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CABINET
DEFENCE AND OVERSEAS POLICY (OFFICIAL) COMMITTEE
SUB-COMMITTEE ON THE SOUTH ATLANTIC AND THE FALKLAND ISLANDS

THE FALKLAND CRISIS: ECONOMIC RETALIATION AGAINST THE
UK BY ARGENTINA AND OTHER SOUTH
AMERICAN STATES

Note by Foreign and Commonwealth Office

1. This paper describes significant developments since the previous ODO(SA) paper with this title, ODO(SA)(82)42 of 13 May. It also, for convenience, describes developments over the boycott of British ships and aircraft in some South American countries (ODO(SA)(82)38 of 11 May).

Argentine Action

2. A decree blocking the transfer by British residents of share holdings in Argentine companies was published on 10 May. The measure was reportedly introduced to comply with the Presidential decree issued on or around 5 April which temporarily froze Argentine payments to the UK. The Argentine Government also published on 19 May a law prohibiting the sale or transfer of British assets including property in Argentina. The law requires that details of all British owned assets and of all people involved in such transactions since 2 April must be notified to the Ministry of the Interior within 5 days. But exemptions for permanently resident British citizens providing they do not involve themselves in any activity endangering the national economy or Argentina's productive capacity were allowed.

A 'National Trustee Commission' under the Presidency and comprising representatives of various Ministries will administer the law.

3. This is not a confiscatory measure. The freeze can be seen as an intermediate step between the freeze on Argentine payments in early April and a possible total takeover of the administration of British interests in Argentina. Press reports from Buenos Aires have emphasised that British owned companies, some 190 in all, will be able to continue to function normally within Argentina although official auditors will be appointed to them and they will not be able to remit funds abroad. The government is empowered to freeze the funds of companies which break the law and appoint administrators to control them. This measure is described as a response to UK actions in the economic and military field. But the notifications to the Ministry of the Interior would allow the compilation of a register of British assets which would make possible the introduction of confiscatory measures at short notice. There have been some rumours that such measures are already under consideration, as are plans to cancel contracts with British companies mainly affecting engineering work in progress and services.

Boycotts

4. The latest reports from Peru indicate that the boycott of British vessels, which at one time seemed set to apply the strictest boycott measures, has ended. British Caledonian are also now flying in to Lima without difficulty. There are unconfirmed reports that dock workers in Ecuador and El Salvador are boycotting British vessels. We are seeking clarification from posts.

Organisation of American States (OAS)

5. The Argentines have sought the reconvening of the meeting of the Consultative Organ of the Rio Treaty states on 27 May to consider further action. The resolution which the Argentines are likely to table seems designed to achieve maximum consensus. Although, as we know, the resolution will not formally demand mandatory collective measures against the UK under Article 8 of the Treaty, it will call upon states to adopt measures 'to assist

Argentina repel UK aggression'. Increased Latin American disquiet at the course of recent events means that the Argentines stand a greater chance of obtaining the extensive support which they are seeking.

6. Meanwhile, Venezuelan efforts to obtain agreement of Latin American states to withdraw Ambassadors from London appear to have elicited a discouraging response. But the attitude of Latin American countries to this and also to mandatory collective measures under the Rio Treaty would change drastically and rapidly in an adverse direction should the UK undertake military action against the South American mainland, eg, against Argentine air bases.