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PM/82/25

Prime Minister

Falkland Islands: Economic Measures

1. We should now decide what economic and financial measures can be mobilised against Argentina to bring further pressure on them to withdraw from the Falkland Islands.
2. The UK's ability, on our own, to inflict damage on Argentina is limited. Action can only be effective if taken in conjunction with our partners in the Community and beyond including, most importantly, the US, Japan, Canada and Australia.
3. Our partners will be sympathetic but reluctant to take action damaging to their own economic interests. To secure early action we must handle this in a way which makes it as easy for them as possible. With our Community partners, in addition to the arguments about the flagrant violation of international law and the Security Council Resolution, we have the strong argument that the invasion of the Falklands was of a territory specifically covered by Part 4 of the Treaty of Rome as a dependent territory of a Member State.
4. In the commercial field the most effective measure we could take would be a total ban on Argentine exports to Britain not already shipped when the invasion took place. This would make a strong impact on our partners. But if we should ask them to follow suit, they are unlikely to be willing to go that far. They should certainly be ready to impose an arms embargo. It ought to be possible to get them to take limited trade measures, notably by banning selected agricultural imports from Argentina. As far as the Community is concerned, these consist mainly of beef (to Germany and the UK) and cereals. Several of our Community partners might welcome this

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action on CAP grounds. Our partners might also be ready to take action on textiles, footwear, clothing and steel since these are all sensitive products. Beyond that, we could reasonably ask them to withhold guarantees on export credits to Argentina, as we are doing ourselves. To the extent that the Argentine economy is in a fragile condition and that financial confidence will have been shaken by their decision to invade, our partners may be readier to consider action in the field of export credit. These measures would do the most damage to Argentina by restricting foreign exchange earnings, although we should have to accept that the Soviet Union would no doubt buy their grain. In addition, our Community partners might be willing to strike Argentina from the list of beneficiaries under the Community's generalised preference scheme, which gives Argentina, along with other developing countries, preferential access to the Community's market.

5. Seeking wider trade-measures, like a complete embargo, would be problematical. The question is whether we should press our partners to go further and risk protracted discussion; or seek a quick decision on some initial measures, while leaving open the possibility of going back for more. In my view, we should do the latter.

6. The same considerations apply to measures in the financial field. We have frozen Argentine assets in the UK. We can ask our partners to do the same; if they agreed, this would be a serious blow to Argentina. But I doubt very much whether any will be prepared to go as far as this. You will recall that no other country was prepared to freeze Iranian assets when the Americans asked us to do so. Furthermore, the amount of claims by international banks against Argentina exceeds the assets they hold by about 4 to 1. Even so, I believe we could still inflict damage upon Argentina if we could persuade our partners to give guidance to their banks to make no new loans to Argentina. This would make it hard for them to finance

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their external deficit and counter the present outflow of capital; we could also frustrate any application they might make to the International Monetary Fund.

7. A further measure would be the suspension of air services in and out of Argentina, especially on trans-Atlantic routes. This would have considerable demonstrative effect, if it could be achieved. But we may wish to use commercial air services to evacuate British nationals: and in any case this measure could easily be circumvented by flights via other South American capitals.

8. On our approach, we should be in the strongest position to secure active support from our partners if we can inform them both of what we intend to do ourselves, and precisely what we want them to do. This would need to be related to the general context, including events in the Falklands themselves and the UN. I, therefore, recommend that you should send messages to the Heads of Government of our partners in the Community and the US, Japan, Australia and Canada, which would cover the following ground:

- a) Explain the political and other action, including action at the United Nations, which we have taken to bring about an Argentine withdrawal; and the need to reinforce this in the economic and financial field.
- b) Inform them that we have decided to impose a total ban on exports from Argentina to Britain in addition to the freezing of Argentine assets and the suspension of export credit cover which we have already announced.
- c) Seek supporting action from them (for our Community partners on the basis of Article 224 of the Treaty of Rome as in the case of Iran). Such action to consist of the measures described above.

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d) Action to be implemented nationally but coordinated as to timing and extent. To our Community partners we should say that we have called for an immediate meeting of Permanent Representatives following which we hope there will be early agreement.

9. I hope my colleagues will agree with the approach I have suggested. If so, we will prepared drafts for the messages. I propose that detailed positions be worked out by the officials concerned under Cabinet Office chairmanship as early as possible.

10. I am copying this minute to the Chancellor of the Exchequer, the Home Secretary, the Secretary of State for Trade, the Secretary of State for Industry, the Minister of Agriculture, the Minister of Defence, the Governor of the Bank of England and Sir Robert Armstrong.

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(CARRINGTON)

Foreign and Commonwealth Office

5 April 1982

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