THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

OD(80) 53 COPY NO 44

19 September 1980

CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

# UNITED KINGDOM INTERESTS IN SOUTHERN AFRICA

Note by the Secretaries

In May of this year an Official Group was established, at the suggestion of the Foreign and Commonwealth Office, to consider the likely cost to United Kingdom interests of applying any economic or other sanctions which might be imposed on South Africa by resolution of the United Nations Security Council, and the likely political, economic and commercial consequences of vetoing such action; and to report to the Defence and Oversea Policy Committee.

2. The Group have now completed their work and their report is attached. It provides a factual analysis which may serve as background to the Committee's consideration of the Foreign and Commonwealth Secretary's memorandum (OD(80) 54) on the policy issues involved.

Signed ROBERT ARMSTRONG
R L WADE-GERY

Cabinet Office
19 September 1980

# UNITED KINGDOM INTERESTS IN SOUTHERN AFRICA

Note by Officials

## Introduction

1. The Group were invited to consider the likely cost to United Kingdom interests of applying any economic or other sanctions which might be imposed on South Africa by resolution of the United Nations Security Council, and the likely political, economic and commercial consequences of vetoing such resolution.

2. African, other Third World and communist countries have long demanded sanctions against South Africa to force it to end its unlawful occupation of Namibia and abandon apartheid. The West has resisted, apart from the mandatory arms embargo of 1977 (Security Council Resolution 418), arguing that sanctions would not achieve the desired changes of policy by South Africa, would harm black South Africans, South Africa's neighbours and the West, and destroy any hope of a peaceful settlement in Namibia. In 1975 and 1976 we, the United States and France, vetoed Security Council Resolutions proposing sanctions against South Africa as a means of moving South Africa to withdraw from Namibia. These vetoes had no significant repercussions on our relations with black African countries of that time. Since then there have been developments outside South Africa which have increased Western reluctance to use the veto (eg the greater emphasis which the Carter administration puts on human rights in foreign policy) and developments within South Africa that would increase criticism of its use (Soweto, Biko etc). We have also become directly involved in efforts to secure Namibian independence through elections under United Nations supervision, acting since 1977 in concert with the United States, France, Germany and Canada, who were the Western members of the Security Council that year. The Five continue to work closely together but the chances of a successful outcome remain slender. Meanwhile, with the resolution of the Rhodesian issue, the problems of Namibia and of South Africa itself have become the focus of sharper international attention. We have already, in 1977, consented to a mandatory resolution imposing an embargo on the sale of arms to South Africa.

3. It is not only the absence of rival attractions which is increasing the pressure. In Namibia the slow progress towards the kind of settlement being promoted by the Five is threatened on the one hand by South African preparations for a possible internal settlement and reluctance, in the face of differences within the governing National Party, to agree to put the United Nations Plan into effect; and on the other hand by the growing impatience on the part of the Front Line States (Angola, Botswana, Mozambique, Tanzania, Zambia, Zimbabwe and - an honarary member of the group - Nigeria). This is compounded by slowly escalating fighting between SWAPO, the main guerilla movement, and South African forces which have been striking at SWAPO bases and training camps and some civilian targets in Zambia and Angola. Within South Africa itself there has been renewed unrest. Meanwhile, the United Kingdom's position in relation to South Africa is becoming more delicate, partly because the balance of our economic interests has tilted towards Black Africa and partly because our key Western partners - especially the two who are permanent members of the Security Council, the United States and France - appear more reluctant than hitherto to join in a veto of either comprehensive or selective sanctions. It should not be assumed although South Africa clearly hopes that, if Governor Reagan were to win the United States presidential election, there would be a significant shift of United States policy in this area.

4. It was accepted, when Ministers agreed to sanctions on Iran, that this might well make it harder to resist eventual sanctions against South Africa.

5. The United Kingdom's primary aim has been and remains to avoid being forced to choose between acquiescing in the application of sanctions against South Africa and vetoing a sanctions resolution. But we may in the end be obliged to make the choice, which could be precipitated by a number of developments. Demands for sanctions may come to a head if: it becomes clear that South Africa is not willing to allow the United Nations Plan for Namibia to be implemented; there is fresh and severe repression in South Africa; South Africa makes a major attack on a neighbouring country; or South Africa is proved to have a nuclear weapons capability; or the United Nations Group of Experts, or the United Nations Arms Embargo Committee, present to the Security Council a strongly argued case for a ban on all nuclear contacts with South Africa, or an extension of the arms embargo, or both.





## British Interests at risk

6. The potential damage to British interests if we acquiesce in sanctions will of course depend on how comprehensive is the range of sanctions proposed. Similarly, the potential damage if we veto will depend on how far our action is publicly supported by our principal partners. In paragraphs 7 - 10 below the analysis of British interests at risk allows for the worst in either case; ie a total trade embargo on the one hand or a veto cast by Britain in isolation on the other. If less than the worst occurs, the damage will naturally be less; but there are too many variables for it to be possible to say how much less, in the case of any given scenario. But some factors relevant to less-than-worst possibilities are examined in paragraphs 11 - 13 below.

7. Annex I to this paper contains a detailed assessment of the economic interests that would need to be taken into account in deciding our course of action. These comprise: the trade, investments and raw material supplies at risk in Organisation of African Unity (OAU) countries and in South Africa (including Namibia) respectively; and the wider economic effects, and in particular the effects on employment in the United Kingdom of vetoing or not vetoing sanctions. In Annex II we examine, in less detail, the political considerations likely to be uppermost in the minds of a. leading Western countries b. OAU countries.

8. It is clear from these assessments that the costs to the United Kingdom are likely to be high, if we were to veto a sanctions resolution on our own or alternatively if we were to acquiesce in the imposition of sanctions. The following are the most significant points to emerge -

a. Exports United Kingdom exports South Africa are worth about £700 million a year, but those to OAU countries are over three times as large. Nigeria, the most militant of Black African countries on questions concerning South Africa, is our most important market on the continent. Britain's invisible earnings in the OAU countries are, at £1200m, twice as high as in South Africa. On both visible and invisible accounts, we are in surplus with both the OAU countries and South Africa. (Annex I, paragraphs 2-8, and 15-16).

b. Imports South Africa is a major world supplier of certain minerals critical to British industry (particularly engineering). Replacing these would take time and thus cause dislocation. Price rises would generally be involved. In several cases the only alternative source would be the Soviet Union. Some supplies could not be replaced at all. We appear to be rather more dependent on South Africa than our main competitors and to carry smaller reserve stocks than they do. The loss of South African supplies of fresh and canned fruit would cause short-term supply dislocation and substantial price rises for British consumers. United Kingdom imports from OAU countries are (at £1600m) three times the value of imports from South Africa. Most of these imports could be replaced relatively easily. (Annex I, paragraphs 9-14)

c. Employment Serious interruption of our export trade either with South Africa or with OAU countries would have immediate and substantial effects on employment in the United Kingdom, particularly in the engineering sector. There are too many imponderables to enable any reliable estimate of the increase in unemployment to be made, but its possible scale may be judged from the estimate that about 50,000 jobs are directly linked to United Kingdom exports to South Africa and about 150,000 to exports to OAU countries. In addition, if - as could happen - South Africa were to retaliate against the imposition of sanctions by withholding exports of minerals critical to industrial processes and especially to the steel and steel-using industries, this action would have further and probably more serious effects on employment. Their scale is even more difficult to judge, but, for example, in the steel industry alone - which employs some 300,000 people - a sizeable proportion of jobs would be at risk. These effects would be compounded by the cumulative effect on the world economy. (Annex I, paragraphs 4, 7 and 10)

d. Investment and Bank Lending Total British investment in South Africa (at over £4 billion) is probably somewhat higher than that in the rest of Africa. Because the South African economy is run efficiently, dividend payments (and indeed payments for goods





and services) are more reliable and prompt. (Annex I, paragraphs 17-19) United Kingdom banks are more exposed in South Africa than in the OAU countries. (Annex I, paragraphs 20-21)

e. ECGD The commitments at risk in the OAU countries are (at £2½ billion) over three times those at risk in South Africa. The ECGD Advisory Council is concerned, although not to the extent of being restrictive, about the scale of ECGD's exposure in South Africa in relation to large, slow-maturing projects. (Annex I, paragraphs 23-25)

f. In terms of our political relations overseas, the cost of vetoing sanctions on our own is likely to be much higher than that of acquiescing in them. African bitterness would complicate our relations within the Commonwealth and United Nations and perhaps with the Arabs (although the Arab world seems unlikely to use the oil weapon against the West over South Africa). Some of this antagonism would rub off onto the West generally, and could result in indiscriminate threats against white communities in Africa. While some of our partners might be relieved that their economic and other interests were protected if we were to take the odium of a veto, nevertheless our relations would come under considerable strain. Our partners might also fear that our veto could serve to increase Soviet influence elsewhere in Africa.

g. Our major Western partners have interests at stake of much the same kind and, with the exception of direct investment in South Africa, scale as our own and thus strong reasons for avoiding disruption in their economic relations with either part of Africa.

Complicating Factors

9. The consequences of imposing sanctions would be complicated by the following factors -

a. South African capacity to evade sanctions. Sanctions would be extremely difficult to police, even if the means were available, given that there would be a legitimate trade in embargoed items via South Africa to her northern neighbours. In contrast to the Rhodesian case, the United Kingdom would have no special responsibility for seeing that sanctions were applied.

b. Retaliation. Although South Africa might retaliate against the West, including the United Kingdom (by for example depriving the West temporarily of one or more key minerals), she would be unlikely to put her whole economic relationship with the West at risk. The dependence on South Africa of neighbouring African states for their supplies and transit routes gives South Africa a powerful additional retaliatory weapon which would provide those neighbours with a strong disincentive to applying sanctions. Any such retaliation would of course have damaging consequences for the United Kingdom's trade with South Africa's neighbours.

c. British compliance with sanctions. The division of opinion between supporters and opponents of sanctions would probably be more visible in the United Kingdom than elsewhere and the Government's freedom of manoeuvre more limited because of the openness of our parliamentary and trading procedures. Both the likely parliamentary controversy over sanctions legislation and any subsequent sanctions breaking by British firms would therefore be liable to attract a disproportionate amount of African odium, and thus undo some of the political benefits of not vetoing.

d. Response of OAU countries. It is particularly hard to guess how the Africans themselves would behave, given the number of African countries economically dependent upon South Africa. In the Rhodesian case, the African countries, especially Zambia, were in part bailed out by the West, in part left to pay the economic penalties of disruption, and in part excused from applying sanctions. But it seems most unlikely that the West would be ready to bail out the very much larger number of African states liable to be affected by South African retaliation





against sanctions. Nor would Nigeria, however militant. Equally, the Africans might find it difficult to maintain that a substantial part of the continent should be excused from applying a policy which they had themselves demanded.

10. The consequences of vetoing sanctions would be complicated by two quite different factors -

a. Any African embargo on British goods would be likely to be incomplete, because of the potential damage to those countries' fragile economies.

b. We would come under strong international pressure to change our policy. We should need to keep repeating our veto, and such repetition might in time generate a movement to deprive us of our permanent membership of the United Nations Security Council and hence the right to veto.

