

SPEAKING NOTE FOR THE SECRETARY OF STATE'S MEETING WITH SECRETARY HAIG ON THURSDAY 8 APRIL ON FALKLAND ISLANDS.

1. Grateful for Haig's visit. Great value of close Anglo-American relationship is that we can discuss difficult issues frankly. We look forward to President Reagan's visit in June.
2. Falklands crisis very serious indeed. Important not only to us, but to the US too, not least because it takes place in the American hemisphere.
3. The issue is simple. The Argentine forces have invaded British territory against the clearly-stated and unanimous wishes of the inhabitants in defiance of a UN Security Council call for restraint. They have refused to withdraw despite a mandatory Security Council Resolution instructing them to do so.
4. The Government have only one objective: an immediate Argentine withdrawal and the restoration of British administration. Neither public nor parliamentary opinion would permit the Government any other course, event if it wanted.
5. We do not want to fight: no country would. But if the military option is the only one left to us we shall have to exercise it.
6. Of course we are willing to resume negotiations about substance. But not under duress and not while the Islands are occupied.
7. Question therefore is how to put continuing and increasing pressure on Argentina to withdraw. We have taken various measures and have encouraged our many friends to do so. Response so far

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quite encouraging, but we hope for much more.

8. Most grateful for US assistance so far, eg. President Reagan's intervention with Galtieri. Continuing US support crucial. US has enormous potential influence with Argentina and US words and deeds will have great effect on other countries too. Surely as much in US interests as our own that illegal and naked aggression of this kind should be firmly countered.

9. Very much hope therefore that US will give urgent and sympathetic consideration to Prime Minister's recent message to President Reagan asking for US economic measures against Argentina. We believe that they may be vulnerable to financial measures. Firm action would bring invaluable pressure on Argentina and would be an example for others to follow.

10. Grateful for ideas on other ways in which pressure might be imposed on Argentina. Have carefully considered, but have discounted, further action at UN. Most unlikely to succeed and serious risk of diluting Security Council Resolution 502.

11. How does Haig think Galtieri will react to clear and unequivocal British position? What are Argentine intentions likely to be? Is there any chance of Galtieri being replaced in the next couple of weeks? If so, would it be by more moderate forces, or as we suspect by more militant ones?

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12. Hope Haig will make absolutely clear to the Argentines, the Government's firm stance and the mood of the country. The Argentine Government and its people must be absolutely clear of the strength of feeling on this issue.

13. We should of course be very grateful for US reports on Argentine views.

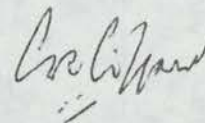
Private Secretary

FALKLAND ISLANDS: MR HAIG'S VISIT TO LONDON.

1. Earlier this afternoon I submitted a speaking note for the Secretary of State's use at his meeting with Mr Haig tomorrow. I now attach background notes on the following subjects:

- A i) international reaction following the invasion of the Falkland Islands;
- B ii) action in the United Nations;
- C iii) economic measures against Argentina;
- D iv) Argentina: Vulnerability to US pressure on economic and financial matters and military supplies.

2. After consultation with Departments I recommend that the Secretary of State need not raise any other subjects with Mr Haig on this occasion.



C S R Giffard

7 April 1982

cc: PS/All Ministers
 PS/PUS
 Sir A Acland
 Sir I Sinclair
 Mr Bullard
 Mr Wright
 Lord Bridges
 Mr Ure
 Mr Gillmore

Heads Of:

UND
 Defence Department
 Planning Staff
 News Department
 ERD
 ECD(E)
 NAD
 Mr Fearn, Emergency Unit

INTERNATIONAL REACTION FOLLOWING THE INVASION OF THE
FALKLAND ISLANDS.

Favourable

The UN Resolution has received a wide measure of support both officially from governments and unofficially in the press. In general, the importance of not resorting to force tends to be given greater prominence than the condemnation of the Argentine violation of the principle of self-determination.

The United States have responded helpfully but are attempting to maintain impartiality. President Reagan described the conflict as one between two friendly nations. But both Haig and Weinburger have subsequently made clear that the UK cannot be equated with Argentina as an ally. The Americans have made the point that if they are to exercise influence with the Argentines they cannot come out as clearly on our side as they would wish. The Americans have assured us that no further arms deliveries will be made to Argentina.

