



## **Institutions and Cooperation: Sanctions during the Falkland Islands Conflict**

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*International Security*, Volume 16, Issue 4 (Spring, 1992), 143-178.

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# Institutions and Cooperation

Lisa L. Martin

## Sanctions During the Falkland Islands Conflict

At the beginning of April 1982, a long-running dispute between Great Britain and Argentina about sovereignty over the Falkland Islands (called the Malvinas in Latin America) broke into open conflict when Argentine forces invaded the islands. During the next two months, at Britain's urging, many states imposed economic sanctions against Argentina. Sanctions both preceded and accompanied British military action. In this article I examine Britain's success in gaining the cooperation of other states, particularly the members of the European Economic Community (EEC). The high level of cooperation cannot be explained on the basis of narrowly-defined national self-interest, because only Britain had a strong interest in reacting to Argentina's moves, while other states had good reasons to prefer to avoid imposing sanctions.<sup>1</sup> Resistance to imposing sanctions increased as the crisis escalated and derived primarily from political concerns about supporting Britain in war and, to a lesser extent, from the economic costs of sanctions. I argue that British manipulation of the EEC's institutional incentives overcame members' resistance.

A number of international relations theorists have presented arguments about the role that international institutions might play in facilitating cooperation among states. By means such as providing information about the actions of other states, setting standards by which to evaluate others' behav-

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My thanks to James Alt, Robert Keohane, Gary King, Stephen Krasner, Peter Yu, and three anonymous readers for their comments and suggestions. This research was assisted by an award from the Social Science Research Council's Program in Foreign Policy Studies.

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1. The level of cooperation achieved in this case is well above the average for post-1945 cases of economic sanctions. One comprehensive study gives the Falklands case a cooperation score in the top 25 percent of all sanctions episodes since 1945. See Gary Clyde Hufbauer, Jeffrey J. Schott, and Kimberly Ann Elliott, *Economic Sanctions Reconsidered: Supplemental Case Histories*, 2d ed. (Washington, D.C.: Institute for International Economics, 1990), p. 544.

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*International Security*, Spring 1992 (Vol. 16, No. 4)  
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ior, or establishing penalties for non-compliance, such institutions may allow states to overcome collective action problems.<sup>2</sup> Studies have also shown how, in domestic contexts, institutions can provide for cooperation among self-interested individuals by allowing them to make credible commitments and by assigning property rights.<sup>3</sup> Yet, on the international level, scholars working in the realist tradition maintain a well-founded skepticism about the empirical impact of institutional factors on state behavior. This skepticism is grounded in a lack of studies that show precisely how and when institutions have constrained state decision-making.<sup>4</sup> This study addresses the question of institutional constraint by providing micro-level evidence that decisions made by the EEC directly influenced the foreign policy decisions of its members, even when governments faced political and economic incentives to defect from the sanctions effort. While a single case cannot conclusively prove a particular hypothesis correct, process-tracing such as this is a necessary complement to aggregate-level results showing correlations between institutions and cooperation.<sup>5</sup>

This article begins with a brief chronology of the Falklands War and economic sanctions imposed during this episode. While Britain took the lead in imposing sanctions, gaining the cooperation of other states and the approval of international institutions were also matters of high priority for the British government. After this overview, I discuss in more depth the involvement of the EEC and the decisions that led to the Community's imposition of

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2. A collective action problem results when states can only achieve their goals through joint action, while each has incentives to defect from joint efforts. See Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton: Princeton University Press, 1984); Keohane, "International Institutions: Two Approaches," *International Studies Quarterly*, Vol. 32, No. 4 (December 1988), pp. 379–396; Kenneth A. Oye, "Explaining Cooperation under Anarchy: Hypotheses and Strategies," in Oye, ed., *Cooperation under Anarchy* (Princeton: Princeton University Press, 1986), pp. 1–24.

3. See Douglass C. North and Barry R. Weingast, "Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England," *Journal of Economic History*, Vol. 49, No. 4 (December 1989), pp. 803–832; Paul R. Milgrom, Douglass C. North, and Barry R. Weingast, "The Role of Institutions in the Revival of Trade: The Law Merchant, Private Judges, and the Champagne Fairs," Hoover Institution Working Papers in Political Science P-90-1 (Stanford, Calif.: Stanford University, January 1990); Douglass C. North, *Structure and Change in Economic History* (New York: W.W. Norton, 1981).

4. Oran R. Young, *International Cooperation: Building Regimes for Natural Resources and the Environment* (Ithaca: Cornell University Press, 1989), p. 206; Susan Strange, "Cave! Hic Dragones: A Critique of Regime Analysis," in Stephen D. Krasner, ed., *International Regimes* (Ithaca: Cornell University Press, 1983), p. 354.

5. For aggregate results of cooperation on economic sanctions, see Lisa L. Martin, *Coercive Cooperation: Explaining Multilateral Economic Sanctions* (Princeton: Princeton University Press, forthcoming 1992).

sanctions. The pattern of decision-making shows that individual states formulated their sanctions policies contingent on the organization's decisions. The course of EEC sanctions can be divided into three distinct phases. In the first, states saw sanctions as an alternative to military action, and were involved in an assurance game where most were willing to cooperate contingent on multilateral action.<sup>6</sup> In the second, after the outbreak of military conflict in the South Atlantic, EEC members became much more reluctant to continue imposing sanctions. The third phase involves intensive negotiations over the renewal of sanctions in mid-May, as fighting continued. Intra-EEC politics show that linkage across issues was vital to Britain's ability to gain the cooperation of other states, particularly in the latter two phases. I argue that a link between ongoing budget discussions and the Falklands issue became central to the renewal of sanctions in mid-May.

The final section relates this history to the theoretical debate on the role of international institutions in cooperation problems. The Falklands case illuminates the reasons for international cooperation on economic sanctions and the role of institutions, if any, in facilitating such cooperation. This study shows that common interests alone did not explain cooperation. Instead, cooperation resulted from the intense interest of one state, which relied on bargains across issues to consolidate a coalition. An institution played a key role in this process, reducing transaction costs and making the cross-issue linkages credible. Neither neoliberals nor realists have fully anticipated the specific impact of institutions found here. The EEC did not solve a symmetrical collective action problem, as in neoliberal theories, but neither was it irrelevant or epiphenomenal, as most realist theorizing would describe it.

This sanctions problem is not an easy test for the proposition that institutions have an impact on state decisions. The Falklands case represents a situation with clear conflicts of interest among states that made the emergence of cooperation problematic. While from an institutional perspective the EEC is an unusually strong international organization, at the time of the Falklands crisis in 1982, European Political Cooperation (EPC), the forum in

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6. In a Prisoners' Dilemma or assurance game, state interests are symmetric in that each places desired outcomes in the same order. In a Prisoners' Dilemma, states rank outcomes as follows, with the most-preferred first: unilateral defection (DC), mutual cooperation (CC), mutual defection (DD), unilateral cooperation (CD). In an assurance game, the first two payoffs are reversed, so that the ranking is  $CC > DC > DD > CD$ , and mutual cooperation is an equilibrium outcome. In an asymmetrical game, states' preference orderings differ from one another. For example, Britain might have assurance preferences while its partner has a Prisoners' Dilemma preference ordering.

which members sought to coordinate their foreign policies, was weak. In addition, this case is interesting from a substantive perspective. With the demise of the Cold War, economic sanctions are an ever more important tool of statecraft. The Falklands example exhibits striking analogies, on a smaller scale, to sanctions against Iraq in 1990–91, and therefore suggests lessons about the possibilities and problems surrounding the use of this instrument of statecraft. In both cases one state took the lead in organizing sanctions, turned to a formal international organization for this purpose, and relied on tactical linkages to convince recalcitrant states to join in the sanctions effort. These similarities suggest that the Falklands case was not unique. Tracing the process of state decision-making in 1982, therefore, offers an opportunity to gain both theoretical insight and practical understanding of multilateral economic sanctions.

### *The Falklands Crisis, 1982*

Argentina and Britain have contested sovereignty over the Falkland Islands for the last two centuries. The Falklands are located in the South Atlantic, 480 miles northwest of Cape Horn. Their discovery is variously claimed by representatives of Spain and England at different dates in the sixteenth century. Spain forced out a small British colony on the islands in the 1770s; the Spanish settlers then withdrew in 1811 due to the high costs of maintaining a colony in such cold, barren surroundings. In 1820 Argentina declared sovereignty over the Falklands, sending settlers to stake its claim. In 1831, the United States briefly became involved in this drama, deporting the Argentine settlers and declaring the islands free of any government. Argentines, however, returned to establish a penal colony. In 1833, British warships landed on the islands to reclaim them. The Argentine settlers left peacefully, but under protest. Britain has exercised sovereignty over the islands since then, although Argentina has continued to argue that the Falklands were illegally taken by force.<sup>7</sup>

In 1965, Argentina took the Falklands case to the United Nations, which sporadically sponsored negotiations between the two claimants. These ne-

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7. For histories of the Falkland Islands, see Julius Goebel, *The Struggle for the Falkland Islands: A Study in Legal and Diplomatic History*, 2d ed. (New Haven: Yale University Press, 1982); Ian J. Strange, *The Falkland Islands*, 3d ed. (Newton Abbott, London: David and Charles, 1983); Friedrich Kratochwil, Paul Rohlich, and Harpreet Mahajan, *Peace and Disputed Sovereignty: Reflections on Conflict Over Territory* (Lanham, Md.: University Press of America, 1985).

gotiations made little progress, as neither side was willing to concede on the central issue of eventual sovereignty. In March 1982, negotiations broke down once again, with Argentine representatives warning that they would have to take stronger measures to advance their cause.<sup>8</sup> Apparently, this warning was not taken seriously in London, and there is no evidence that the Argentine government planned to invade in early March although invasion scenarios may have been considered by some in the military.