11. This assessment brings out the importance of doing all in our power to avoid the choice between applying or vetoing sanctions. Equally, it suggests that we need to work for solid opposition to sanctions from our Western partners, and to make clear to them that we cannot be expected to pull their chestnuts out of the fire by vetoing alone. We have to recognise however that France is very unlikely to veto unless the United States does so too, and that the United States cannot be relied upon to veto a selective sanctions resolution. It is possible, even likely, that African tactics in the United Nations would be designed to split the West and so, intentionally or not, to isolate the United Kingdom.

12. Although the United Kingdom's partners would probably resist a complete trade embargo they might be inclined to try to negotiate a package of limited sanctions. The Group therefore invited the Central Policy Review Staff (CPRS), who had done some previous work on the subject, to consider whether a package could be devised which was less costly in economic and political terms than an isolated United Kingdom veto, but might nevertheless be internationally acceptable.

The CPRS's report is attached at Annex III. The Group have not sought at this stage interdepartmental approval for the illustrative package set out in paragraph 13 of the CPRS report. But the CPRS analysis clearly provides a useful basis for discussion of the options should the need arise for rapid negotiation and decision. It must of course be recognised that, while the introduction of a limited range of sanctions would relieve the immediate pressure to take more damaging action, such pressure would re-emerge before long and might prove harder to resist. For this reason it would be important to obtain a pledge of United States and French vetoes of any future escalation of sanctions beyond the limits which we were prepared to accept.

13. Demands for additional sanctions against South Africa could be triggered by a variety of developments, such as those listed in paragraph 4 above. But it is not possible to say when such developments might take place, nor in what international atmosphere. However, these factors could be crucial for the type of sanctions called for and the degree of retaliation which a veto would entail. For example Zambia has put up with the presence of South African troops on her territory for considerable periods without even calling for a meeting of the Security Council; but it is easy to imagine circumstances - eg the assassination, attributed to South Africa, of an African leader, or an exceptional act of repression within South Africa - which would precipitate a violent reaction by the OAU countries. The reaction of the West would have to be worked out at the time and would depend on the wording of the draft Resolution. It is impossible to calculate in advance what balance of advantage and disadvantage would even approximately be involved. But it seemed safe to assume that a triple Western veto of a relatively extreme resolution would cause a number of African and Third World countries to hesitate before taking retaliatory action against the three Western powers.

CONCLUSIONS

14.

i. Britain would stand to lose very heavily either way if forced to choose between a breach with South Africa and a breach with OAU countries.





ii. In export terms Britain has much more to lose in the OAU countries; Nigeria alone is a bigger market than South Africa. But South Africa, unlike the OAU countries, is a vital source of British raw materials. Employment in Britain would be very seriously affected by a breach with either side. South Africa is more important in terms of British investments and banking. Politically, Britain would lose much more by a breach with OAU countries, and white communities in Africa might be endangered.

iii. A breach with OAU countries would almost certainly be the result of Britain on her own vetoing a South African sanctions resolution at the United Nations. It would be less likely if the United States also vetoed; and general Western opposition would reduce the danger somewhat further. Britain could probably not sustain for long a policy of vetoing repeatedly on her own.

iv. A breach with South Africa would be the inevitable result of accepting comprehensive sanctions. But the effectiveness of the sanctions would be limited by evasion and by the ambiguous position of South Africa's neighbours. A breach would be less likely in the event of limited sanctions and South Africa is unlikely to put at risk her whole economic relationship with the West.

v. In the event of a serious demand for sanctions, it might be possible to work out an initial package limited enough to avoid a complete breach with South Africa yet extensive enough to avoid a breach with the OAU countries. But such a compromise might not survive for long in the face of further crises and growing OAU ambitions.

vi. Britain's main Western partners face a similar potential dilemma. But they are less heavily invested in South Africa. Domestic political controversy would be less sharp than in Britain, and many Western countries might be better able to get away with extensive evasion. But there are also limits, such as a complete trade embargo, to what our partners would accept.

vii. Given the number of variables, the best course for Britain and the West in a sanctions crisis could only be determined in the light of circumstances at the time. But we must not delay our reaction to so late a stage that we have no hope of influencing either our partners or the African negotiators at the United Nations on the wording of Security Council resolutions. We shall need arrangements for quick decision taking in London.

15 September 1980





## ECONOMIC LINKS WITH AFRICA

### Introduction

1. This paper describes in broad terms the United Kingdom's economic links with South Africa and with members of the Organisation of African Unity (OAU) including the Arab countries of North Africa. The paper also looks at the potential threat to the United Kingdom's economic and political interests which might arise if the United Kingdom were to comply with a United Nations call for economic sanctions against South Africa, or alternatively as a result of retaliatory action by OAU countries if the United Kingdom were to veto sanctions. The paper does not attempt to define the nature and extent of any sanctions or retaliatory action and confines itself to a broad discussion of the areas at risk. However it includes some material about South Africa's economic links with, on the one hand, leading Western countries, and on the other, with the Black African States of Central Southern Africa.(1)

### UNITED KINGDOM EXPORTS

2. United Kingdom exports to OAU countries in 1979 were more than three times the value of exports to South Africa. Table 1 shows the division of exports in 1979 between OAU countries and South Africa (including Namibia).

TABLE 1: UK EXPORTS TO AFRICA 1979

| | 1979 (£ million fob) | % of total UK exports |
|---|---|---|
| South Africa | 715.1 | 1.7 |
| OAU countries | | |
| of which: | 2404.6 | 5.6 |
| North Africa | 831.2 | 1.9 |
| Rest of Africa | 1573.4 | 3.7 |

### Exports to South Africa

3. South Africa was the United Kingdom's 15th most important market in 1979 having slipped from 9th in 1975 and accounted for rather less than 2 per cent of total exports. In 1979, the United Kingdom provided 17.9 per cent of the imports of the Southern African Customs Union(2) ; slightly exceeding the United States share (17.7 per cent) but

(1) The detailed statistical appendices to the report (Ja 1421) of the Cabinet Office Assessments Staff, on which this Annex is based are listed at the end, but are not attached.

(2) The Southern African Customs Union comprises South Africa, Namibia, Botswana, Lesotho and Swaziland.

behind that of the FRG (18.7 per cent). The South African economy should grow by at least 5 per cent in 1980 (against 3.9 per cent in 1979) and the present economic boom is not expected to slow down until the end of 1981 at the earliest. United Kingdom exports in 1980 should benefit from this, approaching £1000 million.

4. The main product categories for United Kingdom exports to South Africa are manufacturing machinery, electrical machinery, and transport equipment, as well as a wide variety of semi-manufactured products and finished goods. United Kingdom industries which would be particularly hit if trade with South Africa were embargoed include heavy capital goods and high technology sectors employing skilled workers and with a high value added content. Manufacturers in these sectors face strong international competition and it would be difficult if not impossible to find alternative markets particularly as growth in the OECD area is expected to remain low over the next few years. It is estimated that approximately 50,000 jobs are directly linked to United Kingdom exports to South Africa. GEC calculated in 1978 that closure of the South African market would cost the jobs of 6000 - 7000 employees. An estimated 10 per cent of ICL's overseas sales go to South Africa, and Plessey, Babcock and Wilcox, ICI, BL and Hawker Siddeley also have substantial sales in South Africa; there are many more firms for whom South Africa is an important export market. A recent Department of Industry survey of the future international market for power stations estimated that 50 per cent (£2,000 million worth) of those contracts for which United Kingdom firms might be eligible to compete was accounted for by South Africa.

5. The United Nations introduced a mandatory arms embargo against South Africa in 1977. The United Kingdom interpretation of the embargo has not been as rigid as in some other countries (United States for example) and some items of "dual-purpose" civil and military equipment continue to be supplied. But sales of such equipment are now low and in 1979 the value of export licences approved was only £3.3 million of which £2.2 million was accounted for by an HS-148 aircraft for the Transkei.

Exports to OAU Countries

6. Commonwealth OAU countries, particularly Nigeria, are important United Kingdom markets as are Libya and Egypt. Exports to Nigeria alone were worth over £1000 million in 1977 and 1978: in 1979 they fell to £638 million but with the Nigerian economy responding to the oil price increases, they will most probably rise above £1000 million





again in 1980. Exports to OAU countries as a whole have grown rapidly in recent years (although the growth has been concentrated in a few countries) and in 1979 accounted for 5.5 per cent of United Kingdom exports worldwide with a surplus of over £700 million in the United Kingdom's favour. This year sales are generally up. Exports should be benefiting from the recovery of the Nigerian market and the opening up of Zimbabwe trade.

7. United Kingdom exports to OAU countries are mainly industrial and agricultural machinery, transport machinery, manufactured goods of various kinds and chemicals including fertilisers and insecticides. There is a wider spread of exports than to South Africa. High technology and heavy capital goods are important exports to certain OAU countries (Nigeria for example) but in general export products are less sophisticated and with a lower technological and value added content. It is estimated that approximately 150,000 jobs are directly linked to United Kingdom exports to OAU countries. As with the loss of sales to South Africa, in most cases the loss of OAU exports would be disruptive, rather than disastrous, for the industries concerned, but the extent of disruption would depend on the availablity of alternative export markets (ie whether action against the United Kingdom extended beyond Africa). Some medium-sized and smaller companies could be at risk if denied Nigerian business (including British Caledonian if they could not fly the lucrative Lagos route) and BL, Unilever, ICI, Shell, Dunlop and many others would suffer considerable losses.

8. Although current defence sales contracts amount to only £163 million the OAU countries offer a large market for the sales of defence equipment and arms with potential orders of over £1800 million.

UNITED KINGDOM IMPORTS

9. United Kingdom imports from OAU countries in 1979 were nearly three times the value of imports from South Africa; the division is shown in Table 2.

