



10 DOWNING STREET

THE PRIME MINISTER

14 February 1983

Thanks  
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In view of MOD  
clarification  
return to me  
15/2

file

cc: IG  
fco  
HRT  
MOD  
VB

Dear Mr. News,

Thank you for your letter of 31 January in which you asked whether the Government intends to approve arms sales and financial aid destined for Argentina.

The position on the supply of arms to Argentina has been made clear on more than one occasion. There is a total embargo on the supply of any British defence equipment direct to Argentina. We have no intention of lifting this embargo until a formal cessation of hostilities has been agreed. The Westland helicopters which you mentioned are all covered by this embargo as I stated in the House on 29 November. However, in accordance with long standing contracts with one of our major trading partners, certain naval equipment is being supplied to Germany for installation in warships being built for Argentina. British components may have been used in other military equipment ordered by Argentina before the invasion of the Falklands and delivered subsequently. We are not aware of any cases where British components have been incorporated in military equipment ordered after the invasion and we would certainly take whatever steps are practicable to prevent this. However we must acknowledge that it is not always possible to control the final destination of a large number of small components incorporated in military systems sold widely throughout the world.

As far as your comments about the loans to Argentina are concerned, perhaps I should point out that Argentina is the world's third largest debtor country. She owes about \$39 billion and if she defaulted it would damage the prospects for growth and

/ employment

Bre



employment worldwide. I am surprised you want to risk that. Argentina owes money not just to us but also to many countries whose finances are in a parlous state, and there is a real risk of a domino effect. A default could for instance trigger the collapse of the precarious rescue packages put together in recent months for Mexico and Brazil, with incalculable results. I believe we have acted in a responsible way and in the long term interests of this country.

It would in any case be impossible to stop a determined Government from purchasing arms. But the very tight conditions of the IMF 15 month adjustment programme will limit Argentina's ability to do so. As I said in the House last Thursday, if Argentina defaulted and repudiated her debts she would most likely have more money immediately available to purchase arms.

Yours sincerely  
Raymond Shalton

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Stan Newens, Esq., M.P.



Bu nr 4/2

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

10 February 1983

Barry Neale Esq  
Ministry of Defence

Dear Barry,

Willie Rickett's letter of 2 February requested you to reply to the letter from Stan Newens MP to the Prime Minister about loans to the Argentine Government. I attach a draft contribution from HM Treasury on the question of the banks' support operation for Argentina.

Yours sincerely,

Jill Rutter

JILL RUTTER



DRAFT REPLY

CONTRIBUTION TO A DRAFT REPLY TO:

Stan Newens MP

FROM: The Prime Minister

LOANS TO ARGENTINA

I do not  
While I understand your feelings on the question of loans to Argentina,  
believe it would be right for the Government to seek to  
interfere with the decisions of the individual British banks  
involved in this international lending operation.

2. British interests would certainly not be served if  
Argentina were to default on her debt obligations. Apart from  
the direct impact on creditors here, there could be much wider  
repercussions on the stability of the international financial  
system and the prospects for recovery in world trade which would hit  
industry and employment in the UK particularly hard. I believe  
we have acted in a responsible way and in the long term interests  
of this country.

3. It would be impossible to stop a determined Government  
from purchasing arms. The rules of the IMF do not allow such  
restrictions to be attached to its loans. Even so, in supporting  
the IMF loans to Argentina we took into account the very tight  
conditions imposed by the Fund which will limit her ability  
to purchase arms, however financed.



MINISTRY OF DEFENCE  
 MAIN BUILDING WHITEHALL LONDON SW1  
 Telephone 01-~~930 7022~~ 218 6169

D/S of S/PS/10

10th February 1983

*Dear Willie,*

In your letter of 2nd February you requested a draft letter for the Prime Minister to send in reply to Mr Stan Newens' letter of 31st January about arms sales and bank loans to Argentina.

I understand that the Treasury are providing you direct with paragraphs on bank loans, and I attach with this letter some draft paragraphs covering our defence sales policy, which have been agreed with the FCO.