As of 1982, the Falklands were inhabited by about 1800 “kelpers” of British origin. The Falklanders are fiercely loyal to Britain, and just as fiercely disdainful of the Argentines. Most refuse to learn Spanish and maintain a willful ignorance of anything about Argentina.<sup>9</sup> The Falklanders want their island to remain a British dependency, and the British argument for sovereignty rests on the islanders’ right of self-determination. Yet, because Argentina refuses to maintain regular communications and other services with the islands, the British government has found the cost of maintaining the Falklanders quite high.<sup>10</sup> The “Falklands lobby” in Parliament is disproportionately powerful and has frustrated occasional attempts by the Foreign and Commonwealth Office to give serious consideration to mechanisms that eventually would transfer sovereignty to Argentina.<sup>11</sup> The influence of the “Falklands pressure group” is perplexing. One analyst traces it to a parliamentary scandal and collapse of Anglo-Argentine negotiations in 1968.<sup>12</sup>

The 1982 Falklands crisis began somewhat haphazardly when on March 19 an Argentine scrap metal merchant landed on South Georgia, another British dependency about 600 miles east of the Falklands, and raised the Argentine flag. The captain apparently had the implicit backing of the Argentine navy, which expected little or no British response. Instead, Prime

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8. Alexander M. Haig, Jr., *Caveat: Realism, Reagan, and Foreign Policy* (New York: Macmillan, 1984), p. 263.

9. See Strange, *The Falkland Islands*, pp. 247–254.

10. These costs kept the British from maintaining forces there before 1982 that were capable of defending the islands. After June 1982, the population of the island tripled as the number of military personnel stationed there far exceeded the original 1800 inhabitants. All in all, Britain’s 1982 victory was an expensive one.

11. For a discussion of the positions of various parts of the British government on the Falklands, see “British Foreign Office,” *The Economist*, November 27, 1982, pp. 19–26. For a history of the negotiations, see Max Hastings and Simon Jenkins, *The Battle for the Falklands* (New York: W.W. Norton, 1983), pp. 15–44.

12. Virginia Gamba, *The Falklands/Malvinas War: A Model for North-South Crisis Prevention* (Boston: Allen and Unwin, 1987), pp. 90–95. See also G.M. Dillon, *The Falklands, Politics and War* (London: Macmillan, 1989), pp. 55–89.

Minister Thatcher sent the ice patrol ship *HMS Endurance* from the Falklands to South Georgia.<sup>13</sup> The Argentine government, headed by President Leopoldo Galtieri and under intense domestic pressure due to rapidly deteriorating economic and political conditions, felt it had to respond and did so by landing Argentine commandos on South Georgia on March 25. The junta also decided to plan an invasion of the Falklands, apparently believing that the South Georgia incident provided an opportunity and that the invasion would direct domestic attention away from new austerity measures.<sup>14</sup>

By March 30, British Foreign Secretary Lord Carrington warned Parliament that Argentina had created a “potentially dangerous” situation in the South Atlantic. At Britain’s request, the United Nations Security Council took up the Falklands issue on April 1; the President of the Council called on both sides to exercise restraint and avoid the use of force.<sup>15</sup> Carrington’s warnings were confirmed when Argentina invaded the Falklands, South Georgia, and South Sandwich islands that night. About 300 marines landed in Port Stanley, the capital of the Falklands. The British forces defending the islands killed four Argentines and wounded two before surrendering; the Argentine forces were under orders not to harm the British forces, and did not return fire.

Sir Anthony Parsons, the British Permanent Representative to the UN, immediately called an emergency session of the Security Council on the morning of April 2. He demanded a vote within 24 hours on a resolution drawn up by Britain, demanding an immediate cease-fire and Argentine withdrawal. On April 3, the Security Council approved the British document, Resolution 502, by a vote of ten in favor (including the United States), only one against (Panama), and four abstaining (including the Soviet Union, which declined to use its veto power to kill the resolution).<sup>16</sup> Later, UN diplomats called the rapid passage of Resolution 502 “miraculous.”<sup>17</sup> Delighted by this unexpected level of international support, Britain based its future actions on Resolution 502, refusing to ask for further Security Council or General As-

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13. The British government had recently decided to decommission the *Endurance*, one of many moves that convinced the Argentine junta that the British were not seriously committed to defending the Falklands.

14. Hastings and Jenkins, *The Battle for the Falklands*, pp. 54–60.

15. “Falkland Islands (Islas Malvinas),” *UN Chronicle*, Vol. 19, No. 5 (May 1982), p. 3.

16. See Anthony Parsons, “The Falklands Crisis in the United Nations, 31 March–14 June 1982,” *International Affairs*, Vol. 59, No. 2 (Spring 1983), pp. 169–172; “Council Calls for Withdrawal of Argentine Forces from Falklands,” *UN Chronicle*, Vol. 19, No. 5 (May 1982), pp. 5–10.

17. David Tonge, “Britain Wary of Pushing UN for Support,” *Financial Times*, April 28, 1982, p. 4.

sembly action. Since the Security Council would have to approve further UN actions, such as sending peacekeeping forces, any permanent member of the Security Council could veto the use of force. British officials believed that attempts to enforce 502 by approving UN activities intended to force Argentina to withdraw would meet with a Soviet veto. Thus, the UN's role in the unfolding conflict became more limited after April 3.

On April 3, the British government also broke diplomatic relations with Argentina and imposed economic sanctions. These sanctions, which were clarified over the next few days, included a freeze on Argentine assets in British banks (valued at about \$1.5 billion), embargo of arms sales to Argentina, suspension of export credit insurance, and a ban on Argentine imports. However, the ban excluded goods already in transit, as well as Argentine assets in overseas branches of British banks. The freeze on assets was potentially the most damaging of these economic measures, as the already acute financial situation in Argentina meant that the government would need to borrow more than \$7 billion on the international market in the remaining months of 1982. The leading role of the City of London in syndicated loans meant that international finance for Argentina might dry up.<sup>18</sup> Thatcher told the House of Commons, recalled on a Saturday for the first time in more than thirty years, that she saw the freeze of assets as "an appropriate precautionary and, I hope, temporary measure."<sup>19</sup>

London banks worried that the financial measures could harm their reputation as reliable sources of funds, and pressed the Bank of England for an "enlightened interpretation" of the sanctions regulations that would minimize damage to their long-term interests.<sup>20</sup> When the Bank of England came out with its clarified guidelines on April 13, they covered a wide range of transactions; British banks were not allowed to make any new loans to Argentina or to disburse funds from existing lines of credit. However, these restrictions did not apply to overseas branches of British banks, and so were acceptable to London financial interests.<sup>21</sup> Despite the exception for overseas branches, bankers expected the measures to deal a "sharp blow" to Argen-

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18. Paul Cheeseright and John Wyles, "UK Bans All Argentine Imports," *Financial Times*, April 7, 1982, p. 1.

19. Great Britain, House of Commons, *The Falklands Campaign: A Digest of Debates in the House of Commons, 2 April to June 1982* (London: Her Majesty's Stationery Office, 1982) p. 4.

20. William Hall, "Bankers Fear Freeze has Harmed City's Reputation," *Financial Times*, April 10, 1982, p. 2.

21. William Hall and Alan Friedman, "Bank Guidance on Argentine Assets," *Financial Times*, April 14, 1982, p. 1.



tina's ability to borrow. Argentina responded to these measures by freezing British assets in Argentina, banning British imports (worth about \$411 million annually),<sup>22</sup> and suspending payments to British banks. However, both British and Argentine financial interests leaned strongly against declaring Argentina formally in default on its British loans. One such declaration could trigger a spiderweb of cross-default clauses, with drastic effects on the international financial system. Thus, Argentina claimed that it was continuing to make payments on British debt to an escrow account set up in New York, and London banks were spared the necessity of finding Argentina in default.

Coincident with its own imposition of sanctions, the British government asked other states to take economic measures against Argentina. As detailed below, Britain formally asked the EEC to impose economic sanctions. British officials described intensive discussions with EEC states as the centerpiece of diplomatic efforts to isolate Argentina.<sup>23</sup> British diplomatic efforts focused on West Germany, Argentina's largest trade partner in the Community and a significant source of military goods.<sup>24</sup> Prime Minister Thatcher also communicated personally with the leaders of Commonwealth states, Western European nations, Japan, and the United States, asking for expressions of support. Many nations including France, West Germany, Belgium, Austria, the Netherlands, and Switzerland responded immediately by embargoing arms sales to Argentina. Australia, New Zealand, and Canada withdrew their ambassadors from Buenos Aires, and New Zealand banned all trade with Argentina.<sup>25</sup> The United States and Japan took no immediate actions.

The U.S. government found itself in the difficult position of being asked to choose between two allies. Faced with this dilemma, the government decided the best course was to remain neutral for the time being and to try to prevent the conflict from escalating to open warfare. Thus, Washington refused to impose sanctions and sent Secretary of State Alexander Haig to

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22. Gary Clyde Hufbauer and Jeffrey J. Schott, *Economic Sanctions Reconsidered: History and Current Policy* (Washington, D.C.: Institute for International Economics, 1985), p. 717.

23. Cheeseright and Wyles, "UK Bans All Argentine Imports," p. 1.

24. EEC sanctions were lifted in June 1982. West Germany went ahead with delivery of four frigates to Argentina in September in spite of British objections. See Foreign Staff, "Bonn Lifts Argentine Arms Ban," *Financial Times*, September 27, 1982, p. 3.

25. Janis A. Kreslins, "Chronology: The Falklands War," *Foreign Affairs*, Vol. 60, No. 3 (America and the World 1982), p. 740; Foreign Staff, "Australia and Canada Recall Envoys," *Financial Times*, April 7, p. 4; House of Commons, *The Falklands Campaign*, p. 75.

attempt to negotiate a settlement to the dispute. However, evidence that has come out since 1982 shows that, at least in the lower levels of government and within the military, the United States was never neutral. The Defense Department, in particular, provided important assistance to the British task force from the beginning.<sup>26</sup> The president took no action to inhibit this support, although he might have if the support had become public while Haig's mission was unfolding.

For most of the month of April, the course of the crisis was dominated by Haig's shuttle diplomacy and the movement of the British task force toward the Falklands. The approach of a task force of more than 100 ships and 28,000 men placed a *de facto* time limit on negotiations, although the Argentines and many others remained unconvinced that the British were actually willing to risk lives over a few barren rocks 8000 miles from Britain. However, domestic political pressures and Thatcher's own preferences reduced the probability that Britain could back down from its stand on the Falklanders' right of self-determination at this time. At home, the conflict led to a burst of support for Thatcher's Conservative party, which otherwise was in electoral trouble.<sup>27</sup> In the House of Commons, support for a strong response to the actions of the "tinpot fascist junta" was almost universal.<sup>28</sup> Any outcome that looked like a British surrender would almost certainly have led to demands that Thatcher resign.