TABLE UNITED KINGDOM IMPORTS FROM AFRICA 1979

| | 1979 (£ million cif) | % of total UK imports |
|---|---|---|
| South Africa (including Namibia) | 554.0 | 1.1 |
| OAU Countries of which: | 1661.5 | 3.4 |
| North Africa | 481.6 | 1.0 |
| Rest of Africa | 1179.9 | 2.4 |

Imports from South Africa

10. South Africa is an important supplier of key minerals to United Kingdom industry. In 1978 it supplied (directly, and indirectly through other countries where processing takes place), 63 per cent of United Kingdom imports of chromium, 46 per cent manganese, 70 per cent of platinum group metals and 41 per cent of vanadium together with 76 per cent of antimony. The effect on United Kingdom user industries of disruption of these imports would depend chiefly on the duration of the disruption, on stock levels, on the availability of alternative supplies, and on the ease, cost and timing of possible substitution; and each of these factors is complicated by the fact that some minerals occur in several non-interchangeable forms that are used for widely differing purposes. Thus, South Africa accounts for over 95 per cent of our chemical grade chrome requirements and there is virtually no possibility of obtaining alternative supplies. There are no substitutes in the major applications of this material, in super alloys for the aerospace and nuclear industries, which would be severely affected once stocks of about 9 to 10 months' normal usage had been exhausted. For ferro-chromium, there are marginally better prospects of obtaining alternative supplies, possibly from Zimbabwe. Without this form of chromium, stainless steel could not be produced after stocks - BSC hold at present 3 months - had been exhausted. Prospects for obtaining supplies of manganese from elsewhere are again limited - the USSR is the major alternative source - and the iron and steel industry would be severely affected by loss of manganese, without which cast iron and steel cannot be produced. Average United Kingdom stocks are currently about 2 months. After they had been consumed, a decline in the availability of manganese would be translated directly into loss of steel production. A substantial proportion of the 300,000 jobs in the iron and steel industry would be placed at risk with potentially serious consequences for the wide range of steel users in the economy. In the case of platinum group metals, that the USSR is again the major alternative source greatly restricts the possibility of obtaining non-South African supplies. Supply disruption would severely affect United Kingdom refining and fabricating firms such as Johnson Matthey, where 2,000 employees could be placed at risk. After the several months' cushion represented by current stock levels there, users such as ICI, BP and so on would be affected; platinum is currently irreplaceable in nitric acid and plastics raw material production and oil refining. In the first two applications ICI hold an additional 7 months' stocks, but after these have been exhausted, serious consequences would result for the manufacture of explosives, nitrogenous fertilisers and artificial fibres. Perhaps 20,000 jobs could be placed at risk in ICI alone. Stocks of platinum catalysts held by the oil industry are currently in excess of 5 years and only prolonged supply disruption would affect that industry. The position for antimony and vanadium is somwhat less serious, since there are more alternative sources and the application of these metals are generally less critical, although both are essential to





artificial fibre production. The Department of Industry has undertaken a consultative exercise to explore with companies the desirability and practicability of measures such as stockpiling to relieve potentially damaging affects caused by supply disruption of these and other vulnerable minerals. A report will be submitted to Ministers during the autumn.

11. Other important supplies from South Africa include antimony (76 per cent of imports) asbestos (there is no alternative supplier for the amosite type of asbestos used in fire resistant boards) and woodpulp (on which Courtauld's production of cellulosic fibre is heavily dependent). South Africa also supplies 55 per cent of the United Kingdom's imports of gold and 73 per cent of diamond imports but for these commodities the United Kingdom is primarily acting as a marketing centre and they are not vital to United Kingdom industry. South Africa is also an important exporter to the United Kingdom of canned (32 per cent of imports) and fresh fruit; the loss of these would cause acute shortages, at any rate in the short term, and substantial price rises. The United Kingdom takes the major share of South African exports of fruit and would be affected far more than any other country if South African supplies were unavailable.

12. Any embargo on trade with South Africa would extend to Namibia and affect the United Kingdom contract for the supply of uranium from the Rossing mine. United Kingdom stocks of uranium stand at about five years forward requirements. If supplies from Rossing were to stop, but other supplies to continue, requirements could be met up until about 1990, without recourse to the spot market, or the conclusion of new long-term supply contracts.

Imports from OAU Countries.

13. The United Kingdom imports large quantities of a wide variety of foodstuffs (just under 10 per cent of total imported supplies) and non-food raw materials from OAU countries. The foodstuffs include coffee (78 per cent of requirements of coffee beans in 1979), cocoa beans (87 per cent), cocoa products (45 per cent), sugar (50 per cent) and tea (46 per cent). Significant raw materials include over 80 per cent of United Kingdom cobalt requirements from Zaire and Zambia; substantial imports of phosphate rock (essential in fertiliser production and for which there is no substitute) from Morocco, Senegal and Tunisia; 28 per cent of manganese ore imports from Gabon and Ghana; 15 per cent of tin from Nigeria and 21 per cent of copper from Zambia. Imports of crude oil from OAU countries are now insignificant accounting for just under 3 per cent of crude imports.

14. A successful embargo on United Kingdom imports of foodstuffs notably coffee from OAU countries would put some jobs at risk in the food processing industry. But given the difficults of finding markets to replace the United Kingdom an embargo is not likely to succeed. Alternative supplies of cobalt (used in ferrous and non-ferrous alloys) and phosphate rock would be difficult to find in the short-term but most other imports could be relatively easily replaced from non-African sources or by alternative materials without marked increases in price.

## INVISIBLE EARNINGS

15. Estimates of the United Kingom's invisible earnings in respect of South Africa and OAU countries are show in Table 3.

TABLE 3: UNITED KINGDOM INVISIBLE TRANSACTIONS WITH AFRICA, 1978

| | Invisible earnings (£ million) | % of UK total invisible earnings | Surplus (earnings less payments) (£ million) |
|---|---|---|---|
| South Africa | 608 | 3.3 | 419 |
| OAU Countries | 1206 | 6.4 | 746 |
| of which: | | | |
| North Africa | 286 | 1.5 | 175 |
| Rest of Africa | 920 | 4.9 | 571 |

16. Invisible earnings in respect of South Africa and OAU countries form a relatively small proportion of the United Kingdom's total invisible earnings but they do provide a healthy net surplus in the United Kingdom's favour. About 38 per cent of earnings from South Africa are accounted for by interest, profits and dividends (mainly from direct investment) but only 15 per cent in respect of OAU countries comes from this source and the latter are offset considerably by interest payments on the United Kingdom's sterling liabilities. Earnings from services such as shipping and civil aviation are significant in both groups (South Africa is British Airways' most profitable route) although much offset by outgoings in the case of South Africa. The surplus on transportation therefore accounts for only 8 per cent (£32 million) of the total surplus from South Africa but some 23 per cent (£172 million) of that from OAU countries. The invisibles account has also benefited from trading profits arising from London serving as the traditional marketing centre for most of South Africa's exports of diamonds and about 20 per cent of its exports of gold. In 1979 it seemed that much of the former trade was being routed though third countries although in 1980 there appears to have been a switch back to direct trade with London. Important debit items in respect of OAU countries were United Kingdom grants totalling £101 million in 1978.





## INVESTMENT

17. The United Kingdom's estimated direct and indirect investment in South Africa and OAU countries is shown in Table 4.

TABLE 4: UNITED KINGDOM INVESTMENT IN AFRICA, END-1978

| | (£ million) | % of UK total overseas direct investment |
|---|---|---|
| Direct Investment | | |
| South Africa | 2,700 | 10% |
| OAU Countries | 3,000-4,000 | 11-15% |
| Indirect Investment | | |
| South Africa | 1,400 | |
| OAU Countries | Negligible | |

18. The United Kingdom is the largest direct investor in South Africa with, at end 1978, an estimated 50 per cent of total direct foreign investment with a market value of about £2,700 million. Other important investors are the United States (20 per cent), Switzerland (7 per cent), FRG (5 per cent) Netherlands (3 per cent) and France (2 per cent). Some two to three hundred British companies operate in South Africa including BP, Shell, ICI, BL, Dunlop, GEC, Consolidated Gold Fields, Charter Consolidated and Lonrho. RTZ has a 46.5 per cent shareholding in Rossing Uranium Ltd which operates the Rossing uranium mine in Namibia. There are also substantial banking investments which are more than twice as large as those in the rest of Africa. In addition to direct investment, United Kingdom indirect investment in South Africa is tentatively estimated at £1,400 million of which about £800 million is portfolio investment and the rest accounted for by short term and trade investments. Following the economic and political uncertainties of 1975 and 1976 a number of United Kingdom companies either withdrew or reduced the level of their investment in South Africa. Since the beginning of 1979, with more expansionary economic conditions, this trend appears to have halted although investors are expected to remain cautious.

19. The market value of United Kingdom direct investments in OAU countries is estimated very broadly to be £3,000-£4,000 million, of which about £2,000 million is in Nigeria where 40 per cent of all foreign investment is from the United Kingdom. Investment in Nigeria covers banking, insurance, trading and manufacturing and involves,

amongst others, United Africa Company, Patterson Zochonis, Lever Bros., BL, Dunlop, Guinness, ICI, Metal Box, Pilkington and Portland Cement. No exact figures are available but investment in other Commonwealth countries is also substantial including possibly £800 million in Zimbabwe and £500 million in Kenya.

BANKING

20. Six United Kingdom banks have subsidiaries in South Africa: in 1978 the profits generated by these banks amounted to some £40 million, of which £20 million was remitted. The investments of three of these banks (Barclays, Standard Chartered and Hill Samuel) represent a significant proportion of the total capital of their parent groups (ranging from 11 per cent to 23 per cent): furthermore their contributions to the profits of the parent groups are substantial. In the event of retaliatory exchange control measures by South Africa, the repercussions for the parent groups could be considerable in that both capital and profits could be locked in.

Of more importance is the total exposure in South Africa of United Kingdom banks (see Table 5).

TABLE 5: UNITED KINGDOM GROSS AND NET BANK CLAIMS ON AFRICAN COUNTRIES END-1979

| | Gross claims (£ million) | Net claims |
|---|---|---|
| South Africa | 910 | 584 |
| OAU Countries of which: | 3550 | -1991 |
| North Africa | 1455 | -2127 |
| Rest of Africa | 2095 | 136 |

21. The bulk of the loans to both South Africa and OAU countries are in foreign currency. In the case of South Africa most are from British-owned banks. The largest single OAU borrower is Liberia (gross claims at end-1979 of about £1,102 million) but this probably reflected in loans made to shipping companies registered in Liberia, a financial activity over which Liberia can exercise little control. The liabilities of North African countries are substantial (£3,582 million) and United Kingdom banks therefore have a net debtor position against the OAU countries as a whole. On the other hand, liabilities to South Africa are only modest £326 million) and United Kingdom banks therefore have a substantial net creditor position which leaves them exposed should South Africa take retaliatory action. United Kingdom banks' exposure in South Africa has been lower





recently than the historic norm due to South Africa's lower need to borrow: gross claims now total less than half those of three years ago (but this situation will change as the South African economy moves into boom and makes greater demands on international finance). Approximately 90 United Kingdom listed banks each have loans outstanding to South Africa in excess of £1 million. Some individual banks have claims on South Africa which are significant in relation to their total resources and could be faced with particular difficulties. In the event of retaliatory action, there could be far-reaching and serious consequences not only for the banks directly concerned but for the banking and financial community as a whole. It is not impossible that some form of financial support would have to be provided. This might well prove to be costly and would certainly be unwelcome. The Bank of England, under the terms of the Banking Act 1979, have statutory responsibilities for the supervision and regulation of the British banking system.

STERLING BALANCES

22. South African official and private holdings of sterling are relatively small and their withdrawal no longer poses a threat to the United Kingdom. At end-1979 OAU countries' official holdings of sterling were around 13 per cent of the total of £3.3 billion of officially held sterling balances, with Nigeria being the largest holder. The equivalent figures at end-June 1980 were 21 per cent and £3.8 billion respectively. A sudden withdrawal of such balances could disrupt the foreign exchange markets, though in real terms they are at a much lower level than in 1976. Private holdings of sterling of OAU countries are also large, but holdings are widely dispersed both by country and by holder and a concerted withdrawal is highly improbable.

ECGD COMMITMENTS

23. The ECGD commitment at risk in respect of the export of goods and services to OAU countries is over three times greater than that in respect of South Africa. Table 6 gives the breakdown.

TABLE 6: ECGD COMMITMENTS TO AFRICA, MARCH 1980

| | Amounts at Risk (£ million) | % of total ECGD commitments |
|---|---|---|
| South Africa | 753 | 4.2 |
| OAU Countries of which: | 2509 | 14.0 |
| North Africa | 752 | 4.2 |
| Rest of Africa | 1757 | 9.8 |

24. Nigeria accounts for 42 per cent of the Rest of Africa total and Algeria for 46 per cent of the North African business. Nearly 70 per cent of the OAU commitment and 85 per cent of the South African total is for medium and long term maturities (ie over 18 months).

