK.

vii) Disinvestment.

Comment: This would intensify the pressure on the South Africans to repudiate debts and to block remittances of profits and dividends. They might also nationalise foreign assets. UK bank loans of £5.5bn and ECGD insurance cover of £3bn are involved. The book value of direct investment is £2.8bn.

19. Other measures which have been mentioned if only as theoretical possibilities, include the following.

- i) Refusal to refuel South African aircraft.
- ii) Ban on ships bunkering.
- iii) Introduction of visa requirements for South Africans.
- iv) Restrictions on South African imports, other than gold coins.
- v) Restrictions on imports from South Africa by increasing tariffs and/or imposing quotas.
- vi) Refusal to trade in Rands.
- vii) Withdrawal of double taxation relief and other uses of tax system to penalise South Africa.
- viii) Prohibition of all nuclear trade and contacts.
- ix) Ban on high technology exports.

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x) Ban on telecommunications.

CONCLUSIONS

- Our policy towards South Africa has always aimed to avoid our being placed in a position in which we had to choose between damaging our considerable interests in that country and damage to our interests elsewhere. This remains our objective.

- We have sought to promote this objective by encouraging Western solidarity in resisting economic measures, by supporting peaceful change in South Africa, by keeping on good terms with Black Africa, by remaining actively engaged in the search for a Namibian settlement, and by encouraging peaceful relations between South Africa and its neighbours.

- However recent events, notably the growing unrest in South Africa, the US Congressional moves towards sanctions, South African attacks on its neighbours and the stalemate in the Namibia negotiations have greatly increased the likelihood of our being faced with the sort of choice we have sought to avoid. The international bandwagon for sanctions is gathering momentum among Western countries.

- There is little we can do to prevent this happening. Britain's ability to influence events in Southern Africa and the tide of international opinion on the subject is quite limited.

- If Britain is isolated in resisting limited economic measures, eg by vetoing alone in the Security Council, there is a significant risk of retaliation from certain Black African and other Third World countries. The inevitable outburst of international criticism could escalate into direct political and economic action against British interests (paragraphs 9-17 above). Nigeria's reaction would be particularly crucial. But the OAU and the Non-Aligned might both take concerted action. The most likely form of economic retaliation would be discrimination against British exporters. This could hurt us significantly if applied with real political will.

- Given that Ministers might have to make very rapid decisions (eg

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at the UN), we need to weigh up in advance, as far as possible, the relative risks and costs both of adopting (or agreeing to consider adopting) economic measures against South Africa (paras 18-19 above) and conversely of refusing to adopt them and incurring the sort of economic (and political) retaliation mentioned above.

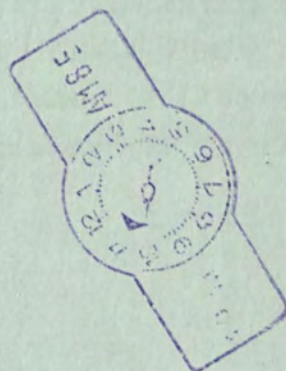
- In certain circumstances, where for example the economic measures were quite limited or deferred, and the risks of economic retaliation were judged to be serious, the adoption of some such measures could amount to the lesser of two evils.

- By acting earlier rather than later in this regard and in concert with our Western partners, we might be able to pre-empt both some of the criticism of us and calls for more far-reaching action. This could be particularly true in an EC context.

- It would seem that there is an urgent need for a coordinated Whitehall view on all this to which Ministers can refer as necessary if and when the occasion demands. This would not be the first time that such an exercise has been done in Whitehall. Considerable work was done on the matter both in 1978 and again in 1980. Much of this might only need updating.

- The Foreign Secretary recommends that such an exercise should be begun as soon as possible preferably chaired by the Cabinet Office and taking account of the views of all concerned Whitehall departments including the FCO, Treasury, DTI and Department of Energy as well as the Bank of England.

South Africa: Relations A5.



PRIME MINISTER

UK POLICY TOWARDS SOUTH AFRICA

*1 an scoop
Chief Butcher
soon - I understand
he is court sanctions
- prof*

The Foreign Secretary's paper attached - which you will want to look at over the weekend - deals with growing pressures for economic measures against South Africa and the risk of retaliation against the United Kingdom if we hold out alone against them. He envisages circumstances in which we might need to consider adopting some such measures to avoid worse.

He proposes that work be put in hand on the likely costs to us of both economic sanctions themselves and of retaliatory measures against the UK if we are isolated in opposing economic sanctions.

It may be prudent to do such work, though equally there is a real risk of leaks to the effect that we are considering sanctions - which will in turn only increase pressure on us to adopt them. One could argue that most of the necessary information to enable Ministers to take decisions is already available.

Moreover, the FCO Paper is written from a rather negative and defeatist point of view. Can a number of Black African countries really afford to retaliate against us, with the risk that we would in turn cut off aid? Can Black African countries neighbouring South Africa actually afford to participate in economic measures against South Africa? If we are driven to contemplate some action ought we not to try to focus attention on political/administrative rather than economic measures? Should we not be working harder to consolidate an alliance against economic measures (NB the State Department's assurance that the US would veto UN measures, even if it takes some limited measures of its own)? And simultaneously to bring coordinated political pressure on South Africa to avoid further incursions into neighbouring countries, which are most likely to provoke calls for economic sanctions?

CONFIDENTIAL

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There is also the consideration that your seminar in September may produce some options; we must not let the view get round Whitehall, let alone more widely, that we are resigned to economic sanctions.

You may like me to minute back on the lines of the attached.

Y
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C.D.P.

C.D. POWELL

19 July 1985

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