On April 8, Britain announced a 200-mile blockade around the Falklands effective April 12 and threatened to sink any Argentine vessel within this area. Haig continued his negotiations, but Argentina repeatedly rejected any deal that did not guarantee eventual Argentine sovereignty over the islands. The Organization of American States (OAS) formally began to discuss the conflict on April 21, where the majority of votes were, predictably, in Argentina's favor. However, the OAS never called for sanctions against Britain.

Until April 25 the Falklands dispute remained a matter of diplomacy rather than military confrontation, but on that date, the task force reached South Georgia and recaptured it in a two-hour battle. Britain would have sufficient

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26. "America's Falklands War," *The Economist*, March 3, 1984, p. 29; Haig, *Caveat*, p. 266.

27. Robert Worcester and Simon Jenkins, "Britain Rallies 'Round the Prime Minister," *Public Opinion*, Vol. 5 (June/July 1982), pp. 53-55; Helmut Norpoth, "Guns and Butter and Government Popularity in Britain," *American Political Science Review*, Vol. 81, No. 3 (September 1987), pp. 949-959.

28. See House of Commons, *The Falklands Campaign*, p. 1.

forces in the area by April 30 to enforce the 200-mile blockade, and warned that it would do so. However, even this threat was insufficient to convince the Argentines to back down. At this time, many observers had doubts about Britain's ability to win a military confrontation. Argentina had a logistical advantage, with British forces having to operate 8000 miles from home. Argentine military forces were equipped with advanced, modern armaments, some of them purchased from Britain. In addition, the Argentine forces had the advantage of defending, rather than trying to invade, the islands.

When it became obvious on April 30 that neither Argentina nor Britain would back down, the United States announced its unqualified support for Britain. The U.S. government imposed some limited sanctions against Argentina, including an arms embargo, and offered overt support to the British task force. The next day, fighting began in the Falklands with British bombers attacking airfields on the islands. On the night of May 2–3, a British submarine sank the Argentine cruiser *General Belgrano*, which was outside the declared exclusion zone. More than 300 Argentine sailors were killed in this attack. This action shocked most of the world, as it realized the potential for widespread casualties in the Falklands. The sinking had a negative impact on sympathy for the British in Europe, where many felt that Britain had acted too aggressively. Ireland called for an end to EEC sanctions.<sup>29</sup> On May 4, Argentina sank *HMS Sheffield*, killing 30 and claiming retaliation for the *Belgrano*.

After the failure of Haig's negotiating efforts, UN Secretary General Javier Perez de Cuellar attempted to find a solution to the conflict. However, despite personal appeals to Prime Minister Thatcher and President Galtieri, his efforts were fruitless. Peru, which had sided with Argentina from the beginning of the conflict, also attempted to play the role of mediator without success. Fighting continued, with Britain gaining a foothold on the islands on May 21. British forces continued to gain ground and Argentina finally surrendered at Port Stanley on June 14. Over the next week, arrangements were made for the exchange of prisoners; the British governor of the Falklands returned on June 26. The defeat contributed to the fall of the Argentine military junta within a matter of months.<sup>30</sup>

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29. Olivia O'Leary, "All-Out War Feared as Belgrano Sinks with Many Missing," *Irish Times*, May 4, 1982, p. 1.

30. See Alejandro Dabat and Luis Lorenzano, *Argentina: The Malvinas and the End of Military Rule* (London: Verso, 1984).

### *The Falklands and the European Economic Community*

After its initial success in the UN, British efforts to gain international support centered on the EEC. In this section, I examine the series of EEC decisions on economic sanctions. I argue that Britain had to persuade other EEC members, who would not, especially after the start of hostilities, have imposed sanctions without sustained British efforts. As discussed below, governments faced varying degrees of domestic opposition to sanctions and would derive few direct benefits from them. As long as Britain was taking a strong stand against the dangerous precedent set by Argentina's actions, they would have preferred to free-ride on British actions. Examination of political and economic interests, and of statements made at the time, reveal that only Britain was willing to impose unilateral sanctions. In such a situation of asymmetrical interests, cross-issue linkages would provide one of the few levers for gaining the cooperation of recalcitrant states.<sup>31</sup> In this case, the linkage was provided by an ongoing dispute over the EEC budget and the Common Agricultural Policy (CAP); British concessions on the budget issue were linked to renewal of EEC sanctions in mid-May. Examination of EEC involvement provides persuasive evidence of the importance of international organizations in facilitating cooperation. Many of the smaller member states did not impose sanctions until the EEC formally called for them, as the larger problems of Community solidarity and political cooperation became intertwined with the somewhat obscure issue of sovereignty in the Falklands.

For analytical clarity, I divide EEC sanctions into three phases. During the first, most member states had an interest in supporting Britain with multilateral sanctions, seeing them as an alternative to politically costly military conflict. In this phase, the EEC as an organization provided member states with assurance that they would not be acting unilaterally, but it was not necessarily central to their sanctions decisions. The second phase began as military action broke out, and presented Britain with a more difficult cooperation problem. Now, some members preferred to defect rather than to continue with multilateral sanctions, and only maintained them because the EEC as a whole would not agree to withdraw them. Finally, the third phase of sanctions involved crucial negotiations over their renewal in mid-May. At

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31. Cross-issue linkages result when a government makes its actions on a particular issue, such as sanctions, contingent on others' actions on independent issues, such as economic policy.

this time, most EEC members preferred no sanctions to continued cooperation unless they received a side-payment from Britain, which took the form of concessions on a budget rebate.

#### INITIAL EEC SANCTIONS: AN ASSURANCE GAME

In this section, I argue that most EEC members were willing to support Britain with sanctions prior to military engagement, as long as they were assured that the rest of the Community would act in the same manner. Because European states believed that a broad ban on Argentine imports would provide sufficient leverage to force the junta to back down, they saw multilateral sanctions as an effective alternative to military conflict. In addition, because EEC members did not expect sanctions to last longer than a few weeks, governments anticipated low costs. Although some members were more reluctant than others to impose sanctions due either to high direct costs or unwillingness to support Britain, all eventually acquiesced in the Commission's initial decision to take action. Thus, this phase presents a somewhat weak case for institutional impacts on state decisions.

One of the most striking features of EEC involvement in the Falklands is the speed with which the normally slow-moving Community acted. As one EEC official said, "We have done in a day what it usually takes a year to do."<sup>32</sup> British diplomacy deserves any credit for this rapid response, as gaining the cooperation of others in imposing sanctions received sustained attention at the highest levels of government. The prime minister, foreign secretary, and various ambassadors immediately called on other nations to support the British cause, framing the issue as one of responding to unlawful international aggression. On Monday, April 5, just four days after the invasion, the Secretary of State for Trade informed Parliament that "any helpful economic response in this dispute can best proceed if we are supported fully by our nearest allies in the European Community."<sup>33</sup> The British government quickly realized that its economic pressure on Argentina would be minimal unless other states also cut imports, export credits, and arms exports. Since the EEC accounted for approximately 20 percent of Argentina's exports, a Community-wide ban on imports could, politicians believed, put intense economic pressure on Buenos Aires.<sup>34</sup>

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32. "Waging Economic Warfare," *Time*, April 26, 1982, p. 31.

33. House of Commons, *The Falklands Campaign*, p. 23.

34. Eberhard Rein, "The Community and the Falklands: A Stand Against Aggression," *Europe* 82, No. 5/6 (May/June 1982), p. 15.

West Germany was Argentina's largest trading partner in the European Community in 1982, with Argentine exports to West Germany worth almost \$565 million and West German exports to Argentina worth \$1 billion. Thus, British efforts first centered on the West German government. Foreign Minister Hans-Dietrich Genscher had extensive discussions with Lord Carrington on April 1 and 2. On April 5, British ambassador Sir Jock Taylor met with Foreign Ministry State Secretary Bernd von Staden. At this time, German representatives felt that it was too early to discuss economic sanctions. However, they reached an informal agreement to stop the shipment of West German-built frigates if the conflict escalated. One West German diplomat said, "We would do our utmost to comply with Britain's wishes." Belgian Foreign Minister Leo Tindemans, then serving as the president of the EEC Council of Ministers and a proponent of EPC, also became the target of British lobbying efforts. His initial response was generally supportive.

Although the EEC quickly condemned Argentina's use of force and called for its withdrawal from the islands, the question of imposing economic sanctions that could be costly for the Community if they stayed in place for any significant time remained undecided. EEC trade with Argentina in 1980 totaled about \$4 billion, with a \$460 million trade surplus.<sup>35</sup> Banning Argentine imports would not cost much to the Community as a whole, since most Argentine imports such as meat and other agricultural products were already over-produced by member states. However, Italy and Ireland could suffer from termination of leather imports for their shoe industries. In addition, the EEC fully expected that Argentina would retaliate by banning Community imports, as it had when Britain announced sanctions on Argentine imports.<sup>36</sup> Thus, the cost of sanctions lay not only in lost imports, but the near-certainty of losing the Argentine market as well. In fact, on April 9 Argentina formally protested EEC discussions of sanctions and threatened to (and later did) adopt "pertinent measures responding to those liable to affect its foreign trade and international economic relations."<sup>37</sup>

By April 6, initial soundings from Community members were encouraging enough for Britain to call formally for EEC sanctions against Argentina. Britain asked only for measures that did not exceed steps it had taken

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35. Reuters North European Service, April 5, 1982.

36. Cawl Cosgrove Twitchett, "The Falklands: Community Diplomacy at Work," *Europe* 82, No. 7 (July 1982), p. 11; John Cooney, "Ireland Agrees to EEC Embargo," *Irish Times*, April 12, 1982, p. 6.

37. Reuters North European Service, April 9, 1982.

unilaterally. It requested an embargo on arms sales, to which the Netherlands and West Germany, followed by Belgium and France, had already agreed. Since Argentina relied heavily on French and West German arms, these moves were significant. The French were highly supportive of the British position, probably because Argentine success in the Falklands would set an unwelcome precedent for various disputed French colonial possessions. Most importantly, Britain asked for a ban on some Argentine imports (including beef, steel, textiles, and leather goods), an end to preferential treatment of other Argentine imports, and termination of export credits.