The draft paragraphs restate our general policy without covering the various points of detail about reputed sales to Argentina which Mr Newens mentions in his letter. However you may wish to be aware of the various errors made by Mr Newens; these are:

- a. There are only 4, not 6, frigates being built by Blohm & Voss; and the British equipment supplied for them does not include radar equipment.
- b. Rolls Royce 'Viper' engines are fitted in Aeromacchi jet trainers, but although we know that Argentina wishes to buy more of these aircraft there is no evidence that they have succeeded in acquiring any since last April.
- c. The order for the 8 Lynx helicopters for use in the 4 frigates building in Germany was cancelled in June last year, and the Prime Minister has made it clear that more of these aircraft will be supplied to Argentina (Official Report 29th November 1982, Col 18).

I am copying this letter to John Holmes (FCO) and John Kerr (HM Treasury).

*Yours ever,*

*B P Neale*

(B P NEALE)  
 Private Secretary

W F S Rickett Esq



DRAFT LETTER FROM THE PRIME MINISTER TO MR STANLEY NEWENS MP

Thank you for your letter of 31 January in which you asked whether the Government intends to approve arms sales and financial aid destined for Argentina.

The position on the supply of arms to Argentina has been made clear on more than one occasion. There is a total embargo on the supply of any British defence equipment direct to Argentina. We have no intention of lifting this embargo until a formal cessation of hostilities has been agreed. The Westland helicopters which you mentioned are all covered by this embargo as I stated in the House on 29 November. However, in accordance with long standing contracts with one of our major trading partners, certain naval equipment is being supplied to Germany for installation in warships being built for Argentina. British components may have been used in other military equipment ordered by Argentina before the invasion of the Falklands and delivered subsequently. We are not aware of any cases where British components have been incorporated in military equipment ordered after the invasion and we would certainly take whatever steps are practicable to prevent this. However we must acknowledge that it is not always possible to control the final destination of a large number of small components incorporated in military systems sold widely throughout the world.

*As far as your comments about the loans to Argentina are concerned, perhaps I should point out that X — X*





s 18-19, Monday 29 November 1982

#### Exocet Missiles

Mr. Dalyell asked the Prime Minister if she has made representations to the Government of France at the export of Exocet missiles to Argentina.

The Prime Minister: As my right hon. Friend the Secretary of State for Defence said in the House on 22 November, our views about this have been made very clear to the French Government.

#### Argentina (Arms)

Mr. Dalyell asked the Prime Minister what information she has as to resumed supplies of arms by the Government of France to Argentina.

The Prime Minister: The French Government have resumed the supply to Argentina of certain arms and equipment in fulfilment of existing contracts previously subject to their embargo on arms sales to that country. We have made our views about this very clear to the French Government.

Mr. Dalyell asked the Prime Minister whether the supply of: (a) radar control equipment by British Aerospace, (b) Olympus gas turbines by Rolls-Royce and (c) electronic propulsion control systems by Hawker Siddeley Dynamic Engineering and British Aerospace to Blohm and Voss of Hamburg for installation in the two guided missile destroyers being built by it for Argentina was approved by Her Majesty's Government, in view of the continuation of a formal state of hostilities between the United Kingdom and Argentina.

The Prime Minister: I assume that the question refers to the four frigates being built by Blohm and Voss for Argentina. Approval for the supply of equipment by British manufacturers was given before contracts were signed in 1980. Delivery of the Olympus gas turbines and their control equipment for the first two frigates had been completed before the invasion of the Falkland Islands. An embargo on all further deliveries was then imposed, but this embargo was lifted at the end of August.

No radar control equipment has been supplied or been contracted for supply for these frigates.

Mr. Dalyell asked the Prime Minister if she is satisfied that Westland Lynx helicopters manufactured in the United Kingdom are not being supplied to Argentina while a formal state of hostilities persists.

The Prime Minister: Yes.

Mr. Dalyell asked the Prime Minister what was the size of the United Kingdom loan to Argentina to assist in the purchase of two destroyers to be built in a West German yard; and how much is still outstanding.