Our European partners have issued a statement jointly condemning the invasion. We also have records of individual statements of condemnation by all except the Irish and Greeks (a statement from the Greeks is expected). M Mitterrand has sent a personal message of support. The Belgians are withdrawing their Ambassador from Buenos Aires and they and the Germans have imposed embargos. Our partners are considering sympathetically our request for economic and political measures against Argentina and we hope that decisions will be made soon. Denmark is known to be thinking specifically of

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withdrawal of ECGD type credits. Of other European states, Austria has suspended a delivery of tanks to Argentina. The Spanish continue to support the Argentinian case though to oppose the use of force.

Support is most widespread in the Commonwealth. The Caribbean and African members are almost unanimous in condemning the violation of the principle of self-determination. New Zealand has broken off diplomatic relations. Australia has recalled its Ambassador for consultations. Canada has also recalled its Ambassador, declared an arms embargo, cancelled official visits to Argentina, and passed a unanimous resolution in Parliament condemning the invasion. India's response has been rather guarded.

Neutral There is little or no support for the Argentinian resort to force: among the countries that have stressed the need for a peaceful solution are Japan, Austria, Finland, Nepal. East European states such as the GDR, Poland and Yugoslavia have also stressed the need to avoid conflict. Saudi Arabia, Malaysia and Israel have so far refused to be drawn. China has not gone beyond the explanation of her abstention in the Security Council. The Soviet Union appears to be leaning towards Argentina and has spoken of Britian's illegal occupation of the Islands in 1833.

Unfavourable Latin American support for Argentina's claim is almost total. But there has been little support for her resort to force. Chile has taken an anti-Argentinian stance. Brazil has refused but has offered to mediate as has Colombia in the OAS. Paraguay has remained publicly neutral. Mexico, while privately condemning the

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use of force, is not prepared to say so, and Venezuela, bearing in mind her own claim to a large part of Guyana, has reacted predictably unhelpfully, though she has stopped short of outright support for the Argentinian action. Uruguay has declared muted support for Argentina.

Foreign & Commonwealth Office

7 April 1982

ACTION IN THE UNITED NATIONS.

1. The Security Council resolution calling for the cessation of hostilities, immediate Argentine withdrawal and resumption of diplomatic discussions was adopted on 3 April by 10 to 1 (Panama) with 4 abstentions (Spain, China, Soviet Union, Poland). Since the resolution was passed under Chapter 7 of the Charter Argentina is legally bound to comply.

2. We now intend to stay away from the Council, despite Argentina's rejection of the resolution. Our effort to mobilise pressure on the Argentines through bilateral contacts is more likely to be successful than a further resolution of the Council. We are sure the Russians would veto a sanctions resolution.

3. As the task force moves south pressure is likely to mount for a Security Council call on us to refrain from using force, despite our undoubted right to take action in self-defence. This would be completely unacceptable and we count on the US to help us deflect any such move. We shall not get a peaceful solution if we do not maintain our leverage.

Foreign & Commonwealth Office

7 April 1982

ECONOMIC MEASURES AGAINST ARGENTINA

A. Measures Taken by HMG

1. Hitherto we have:-

- (a) Frozen Argentine financial assets in London. These may total about \$1.4 billion, one quarter of their holdings in OECD countries.
- (b) Ceased to give export credit cover on new commitments to Argentina.
- (c) Banned all exports of arms and military equipment to Argentina.
- (d) Banned all imports of goods from Argentina, as from midnight 6 April. (Our imports from Argentina in 1980 were £114 million; our exports £173 million.)

2. We can at any time withdraw the operating permit for Argentine Airlines to fly to London (they have two flights per week). We have recommended separately today that this be done.

B. Supporting Measures by our Friends and Partners

3. Economic measures will hurt Argentina much more if they are taken by a wide range of other countries in addition to the UK.

4. The Prime Minister sent messages on 6 April to the Heads of State/Government in Community countries, the United States, Japan, Canada, Australia and New Zealand asking them to support us against Argentina by banning arms sales, banning all or some imports, ceasing export credit cover for new commitments and giving no encouragement or incentive to their banks to lend to Argentina.

5. In discussions in the Community on 6 and 7 April, mainly on trade issues, we urged our EC partners to support our actions (the Falkland Islands are associated with the Community under Part IV of the Treaty of Rome). There has been a general positive response, especially on an arms embargo. It is possible that our partners will agree to a total import ban (though we would be content with a selective ban, eg on agricultural products). It is proposed also to exclude Argentina from the Community's generalised preference scheme. The Community will meet again on 9 April, with the aim of taking decisions.