Over the next few days, EEC ambassadors consulted with their governments on the issue of sanctions. While West Germany and France seemed willing to go along with the British request, some of the other EEC members were more reluctant. Ireland, in particular, questioned the wisdom of sanctions. Prime Minister Charles Haughey was reported to be cool to the British request and to believe that sanctions would be "counter-productive."<sup>38</sup> During four hours of talks on April 8, the political directors from EEC foreign ministries decided to defer a decision on sanctions, awaiting further instructions from their governments.<sup>39</sup> They did, however, agree to terminate all supplies of arms and military equipment. In spite of general support for Britain, as of April 9 reports from EEC sources suggested that Community action would fall short of an import ban.<sup>40</sup> Denmark stated that it would not accept any sanctions that were not administered on the national, as opposed to supra-national, level. Italy, in addition to benefiting from leather imports, had a large emigrant population in Argentina and so was reluctant to break off relations. In addition, West Germany was reportedly worried about proposed limitations on export credits.<sup>41</sup>

On Saturday, April 10, EEC members overcame their reservations and imposed a total ban on Argentine imports, along with an embargo on arms exports.<sup>42</sup> Press reports called these the "toughest sanctions ever imposed" by the Community, comparing them to the "almost laughable" sanctions

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38. Denis Coghlan, "Haughey Cool on Sanction Plan," *Irish Times*, April 7, 1982, p. 1.

39. Renagh Holohan, "No Final Stance Yet on Sanctions," *Irish Times*, April 8, 1982, p. 8.

40. Reuters North European Service, April 9, 1982, AM cycle.

41. Giles Merritt, "Britain Secures Arms Embargo from All Countries in EEC," *Financial Times*, April 10, 1982, p. 2.

42. "Statement of the Ten on the Falklands (Brussels, 10 April 1982)," reprinted in *European Political Co-operation (EPC)*, 5th ed. (Federal Republic of Germany: Clausen and Bosse, 1988), pp. 150-151.

imposed against the Soviet Union and Poland in the previous two years.<sup>43</sup> The date on which sanctions would come into effect and their duration remained unclear.

Thatcher, speaking to Parliament, noted the government's "heartening degree of success" in convincing the EEC to take action, calling it a "very important step, unprecedented in its scope and the rapidity of the decision." The Prime Minister also noted that economic self-interest could not explain the EEC action. "The decision cannot have been easy for our partners, given the commercial interests at stake."<sup>44</sup> Other governments agreed with this assessment. A spokesman for the Belgian president of the EEC corroborated Thatcher's point, noting that a great deal of persuasion had been required to convince both Ireland and Italy to join in the sanctions effort.<sup>45</sup> A West German official, speaking of negotiations on the import ban, said, "Here was a case where we were doing something for the Community with no national profit to be gained, in fact quite the opposite."<sup>46</sup>

Given the economic and political interests at stake, most European states were willing to participate in multilateral sanctions as an alternative to war, but were not willing to bear the costs of unilateral sanctions, which they saw as ineffective. The interests leading to support for multilateral sanctions included concern over Argentina's aggressive move against a member's territory and recognition of similarly vulnerable areas, such as West Berlin.<sup>47</sup> With the possible exception of Ireland and Italy, members found themselves in an assurance game where multilateral cooperation was desirable. For these states, the EEC played a useful but perhaps not vital role. Involvement of this formal multilateral organization meant that states agreed on the precise obligations of each in the sanctions effort, setting standards about what constituted cooperation and defection. Through the provision of information and setting of standards, the EEC allowed these members to overcome doubts about the utility of their own sanctions, and thus facilitated cooperation. For the members with a weaker interest in sanctions, due to higher economic

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43. R.W. Apple, Jr., "Europeans Ending Argentine Imports," *New York Times*, April 11, 1982, p. 1; Gary Yerkey, "W. Europe Stands with Britain," *Christian Science Monitor*, April 12, 1982, p. 12.

44. House of Commons, *The Falklands Campaign*, pp. 74-75.

45. Cooney, "Ireland Agrees to EEC Embargo," p. 6.

46. John Wyles, "Community May Owe Debt to Argentina," *Financial Times*, April 27, 1982, p. 2.

47. Lawrence Freedman and Virginia Gamba-Stonehouse, *Signals of War: The Falklands Conflict of 1982* (London: Faber and Faber, 1990), p. 152.



and domestic political costs and no immediate geopolitical benefits, the EEC was more important. For Italy and Ireland, the diffuse benefits provided by the Community created an interest in "solidarity," prompting them to cooperate. Later, however, when the realized costs of sanctions grew, "solidarity" would no longer be a sufficient payoff.

EEC members viewed sanctions not as an adjunct to military activity, but as an alternative. British Foreign Minister Francis Pym (who replaced Lord Carrington when the crisis began) claimed that the sanctions caught Argentina by surprise, and were "a body blow to its already rather shaky economy."<sup>48</sup> Officials recognized that EEC ministers were willing to impose sanctions quickly because they hoped that this action might prevent escalation of the conflict into a military confrontation. The "European plan" was to use economic and diplomatic pressure to force Argentina to compromise.<sup>49</sup> In the House of Commons, one member noted that "We are fortunate in having the EEC's backing, but I suspect that it wants not only to provide us with support but to act as a restraining force on any over-adventurousness on our part."<sup>50</sup> As events were to prove, this member's assessment was correct. EEC members hoped that joint sanctions could have a significant impact on Argentina because it was highly dependent on the international economy.

However, as in the Argentines' assessment of British motives, the Europeans underestimated the importance of domestic political pressures on the junta. Like Thatcher, Galtieri could not afford to back down once he had taken his stand in the Falklands.<sup>51</sup> Argentina hoped to counter sanctions with assistance from Latin American countries and the Soviet Union. It also surmised correctly that international financial markets could not afford to force the country into default. Thus, even the impressive level of cooperation exhibited by the EEC and other countries was not sufficient to prevent the Argentines from fighting over the Falklands.

The EEC did not immediately implement its April 10 decision to ban imports. Representatives struggled with a number of legal and technical difficulties. Reports suggested that the import ban would probably be limited

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48. House of Commons, *The Falklands Campaign*, pp. 102–103.

49. Yerkey, "W. Europe Stands," p. 12.

50. House of Commons, *The Falklands Campaign*, p. 85.

51. This could be considered a problem of non-overlapping win sets, meaning that there existed no agreement that would be approved by the relevant constituencies in both countries. See Robert D. Putnam, "Diplomacy and Domestic Politics: The Logic of Two-Level Games," *International Organization*, Vol. 42, No. 3 (Summer 1988), pp. 427–460.

to two weeks.<sup>52</sup> By April 14 officials had sorted out these difficulties. Sanctions went into effect on April 17 and were initially approved for a period of four weeks. After four weeks, the Community would lift the sanctions if progress toward a diplomatic solution were evident. Approval of the one-month import ban was considered a victory for the British, since the European Commission had proposed a two-week limit.<sup>53</sup> The economic interests of member states received one crucial concession in the final negotiations, in that contracts concluded prior to April 16 were exempted from the import ban.<sup>54</sup> Given the time it takes for goods to travel from Argentina to Europe and expectations that the conflict would be settled within a few weeks, this provision meant that the ban would have only a minor economic impact if the dispute were settled quickly. In spite of this concession, Italy continued to express reservations about the proposed sanctions and refused to approve the official documents until the last minute, on Friday, April 16.

Ireland and Belgium also showed a notable reluctance to impose sanctions. Other EEC members expressed more whole-hearted support for Britain. In France, President Mitterrand and the rest of the government fully supported the British effort, although the French press continued to portray the conflict as a farce. One analysis suggested that the French "government's reason for rallying early to the British cause has been to provide a precedent for joint EEC action in the event of a threat to France's overseas territorial possessions."<sup>55</sup> In West Germany, public, government, and press support appeared strong. Analogies were drawn to the situation in Berlin. Economics Minister Otto Lambsdorff sounded one discordant note, declaring that EEC sanctions against Argentina did not change his belief that economic sanctions were not very useful as a political lever.<sup>56</sup> He hoped that the dispute would be settled quickly so that the Community could lift its sanctions.

Thus, there was a range of opinion in Europe about the utility of supporting Britain with sanctions. Despite their misgivings, European states were willing to take economic measures as an alternative to military conflict, and because they did not expect that sanctions would cost them much, as long as they worked. British requests had been designed to keep costs relatively low, e.g.,

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52. Giles Merritt, "EEC Ban Likely to be Delayed," *Financial Times*, April 14, 1982, p. 1.

53. John Cooney, "EEC Ban on Trade Begins," *Irish Times*, April 15, 1982, p. 4.

54. Council Regulation (EEC) No. 877/82, *Official Journal of the European Communities*, Vol. 25, No. L 102 (April 16, 1982).

55. David Housego, "French Treat Conflict as a Farce," *Financial Times*, April 16, 1982, p. 4.

56. Reuters North European Service, April 22, 1982.

avoiding a Community-wide freeze on Argentine assets that West German representatives had opposed.<sup>57</sup> States' willingness to cooperate had one strong condition: that other EEC members also impose sanctions. Measures taken by just a few countries would have little impact on Argentina, so governments were willing to participate only in a multilateral effort. The EEC machinery provided assurance that all states were taking the same measures. Members' reputations were now tied to national enforcement of particular measures. However, given the expectation that sanctions would quickly work, a determinative role for the EEC cannot be claimed at this stage, except perhaps in the case of the most reluctant members.

SANCTIONS AFTER THE *GENERAL BELGRANO* SINKING: INSTITUTIONAL COERCION  
EEC solidarity began to waver as soon as the first shot was fired in the Falklands War. Members had hoped that economic pressure would be sufficient to prevent Argentina from going to war with Britain. Some, especially Ireland, were strongly opposed to imposing sanctions that could be seen as an adjunct to military activity. In addition, the economic costs of sanctions would now increase, as it became obvious that the conflict would not be resolved overnight. As early as April 20, Tindemans refused to agree that EEC support for Britain would continue if force were used.<sup>58</sup> Newspapers reported that if Britain began firing, EEC public and governmental backing for Thatcher would likely evaporate.<sup>59</sup> During this second phase of sanctions, preferences became more asymmetric, with Britain desiring continued strong support while other states grew less willing to keep sanctions in place. Britain continued to have a dominant strategy of imposing sanctions, while other EEC members now derived fewer immediate benefits from multilateral sanctions than from defecting from the joint effort, due to domestic resistance to military action and increased economic costs. The game during this phase became one in which Britain had to exert significant pressure on some members to gain their continued cooperation, as the payoff for multilateral sanctions decreased. The EEC framework provided this leverage.