The Prime Minister: We have no knowledge of any United Kingdom loan to Argentina in respect of the purchase of destroyers built in the Federal Republic of Germany.



From: Stan Newens, M.P.



HOUSE OF COMMONS  
LONDON SW1A 0AA

31st January, 1983.

The Rt. Hon. Margaret Thatcher, M.P.,  
Prime Minister,  
10 Downing Street,  
London, S.W.1.

Dear Mrs. Thatcher,

On Wednesday, 27th January, at the conclusion of the debate on the Franks Report, you stated in connection with our relations with Argentina over the Falklands dispute

"First and foremost, the Argentine Government must commit themselves fully and unequivocally to a cessation of hostilities. That has not happened ... If and when Argentina makes a clear declaration that hostilities are at an end there will have to be a period in which I hope they will be prepared to work towards a full normalisation of our bilateral relations."

The next day in an exchange at Question Time, in which I was involved, you defended the participation of British banks in an IMF loan to Argentina on the grounds that it was "in the interests of this country and the Western system".

After denying that money was loaned for the purchase of armaments, you later accepted that if money is loaned for one purpose it releases money for another purpose, i.e. the purchase of arms.

I have always opposed the supply of arms to the Argentine junta - under Labour or Conservative Governments - but the issue we are facing at this moment is whether this country will continue, under your administration, to give financial support to Argentina while it continues to purchase arms from abroad and whether it will permit British firms to supply components required to fulfil orders placed for military equipment by the Argentine authorities.

In the light of our experiences and the tragic loss of life in response to Argentinian aggression, I believe that most British people would deplore your approval of this trade which it is impossible to reconcile with other utterances you have made on relations with the Argentine.

As I pointed out in my speech to the House of Commons on Tuesday evening, Rolls Royce engines, Hawker Siddeley engine controls, David Brown gear components, and radar equipment from other British firms have been or are in process of being supplied for use in six frigates being built at Hamburg for the Argentine navy.

Engines for Italian Aeromachi jet trainers destined for Argentina also come from Britain. British Aerodynamics supplies the nose cone for Exocet missiles; optical equipment and radar components also used in this weapon are provided by British manufacturers based in this country.



A considerable number of additional British firms are also said to be involved in military supplies destined directly or indirectly for Argentina. Westland Helicopters, with which Lord Aldington, a former Chairman of the Conservative Party and a junior minister, has close connections, was originally under contract to supply eight Lynx Helicopters - which were not delivered (although there is some dispute about four of these). The British Manufacture and Research Co. in your native Grantham previously supplied ammunition for some of the weapons carried by these helicopters and others. Geoffrey Pattie told Doug Hoyle in a Parliamentary Reply dated 21st April, 1982, that naval spares were dispatched on 19th February and 22nd March, 1982, though not thereafter. Many British suppliers have been involved in one way or another with military purchases by the Argentine Junta..

The previous policy of your Government is not in doubt. Sir John Nott, as Minister of Defence, stated

"I regret that there are many dictatorships in the world, and if we sold defence equipment only to countries with our constitutional arrangements our sales would be very small." (Hansard, 21st July, 1981, col. 156.)

You yourself intimated on 3rd September, 1980, that British arms sales were not enough and the Defence Sales Organisation has arranged for its staff to visit Latin America on numerous occasions since you assumed office.

If, however, your Government continues to make funds available to Argentina while the Junta buys arms overseas, and permits British firms to supply weapons or components to the Junta, this can in no way be justified by the claim that "it is not in our interests that there should be defaults either on capital or interest on any of the debts of Latin America", as you stated in the House last Thursday.

We should, of course, work for the normalisation of relations with a democratic Argentina, for overcoming the world banking crisis, and for assisting the developing countries, both by trade and aid. This does not, however, mean rearmament of the Argentinian Junta after its aggression against the Falklands - not to speak of its innumerable murders of Argentinian citizens.

I should be most grateful if you would indicate whether you still intend to approve arms sales and financial aid destined for the Argentine Junta.

Yours sincerely,

  
Stan Newens.