25. These figures show the total amounts which would be at risk if, in the worst case, there was a total ban on transfer of payments to the United Kingdom. If a ban only extended to further deliveries under existing contracts then, in respect of South Africa, claims from exporters could be in the region of £100 million but for OAU countries claims might be as much as £1000 million. The ECGD also has about £1 million insured in South Africa under the Overseas Investment Insurance scheme and about £27.5 million in OAU countries.

AID

26. The amount of United Kingdom official aid loans outstanding to African countries in March 1980 was £154 million[(1)] of which 46 per cent was in respect of Ghana and Zambia. Gross disbursements of United Kingdom aid to OAU countries in 1979 amounted to £209 million of which about one third went to Kenya, Ghana and Zambia.

ECONOMIC RELATIONSHIPS BETWEEN SOUTH AFRICA AND THE WEST

27. The United Kingdom is by no means alone in having large trade with and investment in South Africa, as well as a marked dependence on South African minerals. Some statistics on each of these aspects of economic relations with South Africa are given in Tables 7, 8 and 9 below. It will be seen that in 1979 Germany and the United States each accounted for as much of South Africa's imports as did the United Kingdom; Japan lagged some way behind, and France and Italy were yet further behind. South Africa's exports in 1979 were highest to the United States and Switzerland; the United Kingdom, Germany and Japan each took a substantial share; and France and Italy came some way down the list.

28. The position on mineral supplies from South Africa is broadly the same as on trade. In the field of investment, however, the United Kingdom is much more exposed than any other Western country. The value of our direct investment in South Africa (£2.7 billion), at 50 per cent of the total of external direct investment, comfortably exceeds that of the United States, Germany, France and Switzerland put together.

(1) A further £90 million of loans are covered by Retrospective Terms Adjustment ie they have been converted to grants and are only nominally outstanding.







TABLE 7: SOUTH AFRICA: DIRECTION OF TRADE WITH THE WEST 1979

£ million

| | UK | FRG | USA | Japan | France | Italy | Switzerland | Rest of world | Total |
|---|---|---|---|---|---|---|---|---|---|
| Imports 1979 | 701 | 732 | 694 | 448 | 263 | 140 | 102 | 843 | 3923 |
| % Change '78/79 | (+20%) | (+3.0%) | (+2.6%) | (-3.0%) | (-1.0%) | (+12%) | (+8%) | (+20%) | (+12%) |
| Exports 1979 | 539 | 509 | 786 | 531 | 196 | 191 | 862 | 1660 | 5275 |
| % Change '78/79 | (-24%) | (+27%) | (+4.0%) | (+20%) | (+21%) | (+42%) | (+232%) | (+28%) | (+30%) |
| Balance | -162 | -223 | -92 | +83 | -67 | +51 | +761 | +817 | +1352 |

Source:
South African Department of Customs. (Rand converted to £ @ £1 = 1.788 rand)

Note:
The above figures related to imports into, and exports from, the South African Customs Union (which comprises South Africa, Namibia, Botswans, Lesotho and Swaziland).

## TABLE 8: DIRECT & INDIRECT IMPORT DEPENDENCE OF 8 MAJOR CONSUMING COUNTRIES ON RAW MATERIAL SUPPLIES FROM SOUTH AFRICA IN 1978

Antimony, Chromium, Manganese, Platinum Group mentals, and Vanadium in all forms, aggregated by value.

| Commodity | UK | Belgium/ Lux | France | Germany FR | Italy | Nether-lands | Japan | USA |
|---|---|---|---|---|---|---|---|---|
| ANTIMONY | | | | | | | | |
| Direct | (75%) | .. | 6% | 3% | - | - | - | 5% |
| Direct & Indirect | (76%) | 2% | 7% | 14% | 22% | 20% | - | 18% |
| CHROMIUM | | | | | | | | |
| Direct | 56%(a) | (4%) | 22% | 46% | 26% | 38% | 55% | 57% |
| Direct & Indirect | 63%(a) | (22%) | 30% | 52% | 33% | 63% | 56% | 64% |
| MANGANESE | | | | | | | | |
| Direct | (29%) | (9%) | 28% | 19% | 21% | 13% | 31% | 35% |
| Direct & Indirect | (46%) | (38%) | 36% | 42% | 46% | 43% | 31% | 49% |
| PLATINUM GROUP | | | | | | | | |
| Direct | (51%) | - | 22% | 8% | 21% | 2% | 31% | 64% |
| Direct & Indirect | (70%) | 68% | 65% | 63% | 71% | 67% | 53% | 80% |
| VANADIUM | | | | | | | | |
| Direct | 1% | 55% | 14% | (22%) | 4% | 92% | 44% | 65% |
| Direct & Indirect | 41% | 88% | 63% | (73%) | 74% | 94% | 69% | 74% |

(a) Exceptionally, the UK direct and indirect dependence on South Africa for chromium because of insufficient disclosed value data, has been calculated on Cr content basis.

Percentages shown in brackets are calculated on some estimated figures as full details in all forms are not available.





## TABLE 9: WESTERN INVESTMENT IN SOUTH AFRICA (at end of 1978)

£ million

| | UK | FRG | USA | Japan/ Italy | France | Nether-lands | Switz-erland | Rest of world | Total |
|---|---|---|---|---|---|---|---|---|---|
| Investment (Direct): 1978 | 2684 | 298 | 1101 | Not Itemised | 129 | 141 | 359 | 704 | 5416 |
| % Change '77/78 | (+9%) | (+18%) | (+11%) | | (+31%) | (n/a) | (+17%) | (+12.5%) | (+11%) |
| Investment (Non-Direct) 1978 | 1433 | 1242 | 1535 | Not Itemised | 761 | 44 | 737 | 1633 | 7385 |
| % Change | (-14%) | (+32%) | (+8%) | | (+17%) | (n/a) | (+12%) | (-2.3%) | (+5%) |
| Total Investment | 4117 | 1540 | 2636 | Not Itemised | 890 | 185 | 1096 | 2336 | 12800 |
| % Change | (-1%) | (+29%) | (+9%) | | (+19%) | (n/a) | (+9%) | (+2.2%) | (+7%) |

Source:
South African Reserve Bank (to be protected) million of rand converted to sterling @£1 = 1.788 rand.

## ECONOMIC RELATIONSHIPS BETWEEN BLACK AFRICA AND THE WEST (OTHER THAN UNITED KINGDOM)

29. The exports of leading Western countries to Black Africa are like the UK's, substantially larger than their exports to South Africa. In 1979 the export ratios were UK 2:1, USA 2.5:1, FRG 4:1, France 4:1, Japan 4:1. It is worthnoting that France's exports are very largely to the francophone countries in which she retains considerable political influence. It is therefore doubtful whether French trade or investments are exposed to anything like the same degree of risk as British trade and investments. For the West generally, as for the United Kingdom, Nigeria is the most important market in Black Africa, but the United Kingdom has most to lose.

TABLE 10: PERCENTAGE SHARES OF NIGERIA'S IMPORTS AND EXPORTS 1978

| | UK | USA | France | FRG | Japan |
|---|---|---|---|---|---|
| Exports from Nigeria | 7 | *42 | 7 | 6 | n/a |
| Imports to Nigeria | 22 | 11 | 7 | 16 | 11 |

*Mainly oil accounting for about 20% of US imports.

## ECONOMIC RELATIONSHIPS BETWEEN SOUTH AFRICA AND HER BLACK AFRICAN NEIGHBOURS

30. Mozambique apart, South Africa has no economic dependence on her Black African neighbours (Botswana, Lesotho, Swaziland, Zimbabwe, Angola) other than as a source of migratory workers; but some 17 per cent of South Africa's exports go through the Mozambique port of Maputo and the Cabora Bassa dam provides South Africa with about 3 per cent of its electricity. In contrast, the Black African states mentioned, plus Malawi, Zambia and Zaire, depend on South Africa to a considerable degree, partly for food and mining equipment but also on South African jobs for their men (and the resulting remittances) as well as, in particular, South African lines of transport and communication. It has been estimated that 90 per cent of Zimbabwe's imports come through South Africa, as do 47 per cent of Zaire's copper exports. These links make the states concerned vlunerable to South African retaliation for the imposition of sanctions. Moreover, if these links were disrupted there would be serious consequences for the UK's trade with, and interests in, these Black African countries.





APPENDIX
TO ANNEX I

## ECONOMIC LINKS WITH AFRICA: LIST OF APPENDICES TO CABINET OFFICE REPORT ON WHICH THIS ANNEX IS BASED

| Appendix | Subject | Source |
|---|---|---|
| A | United Kingdom exports to Africa 1979 | D/Trade |
| B | United Kingdom sales to South Africa of equipment subject to export licensing | MOD |
| C | United Kingdom sales to OAU countries of equipment subject to export licensing | MOD |
| D | United Kingdom imports from Africa 1979 | D/Trade |
| E | Raw materials imported from Africa | D/Industry and D/Energy |
| E1 | South African and other countries' shares in the production of certain key minerals | D/Industry |
| F | Food items and cereals imported from Africa | MAFF |
| G | United Kingdom invisible transactions with African countries 1978 | CSO |
| H | ECGD commitments | ECGD |
| I | United Kingdom economic interests in Africa: selected items | |

ANNEX II

## SANCTIONS AND POLITICAL RELATIONS

1. Politically, participation in sanctions against South Africa would enable the West to demonstrate to Black African states their credentials as political partners of substance. On the other hand sanctions would result in a loss of influence with South Africa and a set-back to the British Government's policy of dialogue and persuasion. A British veto of sanctions, in isolation, would have much more serious political consequences, depending on the case for sanctions: if the trigger were a complex deadlock over Namibia, our veto might evoke African disappointment rather than anger; if it were a major South African attack on a neighbour or serious new repression in South Africa, we could suffer a major setback to our standing in the Third World, and offer an opportunity for Soviet exploitation of our action at the expense of our own and Western interests. Our relations with Western as well as developing countries would suffer, as would our negotiating position in international bodies. While our partners and allies in NATO, Europe and the Commonwealth might tacitly recognise that our action had saved them from the consequences of sanctions, we should still be in danger of political isolation, because of our partners' concern at the scope for Soviet advantage and the risk to their own relations with third world countries. If however we were to concede agreement to some form of sanctions only in face of the consequences of vetoing just described we should find that we had got the worst of both worlds.

2. It is uncertain whether, except possibly in response to a demand for generalised sanctions, the United States and France would be ready to veto. The Americans are at present much influenced by electoral considerations. Although there is little evidence of interest in African affairs among the ten million black voters in the United States, this is not true of the black Caucus in Congress, which in turn has a major influence on how black votes are cast. But there is also evidence of a growing preoccupation with the political and economic importance of Nigeria (not least because it supplies some 20 per cent of United States oil imports). Both France and Canada attach considerable importance to their relations with francophone countries in Africa. We have had clear indications of a policy decision by the French, some 18 months to two years ago, to give more priority to their relations with black Africa than to those with South Africa on occasions when they are obliged to choose. The German position, although they do not have a veto, would also be important. Despite their fairly substantial economic and commercial interests in South

Africa (and their historical reasons for wishing to see a satisfactory peaceful settlement in Namibia), the Germans are influenced in their attitudes to and public pronouncements on South Africa by an understandable fear of seeming to be soft on racism, given their own not very distant history and their competition with East Germany in the Third World.