After the British recapture of South Georgia on April 25, EEC foreign ministers met in Luxembourg to discuss the status of sanctions. Although

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57. John Cooney, "EEC Nations Fail to Agree on Sanctions," *Irish Times*, April 9/10, 1982, p. 1.

58. Reuters North European Service, April 20, 1982.

59. David K. Willis, "Each Day the Fleet Sails, Thatcher's Options Narrow," *Christian Science Monitor*, April 22, 1982, p. 9.

some reports suggested that officials urged Thatcher to continue negotiating with Galtieri and warned that they would have to re-evaluate their support for sanctions if force were used, the public stance of solid EEC support remained firm.<sup>60</sup> Tindemans announced continued backing of Britain. On the other hand, Irish diplomats argued that with the start of military action the EEC was involved in "a whole new ballgame."<sup>61</sup>

West Germany, on the whole, remained committed to sanctions. Foreign Minister Genscher argued that solidarity was in NATO's interest as well as the EEC's; since all but Ireland were members of NATO, this cross-institution tie could have persuaded some representatives. Genscher argued that the value of EEC backing would be diluted if internal differences were made public; thus, Tindemans' public statements downplayed any dissent. At the Luxembourg meeting, Britain did not request any further sanctions and there was apparently no formal discussion of what actions the EEC might take if fighting became serious.<sup>62</sup> Tindemans did, however, link continued support to negotiations between Britain and Argentina, particularly Haig's ongoing shuttle diplomacy. Other officials, including Italian Foreign Minister Emilio Colombo, voiced similar concerns. One official said, "The aim of Common Market sanctions was to put diplomatic pressure on Argentina, and the whole ball game will be completely different if the British attack the Falklands."<sup>63</sup> Newspapers in Europe echoed this reluctance to see military force used.<sup>64</sup>

In spite of these warnings, on May 2 British forces sank the Argentine cruiser *General Belgrano* outside of the declared 200-mile exclusion zone around the Falklands. Tindemans immediately reiterated EEC support for Britain and for a negotiated settlement to the dispute, saying that no government formally had changed its stance on sanctions.<sup>65</sup> However, in Ireland, Denmark, and West Germany officials quickly began to question sanctions. The Irish Minister for Defense, Patrick Power, said on May 3 that Britain was now the aggressor in the Falklands, and compared the British to a hit-and-

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60. R.W. Apple, Jr., "Britain Imposing Blockade on All Shipping and Flights Near Falklands Tomorrow," *New York Times*, April 29, 1982, p. A1.

61. Dennis Kennedy, "Envoy Sent to Put Argentine Case to Irish Government," *Irish Times*, April 27, 1982, p. 6.

62. John Cooney, "Pym Describes EEC Support as 'Very Robust'," *Irish Times*, April 28, 1982, p. 8.

63. Reuters, April 28, 1982, AM cycle.

64. Twitchett, "The Falklands," p. 11.

65. Reuters North European Service, May 3, 1982.

run driver. Reports in Irish newspapers suggested that renewal of sanctions when they expired on May 17 was now "extremely unlikely."<sup>66</sup> In addition to the sinking of the *Belgrano*, air attacks on Port Stanley, which had begun on April 30, and U.S. support for Britain were cited as factors that had changed the situation considerably. Leaders of most European countries, including France and Germany, called for an immediate ceasefire.<sup>67</sup>

When the news of the *Belgrano* sinking reached Dublin, Irish cabinet ministers were relieved about a decision they had made earlier in the day, to ask the EEC to agree to a lifting of sanctions and to call for an emergency UN Security Council meeting in light of the likelihood of military conflict. There was now little ambiguity about the Irish position. The new policy, calling Britain an aggressor and calling for an end to sanctions, was formally adopted in a cabinet meeting on Tuesday, May 4. The government stated that it was, "appalled by the outbreak of what amounts to open war . . . and at reports that hundreds of lives have already been lost. They see the present situation as a serious threat to world peace. . . . The Irish Government regard the application of economic sanctions as no longer appropriate and will, therefore, be seeking the withdrawal of these sanctions by the Community."<sup>68</sup>

Haughey declared, however, that Ireland would not lift sanctions unilaterally. A Dublin paper explained the reasoning: "There is no compulsion on Ireland or any other country to fall into an EEC line, but the desirability of such solidarity itself becomes a factor in deciding policy."<sup>69</sup> Afraid of threatening other Community benefits, particularly farm subsidies and access to the British market at favorable tariff rates, the government was worried about unilateral withdrawal from sanctions to which they had previously committed themselves.

Prime Minister Haughey explained that Irish neutrality was the major obstacle to continuing sanctions, now that they were a complement to British military action. Neutrality meant that Irish options were "more limited" than those of other EEC members. Haughey stated that, "we were never very enthusiastic about the imposition of sanctions but the argument was persuasive that they could be instrumental in applying pressure to achieve the implementation of Resolution 502 and so lead to a diplomatic solution."<sup>70</sup>

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66. "EEC Unlikely to Renew Imports Ban," *Irish Times*, May 4, 1982, p. 6.

67. William Borders, "Falklands Casualties Bring Dismay in Europe," *New York Times*, May 5, 1982, p. A1.

68. Dick Walsh, "Government Wants Sanctions Lifted," *Irish Times*, May 5, 1982, p. 1.

69. Dennis Kennedy, "EEC Solidarity a Factor in Determining Ireland's Stance," *Irish Times*, May 3, 1982, p. 8.

70. Dick Walsh, "Haughey Explains Sanctions Change," *Irish Times*, May 7, 1982, p. 1.

He explained the timing of his decision to oppose sanctions by saying that prior to the attack on the *Belgrano*, the British task force appeared to be on a mission of blockade rather than invasion. Now, he reiterated that he wanted to maintain EEC solidarity, but would try to convince others to lift sanctions. He continued to be "very averse" to unilateral action.<sup>71</sup>

West Germany and Italy reportedly continued to favor an arms embargo, but questioned the further utility of trade sanctions. If its purpose was to prevent fighting, now that the shooting had started there seemed little reason to continue the ban on imports. West Germany also expressed fears that escalation of violence in the Falklands would provide an opportunity for the Soviet Union to increase its influence in Latin America.<sup>72</sup> West Germany in particular was disappointed and surprised by the failure of U.S. efforts at mediation. Officials noted that U.S. negotiations had been an important factor in convincing the EEC to impose sanctions. However, the failure of negotiations made sanctions look like a "blank check" for British military action, which was not what the Community had intended.

West Germans said that a "grave question mark" hung over the future of EEC sanctions, and noted that their initial support had been given only with "serious misgivings," considering significant West German economic interests in Argentina and the fact that sanctions were unlikely to work.<sup>73</sup> West German businessmen began to worry more about the economic impact of sanctions, especially since Argentina began to threaten that extension of the sanctions past May 17 could result in long-term damage to relations.<sup>74</sup> While the credibility of this threat remains open to question, the prospect of losing a market worth over half a billion dollars annually due to a colonial dispute between Britain and Argentina was unsettling. A debate in the European Parliament showed the extent to which public opinion for sanctions had waned. On April 22, the Parliament had voted 203 to 28 in support of sanctions; on May 12, a vote on the same question passed by only 137 to 79.<sup>75</sup>

By May 4, support for continued sanctions seemed to be in serious trouble. Prime Minister Haughey publicly called for the EEC to lift its sanctions immediately, but said that if the EEC would not agree to lifting sanctions,

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71. Ella Shanahan, "Dead on, Baby, Lenihan Tells Cashman," *Irish Times*, May 7, 1982, p. 9.

72. Reuters North European Service, May 4, 1982.

73. Jonathan Carr, "Bonn Fears Worsening Crisis," *Financial Times*, May 6, 1982, p. 4.

74. Foreign Staff, "Sympathy in Western Europe Wears Thin," *Financial Times*, May 5, 1982, p. 1.

75. Freedman and Gamba-Stonehouse, *Signals of War*, p. 347.

Ireland would not do so unilaterally. Given the outrage in Ireland over the *Belgrano* sinking and general antipathy toward the British, in which support for Britain was "almost an affront to a national tradition," this condition was a strong statement of the power of institutional decisions on national policies.<sup>76</sup> The rest of the EEC, however, was unprepared for the Irish request and unlikely to agree quickly. This cautious attitude was reinforced on May 4, when Argentina sank *HMS Sheffield*, making the military conflict appear less one-sided.

The escalation of the Falklands conflict to the military level had profound implications for state preferences. Some, like West Germany, found themselves questioning the level of support they had given Britain. Others, particularly Ireland, now faced severe domestic pressure to pull out of the sanctions. However, the EEC decided to put off a decision until the original sanctions expired, on May 16. In this situation, Ireland anticipated that its EEC benefits, such as farm subsidies and access to EEC markets, would be threatened by a unilateral withdrawal from the Community's policy. Thus, institutional considerations forced Dublin to stick with the sanctions in spite of domestic demands to pull out. Only the pressure of institutional commitments can explain continued Irish cooperation. Although the conflict between institutional and domestic pressures became most public in Ireland, other members faced a similar conflict, to varying degrees. The EEC's decision to maintain the original agreement helped push governments to continue sanctions.

#### RENEWING SANCTIONS: CROSS-ISSUE LINKAGES

In the third and final phase of sanctions, most EEC members were reconsidering their costs and benefits, while Britain continued to look for cooperation. It was becoming obvious that the conflict was likely to drag on, leading to much higher costs of imposing sanctions than states had originally anticipated. In addition, many Europeans felt that since sanctions had failed to avert hostilities, the economic measures should now be dropped. In light of higher costs, members demanded a side-payment from Britain in the form of a concession on a persistent budget problem. The organization fostered continued cooperation, in the face of now highly asymmetrical interests, by allowing its members to link these two issues. The nature of strategic inter-

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76. Ibid.

action and coercive bargaining that led to the continuation of sanctions conforms more closely to realist than to neoliberal expectations, as explained below, but the institutional dimension remained essential to the cooperative outcome.

