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PRIME MINISTER

OD: THURSDAY 27 JULY

OD after Cabinet has two separate issues on the agenda:

- Argentina
- Sale of Hawk to Iraq

Argentina

There is a jumble of papers on Argentina from the FCO and MOD. The main issues which need to be discussed are these:

- has the Argentinian threat to the Falklands increased?
Menem made some bellicose statements during his election campaign. More recently he has sounded conciliatory. But we cannot afford to take a short-term view. If Menem runs into domestic trouble, he may turn attention back to the Falklands to divert people from other problems. Or he may make such an mess of things that the military will depose him, with a consequent increase in the threat. When it comes to capabilities, the JIC assess that Argentina is not presently capable of mounting an invasion - and the build-up of her military strength is something we would be able to monitor. But the possibility of hit-and-run attacks or incursions remains. All we can conclude is that in the short-term the threat is not acute: but Argentinian politics are notably volatile, and we cannot assume that the threat of some sort of action is diminished, at least until we have tested the Argentinian Government's intentions and seen them demonstrate by actions that they are putting the military option behind them.

- are the Falklands vulnerable to an Argentinian military threat, despite the heavy investment of the past few years? The Defence Secretary's paper suggests that there are still gaps in the defences in two crucial respects: low level radar cover against air attack is deficient in some sectors: and the bulk fuel installations are vulnerable to such attack or to action by special forces. OD needs to decide whether the risk is sufficient to justify extra expenditure to improve radar cover. In principle, we ought to take whatever action is necessary to close loopholes in our defences. It would also be useful if OD were also to confirm the continuing need for pre-emptive action to stop Argentina from acquiring arms which would increase its threat to the Falklands. This means above all continued persuasion of the US Administration, which is likely to become more difficult.
- in the light of the threat, are the proposed new RoE for the Falklands acceptable? The main change is to require proof of hostile intent rather than mere presence in the central zone before any action is taken, with the qualification that discovery of a submarine within the 12-mile limit will in itself be regarded as evidence of hostile intent. You have agreed to this and I am not aware of any objections from colleagues. The outstanding question is whether we should formally claim a 12-mile territorial waters' limit for the Falklands and if so when. In principle, it seems a perfectly sensible step to take. But we shall not want to do it in a way which can be presented by others as provocative in its timing and calculated to undermine or upset any tentative steps by Argentina towards a more conciliatory approach. There may be a case for taking the decision now to extend the territorial limit, but deferring implementation until we have tested Argentina's political intentions.

- how do we respond to the political feelers put out by Argentina? The signals are mixed, but there does seem to be an attempt by Menem - both in public statements and in private messages - to initiate contacts with the aim of improving relations. You have agreed to preliminary discussions in New York to explore Argentina's intentions. Whether we agree to move on to direct talks depends on two crucial conditions: on Argentine undertakings not to introduce the question of sovereignty, and not to challenge the existence of the Falklands Islands Conservation and Management Zone. You will want to get OD's support for a cautious and sober response to Argentinian overtures: and agreement that we should not rise to some of the zanier ideas being touted, such as a meeting between you and Menem in the United States.

Sale of Hawk to Iraq

You read the OD paper on this at the week-end. The more I think about it, the more dubious the proposition looks. We are being asked to give carte blanche to a distant and hazy sales prospect with very major political and financial implications for the Government. Iraq is run by a despicable and violent government, which has gloried in the use of CW, and a substantial defence sale to them would be seen as highly cynical and opportunistic. It would not sit easily with our robust attitude towards nasty regimes. It is not reasonable of the Iraqis to demand an open-ended assurance from us before negotiations even begin. It must be doubtful whether other countries to which we are selling Hawk - e.g. Saudi Arabia and Oman - would welcome supply to Iraq. And we would all too likely find ourselves with a substantial obligation on ECGD. All for a pot of gold which looks pretty uncertain anyway: its far from clear that the Iraqis can pay. I think you will find both the Chancellor and the Foreign Secretary opposed to the proposition as it stands.

This does not mean that OD need dismiss the deal out of hand. To do so could be damaging to our other commercial interests in Iraq. OD could ask for a much fuller assessment of the possible financial implications and of the nature of the assurances being sought. It may be that some of these points can only be established by preliminary negotiations with Iraq - in which case, it would have to be clear that the decision on whether to grant an export was not being pre-empted.

A Cabinet Office brief and full set of supporting documents are in the folder.

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