UNITED KINGDOM INTERESTS IN SOUTHERN AFRICA

Note By The Central Policy Review Staff

## Introduction

1. We were invited to consider and identify a package of sanctions against South Africa which in itself would least affect UK interests, while bearing in mind on the one hand the likely pressure at the United Nations for extensive sanctions measures and the risk of UK isolation and, on the other, the extent to which South Africa might retaliate against UK interests following the introduction of sanctions.

2. In paragraphs 13 to 15 below we accordingly outline a possible series of measures. We have selected these, in turn, from a wider range of sanctions measures set out in the detailed appendices to this note and summarised for convenience in a table. We first explain our underlying assumptions.

## A Possible UN Scenario

3. We start from the proposition that sanctions against South Africa are generally undesirable; that they are not the best way of reducing apartheid or changing South African foreign policy; and that the United Kingdom stands to lose more economically than any western country from widespread sanctions and from any subsequent retaliation by South Africa against our interests.

4. It is for Ministers to judge the balance of UK interests between vetoing and not vetoing sanctions measures. The paper by officials has, however, brought out the dangers of a UK veto in isolation. The first question therefore is to try to determine the circumstances in which this might occur. In general the more extreme a resolution, the more we could count on US and French support. We believe that the US and France would join us in vetoing widespread sanctions, such as a full trade embargo; and that while some states might retaliate, depending on the circumstances that had evoked the demand for sanctions, a triple western veto would cause a number of African and Third World countries to hesitate before doing so.

5. What is far less clear is the balance of United Kingdom interests in the event of demands for more limited sanctions. There are at least two scenarios. Under the first, the Africans might submit a resolution confined to a determination under Article 39 of the Charter that South African actions constituted a threat to the peace, breach of the peace or act of aggression. This might or might not be accompanied by demands for a few cosmetic measures against South Africa, under Article 41; but the essential African objective would be to establish the principle of United Nations sanctions against South Africa and to make it harder for us and others to veto real sanctions later. While we might want to resist an Article 39 determination as the first step down a slippery slope, our western partners might prefer to acquiesce than veto. We could then either veto in isolation, with all the attendant risks of African and other retaliation; or we could acquiesce in a determination with or without cosmetic sanctions, with no real risk to South African retaliation but in the near certainty of having to confront a more far-reaching resolution next time round.

6. For this last reason, we have concentrated on a second and still more difficult scenario in the belief that unless we are ready to rest on a "no sanctions at any price at any time" position in successive Security Council debates we need to consider what are the sanctions measures in which, in the last resort, we could conceivably acquiesce without undue damage. Under this scenario, the Africans would sense an opportunity to drive a wedge between the western powers and table a resolution designed to do just that, going as far as they judged the US and France would swallow.





<u>The Ranking Order of Sanctions from a UK Viewpoint</u>

7. In considering the content of a sanctions package, we have to take account of the policy context. For example, if we believed that the South Africans would not risk a major confrontation with the West over Namibia, it might be enough to impose, or threaten to impose, a package of sharp sanctions measures, including such items as a ban on South African overseas flights, in the hope that South Africa would reverse its policies and that progress towards internationally acceptable independence for the territory could be restored. If, however, the trigger for a Security Council debate and resolution were some South African internal development, such as further rioting in the townships or the murder of another black leader, we could not expect an early change of South African policies. In this situation we might have to confine our efforts to working for a package which minimised the cost of sanctions to the United Kingdom whilst reducing the risk of measures <u>against</u> the United Kingdom by other countries.

8. Our room for manoeuvre at the United Nations is, however, limited. We conclude that we should try to identify those sanctions which, at least possible cost to the United Kingdom, could be represented as having some impact upon South Africa and which would consequently be "credible" in United Nations terms. We believe, however, that we could not negotiate a "credible" list which did not entail some (perhaps considerable) cost to us, unless as suggested earlier the Africans were prepared to take two bites at the cherry, and the full cost were thus deferred. We should therefore try to obtain a pledge of US and French vetoes of any future escalation of sanctions beyond limits which we ourselves could accept. An automatic expiry clause could help to guard against continuance of sanctions in a changed situation and enable us to make South Africa a credible offer of an end to sanctions in return for a change in their policies, but only if sanctions were based on a defined South African policy which there was hope of changing and if we can put off pressures for increased sanctions longer by this means than we could expect to by normal delaying tactics. If, on the other hand, no visible progress were made, an automatic expiry clause could trigger off demand for tougher sanctions which it would be hard to contest.

9. The attached Appendices consider six main areas of possible sanctions: communications, imports, exports, investment, military/nuclear and miscellaneous. The sanctions are ranked within each of the six areas, with the best (from the United Kingdom point of view) at the top of each group. The ranking is in terms of (i) high and speedy cost to South Africa; and this credibility of sanctions; (ii) low cost to the United Kingdom, considering other factors where relevant.

A credible package might well require agreeing to impose sanctions from a number of the gruops, depending on the policy context. Some measures are cosmetic; a few would hurt South Africa far more than the United Kingdom. must recognise, however, that certain measures, such as an oil embargo, are bound to feature on any African list of demands, and in these cases our has been whether we could accept such measures in the last resort without damage to United Kingdom interests.

10. We take into account the danger of retaliation by South Africa, but general we do not speculate on the possibility of counter-sanctions of a severe order of magnitude to those imposed on South Africa. In the short given the present buoyancy of the South African economy, the risk of harmful retaliation must be rated quite high; in the longer term, however, the South Africans will probably recognise that the more they take action against interests in their country, the less reason will the West have to exercise power of veto.

11. In the event of a United Nations mandatory resolution, our obligations under international agreements (eg GATT) would not present a legal bar to the implementation of sanctions by the United Kingdom (or other states which are members of the United Nations). In addition, if sanctions were imposed as a result of a mandatory United Nations Resolution they could be implemented in the United Kingdom by means of an Order in Council without the need for legislation. We have not considered the legal implications of imposing sanctions voluntarily.

12. We also assume that any United Nations mandatory sanctions are accepted and imposed by all United Nations members. It is most unlikely, however, that a programme of sanctions would be universally, rigorously and effectively applied. Moreover, South Africa has taken extensive steps to reduce its dependence on foreign imports and (in purely economic terms) might well withstand sanctions for some years, especially if the sanctions fell markedly short of a full trade embargo. The United Kingdom would have no special responsibility for ensuring that sanctions were vigorously applied by others, nor would we have an interest in applying them more vigorously than others.





13. On this basis the list might be:-

<u>Gestures</u> (Little impact at little cost to the UK)

| | |
|---|---|
| A(i) | Visas for South Africans visiting the United Kingdom |
| B(i) | Exhortation to public corporations not to purchase South African goods |
| C(i) | End official promotion of UK exports |
| D(i) and D(ii) | Withdrawal of investment insurance and official discouragement of long-term UK investment in South Africa |
| F(i) | Various diplomatic measures |
| F(ii) | Expel South Africa from more international agencies |

<u>Impact at least cost to the UK</u>

| | |
|---|---|
| A(iii) and A(iv) | Limitations over the movements of South African aircraft |
| B(i) | Ban on public corporations' purchase of South African goods |
| B(ii) | Ban on import of South African agricultural products |
| E(iii) | Embargo on nuclear contracts (but this might attract a French veto) |

<u>Impact at cost to the UK but likely to feature on the African list of measures</u>

| | |
|---|---|
| C(ii) | International embargo of oil products to South Africa |
| D(iii) | Stop further UK investment (but not loans) altogether |

14. Of the above, C(ii) and D(iii) are concessions of last resort. B(ii) is arguably the only measure whose repercussions would be felt by the UK public at large, and a study of possible alternative sources of imports seems indicated. A(iii) and (iv), and possibly B(ii), might have an early impact on South Africa if that were one of our aims in determining the composition of a package. Nuclear sanctions (E(iii)) fall into a special category. If South Africa can be brought to adhere to the Non-Proliferation Treaty (NPT) before a sanctions resolution is introduced, a commitment to veto nuclear sanctions is part of the price it will seek from Western Security Council members (particularly the US and France). South Africa's accession would be a major gain in non-proliferation terms which should not lightly be forgone. If it continues to procrastinate, the US and/or France will probably withhold the supplies necessary to keep its research reactor going and to bring its power reactors at Koeberg into operation whether or not there is a sanctions resolution. The incremental costs to South Africa of sanctions would then be relatively low, and confined to lost uranium

revenues from Rossing and from South African mines. However, the political and psychological effects might be considerable.

15. Any intensification of the recent outbreaks of violence in South Africa and of repressive Government measures could lead to pressure at the UN to extend the scope of the current mandatory arms embargo, irrespective of pressure for a wider embargo. E(i) and E(ii) consider two possible further measures in this somewhat self-contained field.

Conclusions

16. This note assumes that we shall do all we can to persuade our Western partners to veto any sanctions resolution, but that if they will not join us there might be circumstances in which we would have to consider accepting a "credible" package of sanctions at some cost to ourselves. What might constitute a "credible" package is, of course, a matter for discussion. There would be pressure in the United Nations to extend any list; and in particular, once there had been agreement to restrict some imports and exports there would be pressure to extend that restriction in ways which would be costly and damaging to the UK. We must try to guard against this in discussion with the US and France.

17. Nevertheless, in the view of the CPRS, a credible package would probably need to contain virtually all the items listed in paragraph 13 above. The alternative is to operate on the basis of "no sanctions at any price at any time". The paper by officials considers the risk of retaliation against our interests in Black Africa and elsewhere in this event.