Over the weekend of May 8–9, European foreign ministers met in Belgium, in what was described as “an extremely acrimonious” meeting, to discuss renewal of sanctions, which were due to expire on May 17.<sup>77</sup> Other issues were on the agenda as well, including the British budget contribution. British sources began to suggest that refusal to renew sanctions, or linkage of sanctions to other issues, might lead Britain to pull out of the EEC. They also emphasized that British ships were being lost, and that the government was now cooperating in UN efforts at negotiation, under the secretary general. These efforts would, diplomats hoped, convince their EEC partners that Britain was genuinely interested in a negotiated solution to the conflict and so increase the chances of renewing sanctions.<sup>78</sup>

Throughout the crisis, some members had quietly suggested that Britain should be willing to make concessions in a long-running intra-Community budget dispute in exchange for EEC solidarity on the Falklands issue. Britain had been demanding a reduced contribution to the EEC budget, arguing that it was one of the poorest countries in the Community and that therefore its budget assessment was out of line. In an attempt to force other members to concede on the budget issue, Britain had been holding up an increase in farm price supports under the Common Agricultural Policy (CAP).

Suggestions of linkage first arose in Ireland and Belgium. As early as April 12, the *Irish Times* had suggested that, “in return for this show of solidarity Britain may now be expected by her partners to take a more conciliatory approach to the review of farm prices, already a week overdue.”<sup>79</sup> On April 16, the *Financial Times* noted the sentiment in favor of linkage in Belgium. “Belgium, at any rate, has not forgotten that the intra-EEC disputes of budget payments and farm prices that tend to separate Britain from the rest of the EEC had to be hurriedly shelved on the outbreak of the crisis.”<sup>80</sup> A Belgian farmers’ weekly newspaper carried a headline suggesting that European farmers were being held hostage to 1,800 Britons in the Falklands. The

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77. Geoffrey Edwards, “Europe and the Falkland Islands Crisis, 1982,” *Journal of Common Market Studies*, Vol. 22, No. 4 (June 1984), p. 307.

78. John Wyles, “Bid to Renew Sanctions,” *Financial Times*, May 8, 1982, p. 2.

79. Cooney, “Ireland Agrees to EEC Embargo,” p. 6.

80. Housego, “French Treat Conflict as a Farce,” p. 4.



*Financial Times* reported that questions of linkage were “floating eerily on the diplomatic breeze,” and that Foreign Minister Pym was working hard to keep the Falklands issue separate from all others.<sup>81</sup> In West Germany, hints of linkage emerged as expressions of hope that the quick EEC response would improve the Community’s image in Britain.

Irish sources, in the early phases of sanctions, were the most open about potential linkage. One newspaper reported in late April that, “to maintain EEC solidarity with Britain in the Falklands crisis, the Irish Government would like to see Britain show solidarity inside the EEC by approving this week the 1982–83 farm price increases.”<sup>82</sup> A few days later, the Irish Minister for Foreign Affairs claimed that there had been no direct tradeoff between EEC sanctions and the farm price deal, but noted that he did not expect continued British obstruction of price increases. He went on to say that “there had been an expectation that Britain would soften its line on the farm price issue following the EEC’s solidarity over the Falklands.”<sup>83</sup> Other reports claimed that Pym had been given an ultimatum on this issue. By early May, West German Farm Minister Josef Ertl joined Irish, Belgian, and French suggestions that Britain would now have to make concessions on the budget/farm price dilemma in order to gain continued support for sanctions.<sup>84</sup>

Irish and French sources, on the weekend of May 8–9, continued to suggest that Britain would have to concede on the budget issue in order to gain their cooperation on sanctions.<sup>85</sup> While EEC officials still avoided making explicit any link between the two issues, they did suggest that Britain could not expect continued backing in the Falklands if it continued to antagonize its partners on other issues. A West German official went so far as to say that “solidarity is not a one-way street.”<sup>86</sup> Thus, Britain had an opportunity to link the two issues, thereby transforming two games of deadlock into a single game where both sides—Britain and the rest of Europe—could benefit.

However, Francis Pym adamantly rejected any such linkage at the weekend meeting. Britain opposed all suggested deals on the budget, precipitating a crisis in the organization. The Community also failed to come to a decision on the sanctions issue. Although Ireland agreed to continue its sanctions

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81. Wyles, “Community May Owe Debt to Argentina,” p. 2.

82. John Cooney, “EEC Support for Britain to Continue,” *Irish Times*, April 27, 1982, p. 7.

83. John Cooney, “EEC Agrees to Extend Embargo,” *Irish Times*, April 30, 1982, p. 1.

84. Foreign Staff, “Sympathy in Western Europe Wears Thin.”

85. Anne Sington, “French Mood is Uneasy,” *Irish Times*, May 8, 1982, p. 8.

86. Reuters North European Service, May 8, 1982.

until May 17, the ministers did not agree to British requests to extend them past this date.<sup>87</sup> Leo Tindemans reported continued EEC solidarity with Britain, and said that a decision on the renewal of sanctions would be made the next Sunday, May 16—just one day before sanctions were due to expire. The *Financial Times* noted the implicit link between the budget and sanctions: “In taking the final decision [on sanctions], governments such as Ireland, Italy and Denmark may well be influenced by the fact that the UK has refused to soften its ‘no farm price increase without a budget deal’ stand, while still expecting supporting action over the Falklands.”<sup>88</sup>

Over the next week, individual countries clarified their positions on the renewal of sanctions. Italy began to emerge as a major problem for Britain, as the Italian Socialist Party, a member of Italy’s governing coalition, came out strongly against any renewal while military action continued. Bettino Craxi, leader of the Socialist Party, said that he could see no reason to approve extension of the sanctions. Europeans saw this as a major embarrassment for Italian Prime Minister Giovanni Spadolini, who was known for his pro-European attitudes and thus had supported EEC solidarity.<sup>89</sup> The British press, however, guessed that Spadolini would win this domestic debate, and that Italy would be unwilling to drop sanctions if West Germany and France called for their renewal.<sup>90</sup> In other words, some analysts expected that institutional incentives would overcome domestic opposition to sanctions in Italy, as they had in the Irish case. Although the West German public expressed opposition to continued sanctions if this might draw West Germany more deeply into the conflict, the government was expected to continue supporting sanctions unless Britain took the rash step of attacking the Argentine mainland.

Ireland continued to oppose renewal of sanctions, arguing that its position of neutrality made support for sanctions especially difficult if fighting continued. In addition, Ireland had much to gain from the proposed farm price increases Thatcher was blocking. Anti-Anglo sentiment was running particularly high in Ireland for this reason, and also due to a mishap in which a British submarine caught the nets of an Irish trawler, sinking it. In spite of

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87. Leonard Doyle, “Britain Rejects EEC Cash,” *Irish Times*, May 10, 1982, pp. 1 and 6.

88. John Wyles, “EEC States Withhold Renewal of Sanctions,” *Financial Times*, May 10, 1982, p. 1.

89. Alessandro Silj, “Pym Claims EEC Support as Criticism Begins to Grow,” *Irish Times*, May 11, 1982, p. 4.

90. Wyles, “EEC States Withhold Renewal,” p. 1.

these factors working against Irish approval of new sanctions, the government delayed a formal decision until the last minute, hoping to avoid isolation within the EEC.<sup>91</sup> As in Italy, systemic pressures against isolation were competing with domestic pressures to pull out of sanctions. On Thursday, May 14, the Irish government was reportedly ready to veto EEC sanctions.<sup>92</sup> Formally, Ireland could invoke the Luxembourg Compromise, which allowed EEC members to veto actions that affected their "vital national interests." By vetoing sanctions, Irish officials thought they might avoid some of the stigma attached to refusing to go along with an institutional decision approved by majority vote.

During this week, the French position, which had been strongly pro-British, underwent a revision. French officials seem to have realized that they could use the sanctions issue to get concessions from Britain on the budget and farm prices, problems that had been plaguing the Community for years. Foreign Minister Claude Cheysson went to London for talks with British officials on May 14. He met with Francis Pym for ninety minutes, and later in an extended interview with the British Broadcasting Corporation made explicit the linkage between the budget and sanctions. He accused Britain of not appreciating EEC solidarity and of being interested only in financial gains, and said that the impressive solidarity shown in the Falklands crisis had much to do with other issues of Britain's presence in the Community.<sup>93</sup>

The foreign ministers' meeting took place as scheduled in Brussels on Saturday. However, the ministers failed to reach any agreement then, and so moved to Luxembourg where a NATO meeting was due to begin on Monday. By the night of Sunday, May 16, they had not yet struck a deal on either sanctions or the British budget contribution. The ministers used an ambiguity in the drafting of the sanctions order to determine that sanctions would not expire until midnight, May 17, thus giving themselves one more day in which to reach agreement.<sup>94</sup> The most vociferous opposition to sanctions came, unexpectedly, from Italy rather than Ireland. The Italian foreign

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91. Dick Walsh, "Government May Stall on Sanctions," *Irish Times*, May 13, 1982, p. 1.

92. Denis Kennedy, "Government Seems Ready to Veto Sanctions," *Irish Times*, May 14, 1982, p. 1.

93. David Tonge and David Housego, "Cheysson Sets Harsh Opening Tone," *Financial Times*, May 15, 1982, p. 2.

94. Steven Rattner, "Common Market Delays Vote to Retain Argentine Boycott," *New York Times*, May 17, 1982, p. A1.

minister argued that he could not approve continued sanctions due to domestic opposition, despite a personal visit from Secretary of State Haig urging him to support a renewal. Meanwhile, the Irish representative said nothing during the debates.

On the budget issue, the ministers renewed an earlier offer to reduce Britain's contribution by \$810 million, and Pym again rejected it. While British officials continued to insist that the budget and sanctions were separate issues, representatives of the other nine EEC members continued to hold out for British budget concessions before they would renew sanctions. On Monday, a series of bilateral meetings took place throughout the day. Representatives could not agree on the budget, farm prices, or sanctions. Finally, the ministers, led by the French and German representatives, decided to renew sanctions for just seven days, rather than the minimum of four weeks that Britain had requested.