C. Vulnerability of the Argentine Economy

6. The Argentine economy, though basically strong, has been poorly managed in recent years. There was negative GDP growth in 1978 and 1981 and inflation has been around 150% per year. The economy is vulnerable to financial pressure and denial of export earnings.

7. Argentina needs to borrow about \$17 billion during 1982. \$3 billion of this is to finance their current account deficit; the rest is to finance debt repayments falling due. \$4 to 5 billion is long-term debt; \$9 to 10 billion short-term debt, owed 50% to US creditors and 25% to the UK. \$3 to 4 billion will be needed over the next three months.

Economic Relations Department

7 April 1982

ARGENTINA: VULNERABILITY TO US PRESSURE ON ECONOMIC AND FINANCIAL MATTERS AND MILITARY SUPPLIES

1. The willingness of the US Administration to take measures against Argentina will depend on their political attitude towards the dispute and the role they see themselves playing in possible mediation. Their ultimate judgement may also be influenced by the attitudes of other Latin American countries, by the effect that sanctions might have on their relations with them, by their anxieties over developments in Central America, and by their obligations as a member of the OAS and as a party to the Rio Treaty.
2. But, given a political decision to introduce measures against Argentina, the US could act on visible trade or financial relations. Military supplies (see below) have been banned since 1978.

Trade

3. Of total OECD imports from Argentina in 1980 of \$4.1 billion, the US took some \$744 million (UK \$251 million). The US share represents some 9% of total Argentinian exports but less than 1% of US trade. The most important sectors were:

Meat	\$131 million
Sugar	\$ 97 million
Mineral Fuels, Lubricants, etc	\$106 million
Leather, Leather Manufactures and Dress Furskins	\$ 78 million
Textiles	\$ 12 million
Coffee and Tea	\$ 11 million
Manufactures of Metals	\$7.5 million
Non-Ferrous Metals	\$5.6 million
Miscellaneous Manufactures	\$ 21 million

Measures taken by the US to restrict imports from Argentina would have a significant effect, especially if taken in support of Community measures. The US have a long history of imposing embargoes. Trade measures by the US, as a major trading partner of Argentina, would do economic damage and serve as a shock to the Argentine Government. In the case of a selective

ban, the most telling measure, as with the Community, would be a ban on food and animal imports. This would account for over 3% of total Argentine exports and the US would find it easy to use alternative sources of supply. A ban on US petroleum product imports (around 1% of total Argentine exports) would also have a significant effect.

4. On the export side, the major sectors are commercial aircraft, chemicals and construction equipment. The UK have not asked for US action on exports nor are we taking action ourselves. If we were to do so, the fact that the major export sectors are all suffering in the current recession would probably influence the Administration's decision.

Financial

5. Of Argentina's total external debt of \$34 billion at end 1981, some \$7.5 billion was owed to the US. This compares with US liabilities of \$2.4 billion. The US is thus in a broadly similar position to the UK in that a freeze of Argentine assets would not cover possible claims.

6. Direct investment by the US in Argentina at end 1979 totalled \$1.9 billion. However, there has been substantial US investment in the petroleum sector in the last two years and the total would now be near \$3 billion. This compares with UK direct investment of some \$400 million.

7. US export credit exposure totalled \$1.8 billion in September 1980. Our Embassy believe that the Administration might agree to a suspension of new credits, justified on economic grounds. (They may press for general support for their efforts to reduce subsidised export credits both for countries like Brazil and for the Soviet Union.)

8. At present the US authorities neither encourage nor discourage lending to Argentina. If the US Government were prepared to advise banks in the US not to undertake new lending, this could have a serious impact. The Argentine borrowing requirement for 1982 is estimated at \$17.4 billion to finance short and long term loans, mainly from commercial banks. The role of US banks in Argentina's borrowing programme is demonstrated by the fact that, of about \$10 billion of short term loans maturing this year, over one half is owed to the US.

Military

9. Military supplies to Argentina have been banned since 1978 under a Congress Resolution passed on Human Rights grounds. There are contracts in the pipeline for spare parts for US equipment currently held by Argentina (notably helicopters, armed personnel carriers and carrier-borne aircraft). But these have been frozen by the Resolution. Nevertheless, some of these spares are believed to be trickling through. But even if the supply of spares from the US dried up completely, since this is fairly old equipment, it is likely that Argentina could quite easily obtain spares from dealers and possibly from neighbouring countries.

Foreign and Commonwealth Office

7 April 1982