



Foreign and Commonwealth Office

London SW1A 2AH

12 April 1982

Dear Aive,

N. B. P. M.

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h.a.

Falkland Islands: Mr Haig's Visit Today

In paragraph 6 of my letter of 11 April I said that we would shortly provide a note about the economic measures towards Argentina which we would like the United States to take, and that the note might be given to the Americans at the end of the first session of today's talks so that the Americans could consider it during the recess.

I now attach a copy of the note. Mr Pym's view is that it might be tactically better not to raise the matter with Mr Haig at this stage: he would very probably argue that it would be counterproductive for the Americans to take action of this kind at a time when they are engaged in negotiations with the Argentinians. The Prime Minister may however wish to be aware of the background, and we shall continue to keep the Americans in the picture through ordinary diplomatic channels.

I am sending copies of this letter and its enclosure to the Private Secretaries to the Defence Secretary, Home Secretary and the Chancellor of the Duchy of Lancaster.

Yours ever
John

(B J P Fall)
Private Secretary

C A Whitmore Esq
10 Downing Street

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POSSIBLE US ECONOMIC ACTION AGAINST ARGENTINA

1. The Argentine economy is vulnerable to external pressure. Economic measures taken against it may therefore have an important impact on Argentina's behaviour in the present crisis.
2. In recognition of this, and of the need to show clearly the strength of international feeling about Argentina's unlawful and aggressive action in invading the Falkland Islands, the UK and a number of its partners and allies have taken quick and firm economic action against Argentina.
3. The UK has:
 - 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 imports of goods from Argentina.
4. The European Community has agreed to introduce a total ban on imports from Argentina. All our Community partners except Italy and Belgium (who are still considering the matter) have said that they are ready to cease granting export credit guarantees for new business. We hope there will be agreement among all our Community partners about ^{this} early this week.
5. Australia has decided to impose an embargo on imports and a ban on new credit.
6. These measures will have a serious impact on the Argentine economy. The European Community's action alone will affect up to 30% of Argentina's exports (worth \$2.5 billion in 1980). The measures, plus the shock to confidence

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given by Argentina's recent actions, will make it much more difficult for Argentina to borrow money.

7. It would increase considerably the pressure on Argentina, and thereby make more likely a settlement of the present dispute in accordance with Security Council Resolution 502, if the US were to follow the lead of those other of the UK's allies who have taken economic measures against Argentina. The US share of OECD imports from Argentina in 1980 represented some 9% of total Argentine exports, but less than 1% of US trade. The important 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.

8. We therefore hope that the US Administration will:

- i. ban imports from Argentina;
- ii. cease to give Government backing to export credit for new business;
- iii. discourage banks in the US from undertaking new lending to Argentina.