Irish aversion to isolation continued during this series of negotiations, and the Irish government delayed making its own decision, hoping the EEC as a whole would refuse to extend sanctions. However, when Britain refused to accept the budget rebate offers, Ireland would not go along with a continued trade embargo. It was saved from the embarrassment of complete isolation by the fact that the Italian representative was forced to argue and to vote against a renewal. Italy and Ireland invoked the Luxembourg Compromise to allow their abstention.<sup>95</sup> Both countries agreed to continue the arms embargo against Argentina, while the Irish government informally agreed to avoid circumventing the EEC import ban by transshipment of Argentine goods.<sup>96</sup>

The Italian Prime Minister found his government's decision difficult, but his coalition partners had vowed to bring down the government if he went ahead with sanctions, even for seven days.<sup>97</sup> Bettino Craxi stated that he believed sanctions "were a mistake from the beginning," and supported the government's decision not to go along with the rest of the EEC.<sup>98</sup> Foreign Minister Colombo, however, revealed the division between the Socialist and

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95. Peter Calvert, *The Falklands Crisis: The Rights and Wrongs* (New York: St. Martin's Press, 1982), p. 125.

96. Pieter Jan Kuyper, "Community Sanctions against Argentina: Lawfulness under Community and International Law," in David O'Keeffe and Henry G. Schermers, eds., *Essays in European Law and Integration* (Deventer, The Netherlands: Kluwer B.V., 1982), p. 149; Leonard Doyle, "Ireland and Italy Demur as EEC Renews Sanctions," *Irish Times*, May 18, 1982, p. 1.

97. James Buxton, "Britain Asks Rome to Explain," *Financial Times*, May 19, 1982, p. 4.

98. Reuters North European Service, May 18, 1982.

Republican parties by stating that Italy still considered Argentina the aggressor and by stressing that the arms embargo remained in force.<sup>99</sup> Thus, Britain partially lost the cooperation of two states, while achieving a temporary commitment to continued cooperation from the other EEC members.

On Tuesday, May 18, a crisis arose over the question of farm price supports. Britain continued to refuse to allow increases to go through. Traditionally, the EEC had allowed member states to exercise veto power over such decisions on the grounds of "vital national interest." However, on May 18 the Council of Agriculture ministers decided to go ahead with the price increases against Britain's wishes, precipitating a constitutional crisis.<sup>100</sup> This decision also created a political crisis for Thatcher, as calls arose for Britain to change its status in the EEC or withdraw completely from the organization.<sup>101</sup> Although she protested the Community's action loudly, calling it a dangerous move toward majority rule, she took no concrete actions to retaliate. Considering that sanctions were due to be renewed again in just six days, she could not afford to continue to press on the budget issue. Reports suggested that the farm price decision had been politicized by the Falklands issue.<sup>102</sup>

On May 21, British forces landed on the Falkland Islands. EEC members largely refrained from commenting, particularly on the impact of this move on the renewal of sanctions. Tindemans said that the Community would look for ways to continue pressuring Argentina, but did not mention sanctions.<sup>103</sup> Diplomats in Brussels suggested that sanctions might not be renewed, although France and West Germany continued to favor them.

A foreign ministers' meeting on Monday, May 25, lasted until 3:00 in the morning, but the ministers finally reached a deal. Britain accepted a budget rebate of \$875 million, very close to what had been offered a week earlier, while EEC members other than Ireland and Italy agreed to an indefinite renewal of sanctions.<sup>104</sup> As mentioned above, West Germany was the EEC country that had the greatest trade with Argentina. Thus, as Bonn did not

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99. John Vinocur, "Market Countries Postpone a Stand," *New York Times*, May 22, 1982, p. 7.  
100. H. Peter Dreyer, "EC Institutions: Agreeing to Disagree," *Europe*, No. 232 (July/August 1982), p. 29; Panayiotis Ifestos, *European Political Cooperation: Towards a Framework of Supranational Diplomacy?* (Brookfield, Vt.: Gower, 1987), p. 316; John Cooney, "Farm Prices Vote Puts EEC in Crisis," *Irish Times*, May 19, 1982, p. 1.

101. Reuters, May 20, 1982, AM cycle.

102. "Falklands Fallout in Europe," *Christian Science Monitor*, May 20, 1982, p. 24.

103. Vinocur, "Market Countries Postpone a Stand," p. 7.

104. Steven Rattner, "8 Market Nations Again Extend Ban Against Argentina," *New York Times*, May 25, 1982, p. A1.

withdraw, the willingness of at least this government to sanction Argentina is more precisely explained by political than economic factors. As of Monday morning, the British delegation was still looking for a rebate of \$1.1 billion, but negotiations during the day forced Pym "to compromise to an extent unacceptable two months ago," and accept \$810 million.<sup>105</sup> The members also agreed during these negotiations to an offer from French Foreign Minister Cheysson for an indefinite extension of sanctions.<sup>106</sup> Ireland and Italy remained "neutral" on the sanctions decision and agreed not to circumvent the embargo. By conceding on the budget and CAP issues, Britain achieved a firm commitment to continued sanctions from the other EEC members.

EEC observers declared the settlement of the farm price, budget, and sanctions issues a victory for the institution. The *EC Bulletin* said that a crisis had been overcome, but denied that linkage among the issues had contributed to the settlement.<sup>107</sup> Given the series of events, however, this assertion is implausible. Analysts described the decisions on the Falklands as a success for EPC, the gradual movement toward coordination of foreign policies among EEC members.<sup>108</sup> Even taking the partial withdrawal of Italy and Ireland into account, the level of cooperation achieved is impressive.

In this final phase, states used the renewal of sanctions to gain British concessions on a long-standing institutional dilemma. Thatcher, although furious at the Community's override of the farm price veto, could not pull back from the institution because she needed the others' support on sanctions. Linkage between these issues created and sustained by the Community's organizational framework accounts for the high level of cooperation expressed by the indefinite renewal of economic measures against Argentina. Because the Falklands case was a game in which Britain had to engage in "high-level arm twisting" to gain the cooperation of others, cross-issue linkage created conditions for cooperation.<sup>109</sup> British budget concessions allowed the Community to agree to an indefinite extension of sanctions on May 25. As one group studying the Falklands crisis concluded, "The fact that the EEC cooperated with Britain at all was a result of intra-community politics. The

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105. John Wyles, "Britain and EEC Partners Declare a Truce," *Financial Times*, May 26, 1982, p. 2.

106. John Cooney, "EEC Respite as Britain Accepts £578m," *Irish Times*, May 26, 1982, p. 9.

107. "A Crisis Overcome," *Bulletin of the European Communities*, Vol. 15, No. 5 (1982), pp. 7-9.

108. Economist Intelligence Unit, *European Trends*, No. 71 (May 1982), pp. 1-2.

109. Heritage Foundation Reports, International Briefing No. 10, June 21, 1982; Ifestos, *European Political Cooperation*, p. 317; F.S. Northedge, "Britain and the EEC: Past and Present," in Roy Jenkins, ed., *Britain and the EEC* (London: Macmillan, 1983), p. 34.

effective quid pro quo was the abandonment of the Luxembourg Compromise which had allowed Britain to veto EEC farm pricing policies."<sup>110</sup> Given the need to provide side-payments, the EEC structure lowered transaction costs by allowing Britain to strike a single multilateral deal rather than a complex set of *ad hoc* bilateral bargains, and made such linkages credible. In this instance, the creation and cementing of intergovernmental bargains was greatly facilitated by an institutional framework.

### *Issue Linkage, Institutions, and Paradigms*

The foregoing history provides an empirical perspective on the realist-neoliberal debate in international relations theory. This section discusses the nature of this debate, focusing on the impact of international institutions and regimes. It then identifies the role of institutions in facilitating cross-issue linkage. While realists correctly highlight tactical linkages in interstate bargaining, the neoliberal perspective adds valuable insight into how such linkages can be created and maintained. Because institutions help states establish credible linkages, the neoliberal approach generates greater understanding of the processes leading to cooperation in this case.

The essential distinction between the neoliberal and realist approaches lies in their understanding of the nature of state interests. Neoliberals see a world of mixed-motive strategic interactions, where conflict coexists with significant room for mutual gains.<sup>111</sup> From these assumptions about the character of strategic interaction among states, derived from understandings about the impact of anarchy, neoliberals deduce an important role for international institutions in facilitating cooperative behavior. They find that institutions allow states to overcome conflicts of interest to achieve mutual gains.

Realists, on the other hand, argue that concerns with relative gains and with the existence of power differentials result in patterns of state interests characterized by purely conflictual situations, leaving no scope for mutual gains.<sup>112</sup> The resulting perspective on the role of institutions is ambiguous.

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110. Latin American Bureau, *Falklands/Malvinas: Whose Crisis?* (London: Latin American Bureau, 1982), p. 112.

111. Keohane, *After Hegemony*, pp. 66–69; Robert Axelrod, *The Evolution of Cooperation* (New York: Basic Books, 1984).

112. Joseph M. Grieco, "Anarchy and the Limits of Cooperation: A Realist Critique of the Newest Liberal Institutionalism," *International Organization*, Vol. 42, No. 3 (Summer 1988), pp. 495–503.

On the one hand, Kenneth Waltz argues that the competitive nature of state interests marginalizes the impact of institutions.<sup>113</sup> Joseph Grieco, along the same lines, finds that anarchy forces states to behave as “defensive position-*alists*” rather than “rational egoists,” imposing stringent restraints on international cooperation.<sup>114</sup> However, Grieco is not totally pessimistic about the role of institutions. He concludes that institutions do matter because they can perform a broad range of functions, such as narrowing gaps in payoffs and providing side-payments.<sup>115</sup> Earlier realists show a similar ambivalence about the role of international organization and law, with both Hans Morgenthau and E.H. Carr devoting considerable attention to these subjects.<sup>116</sup>

The realist paradigm is useful in directing our attention to the arm-twisting and tactical issue linkage that led to cooperation in the final phase of sanctions. As the Falklands crisis developed, the preferences of European states changed from a classic neoliberal formulation—an assurance game—to a more asymmetrical, coercive pattern. As the nature of the conflict became clearer and the relevance of military conflict increased, the scope of common interests between Britain and other members of the European Community narrowed considerably. Opposition resulted from the higher cost of long-term sanctions and from domestic political resistance to siding actively with Britain in a war with colonial overtones. In response to this change in state preferences, the processes that led to cooperation changed. However, contrary to expectations from a narrow realist perspective, the institutional structure of the EEC continued to provide a central mechanism for cooperation. The functioning of the institution varied in response to changes in the nature of the cooperation problem facing states, but at no point did the institution become irrelevant to, or merely the result of, the bargaining process. Britain finally achieved cooperation through a tactical issue linkage.<sup>117</sup> Thus, as

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113. Kenneth N. Waltz, *Theory of International Politics* (New York: Random House, 1979), pp. 115–116.