A. COMMUNICATIONS

| | | | |
|---|---|---|---|
| i. visas | low but psychological impact | low unless restrictions imposed | a gesture |
| ii. restrictions on entry | psychologically high | political and some economic cost | not worth pursuing at present |
| iii. refuelling right of aircraft | quick psychological impact: high cost to SA airways | low | good "warning measure" |
| iv. embargo SA air transport | considerable | low unless followed by retaliation | impact at low cost |
| v. embargo all air transport | high | considerable | to be avoided |
| vi. postal and telecommunications | high | high | to be avoided |
| vii. ships bunkering | nil | high | to be avoided |
| **B. IMPORTS** | | | |
| i. public purchasing | low | depends on resolution's wording | exhortation acceptable but ban would cause problems |
| ii. agricultural products | moderate | moderate | impact at a cost |
| iii. tariffs | low | potentially damaging | extent negotiable |
| iv. selective quotas | low | possibly high | extent negotiable |
| v. total embargo | high | high | to be avoided |
| **C. EXPORTS** | | | |
| i. end official promotion | nil | some cost | anomalous to leave out |
| ii. oil embargo | short term uncertain long term high | threat to BP and Shell | UN pressure probable |
| iii. ECGD credit | uncertain | some cost | competitors might circumvent restrictions |
| iv. embargo certain products | some | high | undesirable; circumvention likely |
| v. embargo on new exports contracts | considerable | high | to be avoided |
| vi. total embargo | high | high | to be avoided |

SECRET

| | COST TO SA | COST TO UK | OTHER COMMENTS |
|---|---|---|---|
| D. LONG-TERM INVESTMENT | | | |
| i. withdraw investment insurance | very low | low | a gesture |
| ii. official discouragement | low | low | a useful gesture |
| iii. stop new investment | low | potential threat to assets | risky but UN pressure probable |
| iv. refusal to deal in Rands | low | potentially high | dangerous |
| v. change tax system | - | - | unlikely to have international support |
| E. MILITARY/NUCLEAR | | | |
| i. arms embargo to cover end-users | uncertain | some | problems of implementation |
| ii. arms embargo to cover dual-purpose equipment | some | high | damage to both countries rises if general ban on tele-communications equipment |
| iii. nuclear, including Rossing | high | relatively low | strong French and other western interests affected |
| F. MISCELLANEOUS | | | |
| i. diplomatic measures | political | low initially | a gesture |
| ii. expel SA from more international agencies | long term | some political | a gesture |



VISAS

There is no immigration control or security requirement for visas for South Africans, of whom 120,000 visit Britain every year. A requirement could be imposed by an amendment to the Immigration Rules, subject to Parliamentary approval through the negative resolution procedure. A mandatory Security Council resolution would, as in the case of Rhodesia, require us to take appropriate action. The effect on South Africa would be mainly psychological and short term, since unless other measures were also taken to restrict entry into the United Kingdom (Aii below) the issue of visas would be little more than a formality. It would, however, involve administrative costs of around £550,000, and if it served to discourage entry a loss of invisible earnings from tourism. It might entail the employment of a further 20 visa-issuing staff in our South African posts and such numbers could probably not be diverted from other visa-issuing posts abroad without a reduction in these posts' ability to control undesirable immigrants from the countries in question.

While a visa requirement would bring the United Kingdom into line with practice in several EC countries, there are many more travellers between the UK and South Africa than between South Africa and other EC countries (and the volume of travel from South Africa to the UK is much larger than that from any other country where a visa requirement already applies).

The Home Office see objections of principle to using immigration restrictions for political rather than security or immigration purposes. The CPRS understands these objections, but notes that the economic cost to the UK of a visa requirement is relatively minor compared with that of many other measures which might be demanded at the UN.

CONCLUSION - A GESTURE

LOW COST TO SOUTH AFRICA BUT PSYCHOLOGICAL IMPACT

FIVE-POWER LIST: 7A





RESTRICTIONS ON ENTRY

Although this would have a considerable impact upon South Africa, it might require changes in the law, would be highly unpopular for its effect upon family links, and would lead to a sizeable reduction in tourist receipts.

CONCLUSION - HIGH IMPACT ON SOUTH AFRICA

POLITICAL AND SOME ECONOMIC COST TO UK

NOT WORTH PURSUING AT PRESENT

FIVE-POWER PAPER: 7B

DENY REFUELING RIGHTS TO SOUTH AFRICAN AIRCRAFT

All countries would refuse to refuel aircraft registered in South Africa or chartered to South Africans. This would severely disrupt the overseas services of South African Airways who, for example, could not continue flights to London (unless the Swiss, who are not members of the UN, allow them to refuel at Zurich). However the effect on South African citizens would be mainly psychological since they could continue to travel abroad on other airlines. On the other hand the cost to the United Kingdom would be low (eg loss of servicing revenues at United Kingdom airports) and even if South Africa took retaliatory action of the same kind against British Airways, its services could continue to Johannesburg by refuelling at Nairobi (and the Seychelles for the Hong Kong service) unless the Kenyan and Seychelles governments decided otherwise.

CONCLUSION - HIGH COST TO SOUTH AFRICAN AIRWAYS

LOW COST TO UNITED KINGDOM

USEFUL AS AN INITIAL "WARNING MEASURE" WHERE QUICK PSYCHOLOGICAL IMPACT IS REQUIRED

FIVE-POWER LIST: 11B





EMBARGO SOUTH AFRICAN AIR TRANSPORT

All countries could deny traffic rights to South African aircraft. This would have a greater political effect than item Aiii. It would more certainly ground the external services of South African Airways (though again Switzerland might allow some services to terminate at Zurich). There would be a loss of prestige as well as a considerable financial cost to SAA, and the shipment of South African exports by air could suffer. Whilst some travellers might be inconvenienced they could probably transfer to other nations' airlines. The cost to the UK would be small (eg as in Aiii loss of servicing revenues at UK airports) unless South Africa retaliated by banning other nations' airlines. This seems unlikely since it would cut completely its air links with the rest of the world. However, if this were to happen for the reasons in Av, UK travellers and exporters would suffer, British Airways would incur losses of the order of £40m and other trading losses would follow (eg GPO £5-10m).

CONCLUSION - CONSIDERABLE COST TO SA

LOW COST TO UK UNLESS FOLLOWED BY RETALIATION OF LIKE KIND

IMPACT AT LOW COST

FIVE POWER LIST: 11A

EMBARGO ON ALL AIR TRANSPORT TO AND FROM SOUTH AFRICA

The African Group at the UN might press for a total embargo in both directions (though Lesotho and to an extent South Africa's neighbours would be seriously affected); and even in the absence of a formal embargo individual African countries might impose a refuelling and overflying ban on all air traffic to and from South Africa. This would have an immediate and serious impact upon South Africa, but would also harm British Airways and UK travellers and exporters.

CONCLUSION - TO BE AVOIDED

FIVE-POWER LIST: 11A





POST AND TELECOMMUNICATIONS

It is difficult to speculate on the overall effect, but restraint on postal and telecommunications links with South Africa could have considerable repercussions on commercial relations as well as on personal communications. There appear to be no legal constraints; but to restrain the links referred to, particularly the postal links, would be incompatible with the strong stand which as a member of the Universal Postal Union, and in common with other members of the Nine, the UK took against the expulsion of South Africa from the Union at its Eighteenth Congress at Rio de Janeiro last October. There could be difficulties in stopping mail being forwarded by third countries. There would be a loss of revenue to the Post Office, currently about £3-10 million per annum, as well as losses from reduced trade. But most important of all, there would be strong political objections because the measure would cut family links with the United Kingdom. It was for this reason that this measure was not taken in the case of Rhodesia: indeed it would be unprecedented in that we have never cut communication links even with the most obnoxious regimes.

CONCLUSION - TO BE AVOIDED

FIVE-POWER LIST: NOT COVERED

DENY SHIPS BUNKERING FACILITIES

All countries could deny ships bunkering to South African owned and operated ships. However, the South African fleet is small and could probably maintain its operations by bunkering from base. On the other hand, retaliation on other ships would be damaging, especially to the United Kingdom merchant

CONCLUSION - NO COST TO SOUTH AFRICA

" POSSIBLE HIGH COST TO UNITED KINGDOM

TO BE AVOIDED

FIVE-POWER LIST: NOT COVERED









PUBLIC PURCHASING OF GOODS FROM SOUTH AFRICA

There is probably little that can be done here except at considerable cost, eg the production of the British Steel Corporation would be seriously affected if it were not able to buy South African minerals such as ferro-chrome. Much depends on the wording of the Security Council resolution. If it were confined to an exhortation to governments to reduce public sector purchasing of South African goods, we could live with it, and it could be a cosmetic element in a sanctions package. A resolution which directed governments to end public sector purchasing would cause problems.

CONCLUSION - LOW COST TO SOUTH AFRICA EXCEPT AT HIGH COST TO UNITED KINGDOM
EXHORTATION AN ACCEPTABLE GESTURE
BAN WOULD CAUSE PROBLEMS

FIVE-POWER LIST: NOT SPECIFICALLY COVERED

## AN EMBARGO ON AGRICULTURAL IMPORTS FROM SOUTH AFRICA

A world ban on the import of agricultural products from South Africa (which for the UK and other EC members would require a Community decision to implement) would have a damaging effect on its economy as these products represent 12 per cent of value of total South African exports. The effect would be most severe in the case of perishable products but even with others (for example tinned fruit, tinned fish and maize) stockpiling would be expensive and, in the meantime, an important source of income would be lost, also damaging the balance of payments. There would however be a significant direct cost to UK consumers, more so than to consumers elsewhere. The UK takes the major part of South African exports of canned goods, and it would not be possible to find substitutes for all these items, especially canned peaches, pears and in particular pineapples. There would be severe shortages of fresh citrus, pears, apples and grapes in the early summer, and retail prices of these and other items would rise significantly. Three quarters of our oranges come from South Africa between July and October. Some importers and parts of the distributive trade would lose revenue. Some black African territories would also suffer, (eg oranges from Swaziland, citrus fruit from Mozambique, beef from Botswana acutely).

CONCLUSION - MODERATE COST TO SA AND UK
IMPACT AT A COST TO UK CONSUMERS

FIVE-POWER LIST: 9B





## TARIFFS ON SOUTH AFRICAN IMPORTS

If tariffs were charged, or increased, they would be paid primarily by the final United Kingdom purchasers in the form of higher prices since there are no readily available substitutes for a large proportion of the products. Certainly imports of key raw materials would continue with correspondingly increased industrial costs in the United Kingdom. The United Kingdom Exchequer would gain revenue at the expense of the consumer and such a measure would have the advantage of encouraging the development of substitutes in the longer run. The short term effect on South Africa, however, would be limited to the few products for which there are substitutes, eg chemical wood pulp, clay, textiles and steel products. Retaliation by South Africa might put at risk supplies of vital minerals and/or threaten United Kingdom export trade. Botswana Lesotho and Swaziland would also suffer a loss of trade. Circumvention is highly likely.

CONCLUSION - LOW COST TO SOUTH AFRICA
HIGH COST TO UNITED KINGDOM AND POTENTIALLY DAMAGING
EXTENT NEGOTIABLE

FIVE-POWER LIST: NOT SPECIFICALLY COVERED, BUT MINERALS DISCUSSED UNDER 9C

## IMPORT LICENCES. CERTIFICATES OF ORIGIN. QUOTAS ON CERTAIN PRODUCTS

A system of import licensing for all goods imported from South Africa co[uld] be introduced as a political gesture and even be designed as an administra[tive] inconvenience to South African exporters without seriously damaging Unite[d] Kingdom interests. However, the moment it is used to restrict the level o[f] trade, it becomes administratively costly and, depending on the range of products selected for quotas, significantly disadvantageous to United Kin[gdom] purchasers. The products where least damage to United Kingdom would resu[lt] are those where a substitute exists (as listed in Biii). Again the Unite[d] Kingdom is vulnerable to retaliation; and circumvention is highly likely.

CONCLUSION - LOW COST TO SOUTH AFRICA EXCEPT AT HIGH COST TO UNITED KINGDO[M]
EXTENT NEGOTIABLE

FIVE-POWER LIST: NOT SPECIFICALLY COVERED, BUT MINERALS DISCUSSED UNDER 9[A]





## TOTAL EMBARGO OF SOUTH AFRICAN IMPORTS

United Kingdom imports from South Africa are dominated by diamonds (46%) and gold bullion (32%). The diamond trade is volatile: recently much of South Africa's trade was switched to Switzerland, but there are now signs of a return to the UK market. Imports of all other minerals are small by comparison (5%), but they include many critical minerals for which there are few substitutes and alternative sources. Loss of supply would have severely damaging consequences for important areas of British industry, notably the steel, petroleum, chemical and fertiliser industries. There is also the possibility of retaliation against United Kingdom exports worth £713 million in 1979. The cost overall to the United Kingdom of a total embargo is likely to exceed any costs which be incurred as the result of action by black African countries.

