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PRIME MINISTER

I have seen Geoffrey Howe's minute of 4/January to you on further contacts with the Argentines. I agree with his proposals.

2 I feel I should draw attention to one aspect of our own embargo against Argentine imports which gives me cause for concern. The embargo is, of course, our major bargaining counter in seeking a reciprocal deal on commercial and financial relations. It is justified under Articles 36 and 224 of the Treaty of Rome. The view has been generally held that Article 224, which permits such action in the event of serious international tension constituting a threat of war, affords the stronger grounds.

3 In the past we have been confident of being able to parry a challenge to our embargo in the courts on the grounds that continued Argentine incursions into the Falkland Islands Protection Zone constituted serious international tension. But in view of the present Argentine Government's professed commitment to a peaceful solution we are not confident that this defence would hold water now. Should any company take us to court over our refusal to issue an import licence we might lose the case and with it the legal grounds for continuing the embargo.

4 In view of this potential weakness in our position our aim should be, one way or another, to get a deal on

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commercial and financial relations as soon as possible.

5 I am copying this to Geoffrey Howe, other colleagues in OD and Sir Robert Armstrong.

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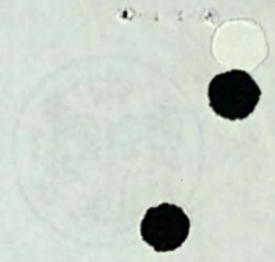
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11 January 1985

Department of Trade and Industry

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