114. Joseph M. Grieco, *Cooperation among Nations: Europe, America, and Non-Tariff Barriers to Trade* (Ithaca: Cornell University Press, 1990), p. 10.

115. *Ibid.*, pp. 233–234.

116. Hans J. Morgenthau, *Politics among Nations*, 2d ed. (New York: Alfred A. Knopf, 1954), pp. 249–308; Edward Hallett Carr, *The Twenty Years' Crisis, 1919–1939*, 2d ed. (New York: Harper and Row, 1946), pp. 170–207.

117. On tactical issue linkage, see Ernst B. Haas, “Why Collaborate? Issue-Linkage and International Regimes,” *World Politics*, Vol. 32, No. 3 (April 1980), pp. 357–405. For other discussions of issue linkage, see Haas, *When Knowledge is Power: Three Models of Change in International Organizations* (Berkeley: University of California Press, 1990), pp. 76–80; Kenneth A. Oye, “The Domain of Choice: International Constraints and Carter Administration Foreign Policy,” in Oye,



realists would expect, when the degree of common interest declined, *quid pro quo* bargaining and tactical linkages assumed center stage.

However, the realist argument underestimates the importance of institutions in structuring such bargaining processes. In any case of tactical linkage, states face the problem of making commitments credible and durable.<sup>118</sup> Realists trace the credibility of linkages to underlying power capabilities of states. This emphasis on state resources as the primary determinant of outcomes cannot explain British success in this case, since the distribution of underlying capabilities among European states in 1982 shows no obvious disparity in favor of Britain. Instead, Britain drew on its "organizationally dependent" capability to link issues to gain the cooperation of other EEC members.<sup>119</sup> If the asymmetry of preferences between Britain and the rest of the Community had derived from overall power considerations, Thatcher's government could have drawn on its greater resources to exert leverage in favor of multilateral sanctions. However, in this case asymmetric preferences arose for more context-specific reasons, particularly British commitments to the Falklanders. Britain therefore relied on levers provided within the EEC to exert pressure. Britain's "power" in this case was created by its position within the organization.

Discussions of tactical issue linkage suggest how formal organizations can increase the utility of linkage as a bargaining tactic. Robert Keohane argues that problems of transaction costs can prohibit the use of side-payments in the absence of a regime.<sup>120</sup> In this case, without the Community as a forum for negotiation, Britain would have had to construct separate bilateral agreements with each EEC member in order to gain its cooperation. This would

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Donald Rothchild, and Robert J. Lieber, eds., *Eagle Entangled: U.S. Foreign Policy in a Complex World* (New York, Longman, 1979), pp. 13–19; Arthur A. Stein, "The Politics of Linkage," *World Politics*, Vol. 33, No. 1 (October 1980), pp. 62–81; Robert D. Tollison and Thomas D. Willett, "An Economic Theory of Mutually Advantageous Issue Linkage in International Negotiations," *International Organization*, Vol. 33, No. 4 (Autumn 1979); James K. Sebenius, "Negotiation Arithmetic: Adding and Subtracting Issues and Parties," *International Organization*, Vol. 37, No. 2 (Spring 1983), pp. 281–316.

118. For discussions of credibility, see Thomas C. Schelling, *The Strategy of Conflict* (New York: Oxford University Press, 1960), pp. 31–32, 50–51; Oye, "The Domain of Choice," pp. 14–15; Haas, "Why Collaborate?" p. 372.

119. Robert O. Keohane and Joseph S. Nye, Jr., *Power and Interdependence* (Boston: Little, Brown, 1977), p. 55.

120. Keohane, "The Demand for International Regimes," in Krasner, ed., *International Regimes*, p. 156.

have involved much higher transaction costs, at a minimum delaying the imposition of sanctions for a significant length of time. Without the EEC framework, Britain would have had to “create” issues for linkage; the Community’s agenda provided a natural source of such issues.

The institutional role in facilitating linkages goes beyond the provision of a negotiating arena. As Kenneth Oye has noted, “tradeoffs created by tactical linkages are inherently unstable.”<sup>121</sup> The problem of credibility is an important source of instability. To create an effective linkage, Britain had to be credible in its threats of punishment or its promises of side-payments in exchange for cooperation on economic sanctions. In the absence of an institutional context in which Britain made a clear commitment to taking a specific action in exchange for specific actions from other members, establishing credibility would have been more problematic. This fits Keohane’s observation that institutions “raise the costs of deception and irresponsibility,” allowing states to make more credible commitments.<sup>122</sup>

Sociological research has noted the connection between organizations and credibility. Samuel Bacharach and Edward Lawler, for example, argue that “the greater the formalization of an organization, the greater the credibility (the likelihood of enforcement) of threats.”<sup>123</sup> They reason that formalization allows codification of rules, so that uncertainty about what constitutes performance or non-performance is reduced. The application of this insight to the Falklands case is straightforward: without institutional constraints, interpretations of what constituted “economic sanctions” against Argentina would be subject to greater disagreement, as would decisions about what constituted British payment of promised inducements. As neoliberals would expect, the ability to set standards for performance and non-performance enhances credibility.

These insights from sociologists are consistent with lessons drawn from political scientists’ study of international regimes. Stephen Krasner notes that regimes can have feedback effects on the ability of members to influence

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121. Oye, “The Domain of Choice,” p. 18.

122. Keohane, *After Hegemony*, p. 97.

123. Samuel B. Bacharach and Edward J. Lawler, *Power and Politics in Organizations* (San Francisco: Jossey-Bass, 1980), p. 197. See also Bacharach and Lawler, “Political Action and Alignments in Organizations,” in Bacharach, ed., *Research in the Sociology of Organizations*, Vol. 2 (Greenwich, Conn.: JAI Press, 1983), pp. 83–107; William A. Gamson, *Power and Discontent* (Homewood, Ill.: Dorsey, 1968); Jeffrey Pfeffer, *Power in Organizations* (Marshfield, Mass.: Pitman, 1981).

others' behavior.<sup>124</sup> As this modified realist approach suggests, Britain could draw on an existing institution to increase its influence. By creating the opportunity to link issues and bolstering beliefs in British willingness to carry through with side-payments, the EEC altered behavioral outcomes in this case. Thomas Schelling has noted the requirement of "an occasion, an object, and a means of communication" in establishing credibility; the EEC provided these.<sup>125</sup>

This study of a specific case of international cooperation thus offers a critique of elements of both the neoliberal and realist approaches and develops the argument that the role of institutions in facilitating cooperation changes in the face of changing state preferences. After military conflict began, state preferences became highly asymmetric and cooperation resulted from explicit, *quid pro quo* bargaining and arm-twisting. Neoliberalism typically discounts the role of such coercive measures in sustaining cooperation, focusing instead on the existence of common interests, although there is no inherent contradiction between neoliberalism and coercive bargaining.<sup>126</sup> The realist argument, however, is also inadequate for understanding this pattern of cooperation in that it underestimates the ability of international institutions to transform conflict. Creating durable cross-issue linkages required establishing credibility, and the EEC as an institution facilitated this process. Thus, even in the face of coercive bargaining, institutions can have a direct impact on outcomes.

## Conclusion

This article has two purposes: to demonstrate through process-tracing that institutions have an impact on state decision-making, and to explore the nature of that influence. Sanctions imposed during the Falklands crisis provide evidence that international institutions play a role in facilitating cooperation among states, even when state interests are asymmetric. In this case, the institutional framework of the European Community created linkages

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124. Krasner, "Regimes and the Limits of Realism: Regimes as Autonomous Variables," in Krasner, ed., *International Regimes*, p. 364. For a discussion of this dynamic in North-South relations, see Krasner, *Structural Conflict: The Third World Against Global Liberalism* (Berkeley: University of California Press, 1985).

125. Schelling, *The Strategy of Conflict*, p. 51.

126. See Keohane, *After Hegemony*, p. 107.

across issues that allowed Britain to gain the cooperation of other members. The EEC quickly called for sanctions against Argentina, despite reluctance from some of its members. This decision had a direct impact on the foreign policies of member states, as they followed the Commission's decision and banned imports from Argentina.

Originally, EEC members did not expect sanctions to prove very costly, anticipating that they would contribute to a quick end to the crisis. Thus, even those states with only lukewarm support for Britain went along with the others in the early phase of sanctions. Here, the EEC helped states cooperate in an assurance game, since only Britain was interested in imposing unilateral sanctions. However, the contribution of the institution was relatively small at this stage.

Some governments' preferences changed dramatically, however, when military conflict broke out at the end of April, and the problems of cooperation became more demanding. Ireland, in particular, now came under intense domestic pressure to repudiate the Community import ban. The asymmetry of interests between Britain and the rest of the Community grew. However, when Irish representatives failed to convince other members to lift the sanctions, the Irish government decided that the benefits of EEC participation outweighed the costs of sanctions. Thus, Dublin continued to impose sanctions through their original term. Institutional considerations were essential to this decision.

Tactical linkages between sanctions and other Community issues became central to the renewal of trade measures in mid-May, during the third phase of the conflict. Britain, which had been willing to obstruct all EEC business in order to gain a large budget rebate, finally backed down on this demand in exchange for an indefinite renewal of sanctions against Argentina. In this instance, the institutional effect consisted of the creation of cross-issue linkages that transformed separate games without cooperative equilibria into a single game in which both sides benefited from cooperation. This result suggests that the impact of institutions is not confined to providing solutions to collective action problems as specified by neoliberals, but can also lead to creative solutions for independent issues, by linking them in a credible manner.

This case study suggests two paths for future research on institutions and cooperation. First, students of international politics should give more attention to the role that institutions can play when state interests are asymmetric,

rather than fitting a model of symmetrical preferences such as a Prisoners' Dilemma or assurance game. Secondly, it suggests that institutions can create specific cross-issue linkages that would be much harder to forge on an *ad hoc* basis. Policymakers considering the use of multilateral sanctions should therefore recognize the instrumental value of working within an institutional framework, as should students of international politics and foreign policy. Such a framework solidifies otherwise tenuous tactical issue-linkages.