CONLCUSION - TO BE AVOIDED

FIVE-POWER LIST : 9A

END OFFICIAL PROMOTION OF EXPORTS TO SOUTH AFRICA

Commercial promotion activity falls into three categories -

a. British diplomatic missions (costing approximately £½ million in 1978-9);

b. outward trade missions sponsored by the Government (there were 15 in 1979);

c. trade fairs (1 in 1979).

The total cost is something less than £1 million per annum, a large proportion of which could be saved if official promotion were cut. Politically it would be invidious to continue such promotion if, at the same time, other sanctions were imposed to restrict trade. On the other hand, this measure would have no direct effect on South Africa (though it could have some psychological effect if universally applied) and it would place at risk some of the United Kingdom export business which amounted to £713 million in 1979. The overall effect need not be great since individual companies would, presumably, continue with some promotional activity and we also assume other governments cease their officia; promotion (though in general their level of support is low).

CONCLUSION - NO COST TO SOUTH AFRICA

SOME COST TO UNITED KINGDOM

BUT MAY BE ANOMALOUS TO LEAVE OUT OF A PACKAGE

FIVE-POWER LIST - 12





INTERNATIONAL OIL EMBARGO

South Africa has no indigenous source of oil and over three-quarters of its energy requirements are met from domestic coal. It has an ambitious oil-from-coal programme and aims at eventual energy self-sufficiency. Meanwhile it holds a stockpile of oil for emergencies; although this is equivalent to two years' consumption at present rates, there is reluctance to use it for day-to-day consumption. Until the Shah's fall supplies of crude came almost entirely from Iran, and South Africa has had to search urgently for alternative sources, including the spot market. The current narrowing of spot/term differentials has eased South Africa's difficulties, but if a world shortage again developed alternative sources of supply would be hard to find and the price would be substantially higher. Our guideline on the destination of North Sea crude oil exports effectively rules out the direct supply of UKCS crude to South Africa. But there will be pressure at the UN for a comprehensive embargo. This could place at risk of seizure the assets of BP and Shell in South Africa (with investments of about £125m and £150m respectively, plans to invest large sums in coal production, and net income of £15m per annum). Even if the South Africans did not go this far, so as not to discourage overseas investment, they could take local oil companies under their direction. A comprehensive embargo would certainly hurt the South African economy over time; and the recent attack on the oil-from-coal installations must have underlined the country's vulnerability. However, Botswana, Lesotho, Zimbabwe at present and, to a lesser extent Swaziland and Malawi would also suffer oil shortages. OPEC countries including Iran (whowever is in power) would probably accept a UN mandate. The Africans might demand policing by an international force to stop supplies from "private sources". There are other possibilities, including monitoring by naval force or satellite and impounding of "pirate" vessels at their next port of call; but whatever the scheme the cost and complexity of policing could be high.

CONCLUSION - SHORT TERM EFFECT UNCERTAIN

LONG TERM COSTS TO SA HIGH

LIKELY THREAT TO BP AND SHELL INTERESTS

UN PRESSURE PROBABLE









ECGD CREDIT FOR EXPORTS

At present the full range of credit guarantee facilities are available for exports to South Africa. The take-up is high - approximately 40 per cent of exports are covered - though lower than that for many black African countries. International discussions on restrictions on this facility have taken place in the past without any agreement being reached, although the United States and FRG have taken limited action, and Canada considerably more. ECGD estimate that a complete withdrawal of credit cover could result in a loss of as much as, say, £175m worth of exports each year since many firms would be reluctant to conclude contracts without cover. On the other hand, if other Governments also withdrew official support, South African importers might be able to make the necessary arrangements to pay cash and raise loans themselves elsewhere, though this would increase their costs. One suggestion which has been discussed among the Five has been to limit credit guarantees to a 5 year period: this would affect long term projects, eg the supply of capital goods such as power stations in which the UK could have a considerable interest. Thus a number of measures might be considered under this heading. Their costs to South Africa and to the United Kingdom would critically depend on the degree of comparable response in other countries, the extent to which South African importers could make alternative arrangements, and the possibility of a South African ban on repayments on existing credits.

CONCLUSION - COSTS BOTH TO SOUTH AFRICA AND UNITED KINGDOM UNCERTAIN

FEAR THAT COMPETITORS MIGHT CIRCUMVENT ANY LIMITATION

FIVE POWER LIST : 4A and 4B

EMBARGO THE EXPORT OF CERTAIN PRODUCTS

There is already an embargo on arms sales to South Africa (though dual-p[...] equipment (Ei below) continues to be provided so long as it is not inten[...] primarily for military use). An embargo of other goods which could not be replaced by local production, such as computers, would severely disru[...] the South African economy, though the full effect might be lessened by ev[...] Products which might be considered are as follows (value of UK sales in 1[...] in brackets):-

| | |
|---|---|
| transport equipment including aircraft parts | (£131m) |
| machine tools | (£8m) |
| computers | (£28m) |
| heavy construction equipment | (£20m) |

However, the UK industries concerned would lose valuable sales and it is unlikely that alternative markets could be found, at least in the short ru[...] The loss of revenue and need to lay-off workers would be particularly seri[...] for certain firms heavily dependent on this trade. There is also the fear [...] South Africa might retaliate by restricting the export of minerals essenti[...] to Western countries.

CONCLUSION - SOME COST TO SOUTH AFRICA

HIGH COST TO UNITED KINGDOM

FIVE POWER LIST : 8B





EMBARGO ON NEW EXPORT CONTRACTS

Given Parliamentary resistance to the inclusion of current contracts in the legislation for sanctions against Iran, and the high cost to UK industry of any similar measure in respect of South Africa, it would be open to us to seek to restrict the scope of any mandatory UN resolution to an embargo on new export contracts alone. But it would only be worth our while contemplating doing so in the highly unlikely event that the US and France were willing to go further and accept a general trade embargo including current contracts; in all other cases we should firmly oppose it.

The parallel between Iran and South Africa is not exact because in the former case the Government legislated without there being a mandatory UN resolution. A mandatory resolution against South Africa, if drafted on Rhodesian lines, would remove liability upon HMG to pay compensation for the interruption of current contracts: a comment which applies equally to Cvi below.

CONCLUSION - TO BE AVOIDED

FIVE POWER LIST: NOT SPECIFICALLY COVERED

TOTAL EMBARGO ON EXPORTS

UK exports to South Africa amounted to £713m in 1979 and South Africa is the UK's 15th most important market. The UK's visible trade surplus with South Africa in 1979 was £172m, and its surplus on invisible account £51.. The loss of export trade would have a severe impact on the UK balance of trade, industrial output and employment with particularly severe repercussions for certain firms. There is also the fear of retaliation by South Africa in refusing to supply certain minerals essential to the West. Any such embargo would have to stem from a UN mandatory resolution as otherwise there is little prospect that the necessary subordinate legislation would be acceptable to Parliament.

CONCLUSION - NOT WORTH CONSIDERING AS CONSEQUENCES SO SERIOUS

FIVE POWER LIST : 8A





WITHDRAWAL ECGD INVESTMENT INSURANCE FACILITY

The ECGD scheme covers UK investors in South Africa against certain political risks. The withdrawal of this facility would have little, if any, impact on South Africa as there is only a small volume of insurance in being. Three relatively small applications are under consideration at present.

CONCLUSIONS - VERY LOW COST TO SOUTH AFRICA
LOW COST TO UNITED KINGDOM
A GESTURE.

FIVE-POWER LIST: 1B

## OFFICIAL STATEMENT DISCOURAGING FURTHER INVESTMENT IN SOUTH AFRICA

Net direct investment by UK firms in South Africa used to be of the o of £100m-200m per annum and consists largely of reinvested profits an borrowing in third countries. In 1977-8, however, there was a net outflow of UK direct investment averaging £114m, largely because of sterling's appreciation against the Rand. UK firms are tending to increased investment with caution because of the political uncertaint though some new ventures are still being undertaken. There are now fe South African restrictions on repatriating capital following disinves albeit at the discounted Financial Rand rate. A well publicised gover statement discouraging further investment might have a limited psycholo effect on both South Africans and black Africans for relatively little effect on net UK investment, though in the absence of other action it reinforce the view that the UK will not take serious steps. Depending o the extent to which other countries also sought to discourage new investment, South Africa might retaliate by tightening up its exchange control restrictions. Non-compliance might be hard to monitor.

CONCLUSIONS - LOW COST TO SOUTH AFRICA

LOW COST TO UNITED KINGDOM

A USEFUL GESTURE

FIVE-POWER LIST: 1A





## STOP NEW INVESTMENT BY UK COMPANIES IN SOUTH AFRICA

It is often suggested that a ban on new foreign investment in South Africa, leading over time to a reduction in the level of existing investment, would significantly affect the South African economy. There have been regular attempts, led by the Nordic countries, to get the Security Council to impose such a ban; and there will be strong pressure for this to form part of any package. At present such a ban would not necessarily harm South Africa much: since 1979 South African gross domestic savings have exceeded the level of gross domestic investment. The situation could, however, change again. UK investment totalled some £4½ bn. at market value at the end of 1978 (around £2.7bn. direct, the remainder portfolio), some 10% of UK investment abroad and probably the second greatest in any one country after the USA. There must be a risk of South African retaliation against a ban, whether it took the form of blocking the repatriation of capital or of taking over selected foreign-owned companies. The effect on UK companies is difficult to assess; it could be serious, but much will depend both on the extent to which evasion takes place and on the extent to which South African exchange controls might already have been reimposed prior to an investment ban, because of a downturn in the South African economy.

Technically an order to UK companies to stop investment would be difficult to enforce because :-

a. it is, in practice, difficult to distinguish between the creation of new assets and the replacement of existing assets;

b. most UK investment in South Africa is financed by the retained profits of subsidiary companies.

However, the relevant sections of the Exchange Control Act 1947 could be reactivated for use in restricting payments to South Africa, given the over-riding justification of protecting UK economic interests elsewhere in Africa. But the immediate overall impact on investment would be slight, and UK companies would probably find ways of avoiding the controls.

Another possibility would be to prohibit all bank loans to companies in South Africa and, if applied internationally, this could have a significant impact. There is, nevertheless, the danger that existing debtors would default on their loans; at the end of 1979 UK banks had gross assets in South Africa totalling £910m at risk. Moreover, much of South Africa's borrowing is denominated in DM and Swiss francs and the Swiss as non-members of the UN could well continue to lend.

CONCLUSION - LOW COST TO SOUTH AFRICA

COULD BE RISKY

HIGH COST TO UNITED KINGDOM OF ACTION TO PROHIBIT LOANS

UN PRESSURE PROBABLE BUT EVASION LIKELY

FIVE-POWER LIST: 1C, 3A and 3B





REFUSAL TO TRADE IN RANDS

A refusal to trade in Rands would have little impact on South Africa's trade as it is mostly denominated in US dollars. However, if it were made illegal for financial and commercial organisations to hold Rands, this would seriously constrain South Africa's security market by reducing the inflow of portfolio investment. Whilst this would seriously harm the Financial Rand market and might reduce the level of investment (particularly if associated with a collapse of business confidence), it would also seriously harm existing United Kingdom assets which would be effectively "locked-in".

CONCLUSION - LOW COST TO SOUTH AFRICA EXCEPT AT HIGH COST TO UNITED KINGDOM

FIVE-POWER LIST: NOT SPECIFICALLY COVERED

CHANGE THE TAX SYSTEM

The UK tax system could be changed to stop the allowance of credit for South African tax against UK tax or by disallowing South African tax as a deductible expense. In the long run, this would discourage further new investment in South Africa by UK companies though, at first, it would simply penalise companies wishing to remit existing profits. It is also unlikely that other countries, notably the US, would be able to adjust their tax laws in this way.

CONCLUSION - UNLIKELY TO HAVE INTERNATIONAL SUPPORT

FIVE-POWER LIST: 5





EXTEND ARMS EMBARGO TO COVER SALES TO MILITARY AND POLICE END-USERS

There are current proposals to extend the mandatory embargo on the export of arms and related materials to South Africa (UN Security Council Resolution 418 of 1977) to ban all sales to the South African military and police authorities. All UK goods and equipment which are considered as falling within the existing definition, which specifically includes "para-military police equipment", are already under export licensing control. To extend control to other categories of goods and equipment which may or may not be of use to the military and police, and to impose an embargo on the basis of end-use, raises difficulties about where to draw the line. Critics of the present policy usually mention electronics, communications and surveillance equipment as being candidates for further control; but to the extent that these items are manufactured or converted to military specifications they are already under control. Unless there were to be a total ban on such items (see Eii), the only way of achieving control would be to subject them all to export licensing, and then undertake individual enquiries in each case to establish precise end-use. The US already has such a regime, though it has been hard to enforce.

There would inevitably be administrative problems and costs, and doubts as to the uniformity of international interpretation and implementation of an embargo covering these grey areas. There is clearly a risk that UK industry, in the face of close public and Parliamentary scrutiny, would take a ban more seriously than our competitors. Any attempt to ban exports of civil goods to military or para-military organisations would however be difficult to police and therefore easy to evade. The Department of Trade believe that accusations of evasion would lead to pressure in the UK for still stronger measures, and that we should therefore seek to persuade our EEC partners to resist an end-use embargo.

The CPRS entirely agrees that it would be unenforceable and should be resisted; but believes that Ministers will want to consider carefully the merits of possibly opposing in isolation from the US and France a measure which we have no greater responsibility for enforcing effectively (unlike Rhodesian sanctions) than has any other country.

The cost to South Africa of an end-use embargo is uncertain; evasion would reduce its impact, and in the medium/long term there would doubtless be scope to increase and extend production. A total embargo on selected products (see Civ and Eii) would be a more precise and effective, though undesirable, measure.

CONCLUSION - UNCERTAIN COST TO SOUTH AFRICA

SOME COST TO UK, DEPENDING ON EFFECTIVENESS OF IMPLEMENTATION

FIVE POWER LIST : NOT COVERED





EXTEND ARMS EMBARGO TO COVER DUAL-PURPOSE EQUIPMENT

In the UK's view - which is not widely shared - the existing embargo does not cover dual-purpose equipment such as radar and navigational aids and radio communication equipment, which continue to be provided. The African group at the UN may well call for a further embargo on the export of "multiple-purpose equipment capable of being used for military purposes", quite possibly when the Arms Embargo Committee reports in September. An embargo of this equipment , most of which could not be replaced by local production, could have an adverse effect on air and shipping safety, but would not necessarily have a significant effect on the South African economy. The Republic's military capability would of course be affected, though the full effect might be lessened by evasion. Serious damage would be caused to Plessey who are supplying under existing contracts air traffic control radar worth £56m; further orders could take this figure to £200m over 10 years.

It is hard to make any sensible distinction between equipment which is dual purpose and that which has a solely civil application. In order to overcome this difficulty there might be pressure for the arms embargo to cover all electronic equipment, including telecommunications equipment (1979 exports: £3m), computers (£28m), electronic components and consumer electronics. Such an embargo would have a much wider effect on the South African economy as a whole, and equally would be much more damaging to UK industry. The most important effect would be on ICL, for whom South Africa is the most important overseas market, taking 10% of its overseas sales. The telecommunications equipment industry would not be seriously affected by an embargo; South Africa has been a declining market since the decision not to purchase the UK "System X". For electronic components the market is global and evasion of an embargo is likely to be widespread. Multinational companies (which form a large part of the UK industry) would presumably find it easier to circumvent an embargo than would domestic (usually smaller) companies. However, it is difficult to identify any particular UK component manufacturer as being particularly vulnerable. Sales of consumer electronics are small.

CONCLUSION - SOME COST TO SOUTH AFRICA AT HIGH COST TO UNITED KINGDOM

FIVE-POWER LIST: PARTLY COVERED BY 8B





EMBARGO ON NUCLEAR CONTACTS (INCLUDING ROSSING)

(a) Effect on UK of an embargo on nuclear contacts

This would not be serious. Exports have been minor and few, confined to medical, agricultural and research purposes unconnected with nuclear programmes as such. Contacts are not numerous; nor are they sensitive in non-proliferation terms. Certain ones are, however, of significant benefit to the UK and we would wish to see these continued. An example is the safety consultancy work undertaken by the UKAEA for the South African Atomic Energy Board on the latter's PWRs under construction. This will provide the UK with valuable experience and analysis necessary for the development of the safety case for a British PWR. French opposition to en embargo on all nuclear contacts can be expected; we can perhaps turn this to our advantage in other areas of more importance to us.

(b) Rossing Contract

There would be no significant immediate effect on the UK civil nuclear power programme through the loss of supplies under the Rossing contract, because of UK stocks. Loss of these supplies would bring forward the date when uranium from other sources would be required. So long as South Africa still administers Namibia these would certainly be more expensive than supplies from Rossing; but if SWAPO came to power we could expect them to seek to increase the price of Namibian raw material exports and/or to take a large share in the Rossing consortium. There might also be costs to the CEGB arising from breach of the contract, if they could not invoke their "force majeure" clause.

(c) Effect on South Africa

South Africa would suffer significantly if it were unable to bring the Koeberg power station into operation, but this is likely to happen anyway if it does not adhere to the NPT. The effect of sanctions would then be confined to lost or deferred revenues from mines in South Africa and Namibia and the political and psychological impact of another mandatory embargo by the Security Council. The UK's own nuclear exports and contacts are minimal, and a UK embargo would have no serious effect compared to a US, French or German embargo. However, loss of the UKAEA's consultancy work on the safety aspects of their civil nuclear power stations would be detrimental to South Africa's interests.

(d) <u>BNFL : HEX Conversion Business</u>

British Nuclear Fuels Limited (BNFL) have a number of contracts to convert uranium of South African or Namibian origin into uranium hexafluoride (HEX) as part of the process to manufacture nuclear reactor fuel. Existing contracts are worth about £38m to BNFL and they envisage signing additional contracts worth a further £60m (at 1979 prices) over the next ten years, using uranium from these countries. All of the uranium converted by BNFL is for customers outside South Africa. If BNFL's customers were prevented from acquiring uranium from South Africa we would expect them to seek alternative supplies. BNFL would then be able to seek to conclude HEX conversion contracts in respect of these supplies to replace the business they would lose, while remaining in competition with other supplier countries of HEX conversion services. It is more difficult to assess the impact on South Africa of cancellation of this contract. There would be at least a temporary loss of revenue if no alternative market could be found for the uranium, but the material could of course be stockpiled for later sale.

CONCLUSION - HIGH COST TO SOUTH AFRICA
RELATIVELY LOW COST TO UK
STRONG FRENCH AND OTHER WESTERN INTERESTS AFFECTED

FIVE POWER LIST : NOT COVERED





<u>DIPLOMATIC MEASURES</u>

If a political gesture is required, diplomatic staff could be withdrawn from South Africa, their seniority and numbers to be withdrawn depending on the strength of the gesture required. Undoubtedly such action by the UK would be a particularly visible gesture. Depending on the extent of the withdrawal there would be the inconvenience of the loss of direct contact, and thereby lost opportunities for influencing South African policy. The gesture could be quickly reversed unless it had gone to the extent of closing offices. The overall effect would depend on which countries withdrew representation and to what extent.

The South Africans could be requested to reduce their representation in London and/or restrictions could be placed on their official contacts. This again would be a gesture but, from the UK, an effective one.

CONCLUSION - POLITICAL IMPACT

- LOW COST INITIALLY TO UNITED KINGDOM
- A GESTURE

FIVE-POWER LIST: 6

## SUSPENSION OR EXPULSION OF SOUTH AFRICA FROM THE UNITED NATIONS AND CERTAIN OTHER INTERNATIONAL ORGANISATIONS

South Africa has already been excluded from meetings of the General Assembly and its subsidiary organs as a result of action over credentials, but is still a member of the United Nations. She could be formally suspended, under Article 5 of the Charter, from the exercise of the rights and privileges of membership; or, under Article 6, could be expelled from the United Nations altogether.. These would be political gestures of little practical consequence for South Africa. However, they would set dangerous precedents, and would - particularly in the case of expulsion - undermine the universality of the United Nations.

South Africa has already withdrawn from some international agencies (eg FAO, ILO, UNESCO). In other cases, South Africa has remained a member though the exercise of certain of its rights of membership has been suspended :-

IAEA - International Atomic Energy Agency
ICAO - International Civil Aviation Organisation
ITU - International Telecommunications Union
UPU - Universal Postal Union
WHO - World Health Organisation
WIPO - World Intellectual Property Organisation
WMO - World Meteorological Organisation.

The main agencies of which South Africa is still a member exercising full rights as such are :-

IMF - International Monetary Fund
GATT - General Agreement on Tariffs and Trade

IBRD - International Bank for Reconstruction and Development

IDA - International Development Association

IFC - International Finance Corporation

Steps could be taken to expel South Africa from the agencies of which it remains a member, or to suspend (or, in cases where there has already been a suspension, further to curtail) the exercise of its rights of membership.

We have, however, always considered it important for the effective functioning of the United Nations and its related agencies that their membership be of universal character and we have tried to avoid the politicisation of these agencies. We have also attached importance to the due observance of their individual constitutional requirements. Even if it were decided to depart from our current policy to the extent necessary to secure the wholesale suspension or expulsion of South Africa from the various international agencies there would be considerable procedural difficulties.

Thus wholesale suspension or expulsion of South Africa should be considered as part of a substantial package to reduce political, financial and commercial relations between South Africa and the rest of the world. It is not a 'quick fix' and the economic effects (eg removing access to international credit in the case of IMF) would take some time to come through. If, despite the difficulties, South Africa were expelled from GATT, South Africa would be free to impose discriminatory restraints on imports from suppliers including the UK.

CONCLUSION - LONG TERM MEASURE

LITTLE DIRECT POLITICAL COST TO THE UK

FIVE POWER LIST: NOT COVERED