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DEFENCE AND OVERSEA POLICY COMMITTEE

SUB-COMMITTEE ON THE SOUTH ATLANTIC
AND THE FALKLAND ISLANDS

FALKLAND ISLANDS: THE SCOPE FOR THE DEVELOPMENT OF THE ECONOMY
Memorandum by the Foreign and Commonwealth Secretary

1. I am circulating for the benefit of colleagues a paper by the Governor, Mr Hunt, on the future for the Falkland Islands' economy (Annex A) together with a note of comment by FCO officials (Annex B).
2. There is a reasonable potential for developing the Islands' economy and thus for reversing the present stagnation and drift of population. But our ability to fulfil this potential will depend on:
 - (i) a firm and convincing guarantee of the security of the Islands in the long term;
 - (ii) adequate communications between the Islands and the outside world;
 - (iii) the provision of aid and technical assistance on a substantial and continuing scale as a necessary stimulus to private investment.

F.P.

PAPER BY THE GOVERNOR OF THE FALKLAND ISLANDS, MR R M HUNT

THE FUTURE OF THE FALKLAND ISLANDS

1. I am optimistic about the future of the Falkland Islands, provided that we first achieve the withdrawal of Argentine troops and uphold the principle of self-determination for the Islanders. I realize that we cannot ascertain their views at present and probably we shall have to allow some time after the withdrawal of Argentine troops for them to recover from the shock of military occupation. But my guess is that any referendum or plebiscite held after such a period, under UN auspices or in any other fair and impartial way, would result in an overwhelming vote to remain British and to reject any solution, leaseback or otherwise, that would involve a transfer of sovereignty to Argentina, no matter how titular or how generous the terms we were able to negotiate. The following is based on this assumption and on the belief that the British Government will not impose a settlement upon the Islanders.

2. The Falkland Islands can survive and indeed prosper without Argentina; but they will need more help from Britain than they have received in the past. If after the cessation of hostilities Britain makes clear to the world that she is prepared to continue to defend the Islanders' right to stay British, I believe that we can reverse the population drift and attract private investment for development. If the Overseas Development Administration could help with an imaginative housing development scheme, I am sure that we would get the right sort of settler from Britain, with or without an assisted passage scheme. Even before people realized that Britain would honour her commitment to defend the Falkland Islands, we had received more than five hundred letters expressing interest in emigrating there from Britain. For the first time for many years, we saw earlier this year the arrival of overseas farmers wanting to buy and work farms in

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the Islands. Economic pressures were already forcing a fundamental change in farming methods, from vast ranches owned by companies employing managers and large gangs of permanent employees to smaller farms worked by owner/occupiers hiring part-time itinerant shearing gangs. After only two seasons, the smaller farms were already carrying more sheep than they had before as part of larger ranches. This process will lead to increased productivity, more Islanders acquiring a permanent stake in the land and more farmers coming in from Britain, New Zealand and Australia. It could be accelerated by the establishment of an Agricultural Development Bank to make finance available to local farmers and by a greater input to the Grasslands Trials Unit by an increase in staff and supply of more fertilizer and seed.

3. Shortly before the invasion, I was visited by two senior executives of Birds Eye Walls who were interested in buying our surplus mutton (every year about 23000 sheep are slaughtered and hurled over cliffs or left to rot on the land). They were prepared to guarantee the market if we built an abattoir and freezer plant up to EC standards, at an estimated cost of £250,000. I was searching for a source of funds at the time of the invasion.

4. When the South Georgia crisis broke, I was negotiating an agreement with an American firm under which they would have been granted an exclusive licence to harvest the kelp (seaweed) in Falkland Islands' waters, which experts say are the largest known beds in the world. The project would have represented an initial investment of US \$25 million and brought increasing revenue to the Falkland Islands Government. I quote from a recent letter from the Managing Director: 'The resolve of the British Government to support the Islanders has further strengthened my already concrete determination to go forward with our project as planned at the earliest

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practical moment. Towards this end, I have retained and set into motion the staff and organisational structure required to proceed with the project as though nothing had 'interrupted our timetable.' I am confident that, as long as the resolve of the British Government remains, other private investment will flow into the Falkland Islands.

5. Accepting that Argentina will be able to continue to prevent any development of the Islands' deep-sea fisheries and possible off-shore oil deposits for the foreseeable future, other promising areas for investment are wool-processing, tourism, salmon-ranching and inshore fisheries. For relatively modest sums (£50,000 to £100,000 per project) we could establish small-scale wool-scouring, spinning and sheepskin curing to add value to what is at present our only export, wool. Tourism would require considerably more capital but offers substantial rewards. At present American millionaires and insurance widows pay the earth to cruise round the Falklands, South Georgia and the Antarctic on the 'Lindblad Explorer' or 'World Discoverer'. Many come back time and time again, flying to South American ports from the USA to pick up their cruise ship. Stanley would make a more convenient base from which to operate, if only we had a larger airport and a suitable hotel. With a charter ship based at Stanley during the summer months, offering three-week cruises around the Falklands, South Georgia and the Antarctic Peninsula, we could tap the much larger market of wildlife and photographic enthusiasts who cannot afford the existing luxury cruises but who would be tempted by a less expensive way of indulging in the holiday of a lifetime. Eminent authorities such as Sir Peter Scott and Lord Buxton, who know the Islands well, and interested bodies like the Royal Society for the Protection of Birds are confident that a great opportunity exists, if only we could provide the basic facilities.

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6. Before the invasion I had received enquiries from an American commercial firm about salmon-ranching possibilities in the Falkland Islands. They had successfully established this industry in Chile and wanted to extend their activities to the Islands. I had also received a proposal from a Norwegian trawler owner who wanted to bring his trawlers to the Falkland Islands to try the inshore fishing. At present he markets dried and salted fish in Africa and South America and considers that he could do this more easily from Stanley.

7. There are thus sound reasons for believing that the Islands can be developed and that Islanders can prosper without Argentina once the political uncertainty over the sovereignty dispute is removed and the Argentines convinced that there is no point in further hostilities. British Government aid will be needed to rehabilitate and improve the basic infrastructure; but private investment will surely follow. Is it too much to hope that, after Argentina by its aggression and subsequent arrogance has put itself beyond the pale of civilised nations, the Islands' security will be assured not only by Britain but by the USA and the United Nations? And, in time, might not the Argentines grow up and recognise the Islanders' right to choose? This would be the first step towards healing the wounds and leading to the closer association that must eventually come.

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THE FUTURE OF THE FALKLAND ISLANDS

COMMENT BY FCO OFFICIALS

1. The following comments relate to Mr Hunt's paper on the future of the Falkland Islands.
2. After an end to the Argentine occupation, two areas will require early consideration:
 - (a) the rehabilitation of the damage done to the infrastructure by the occupation. This will be the most urgent priority. ODA are already beginning contingency planning, though the scale of work needed and the cost can only be properly assessed after the departure of Argentine forces;
 - (b) the broader development of the Islands' economy (which is the main subject of Mr Hunt's paper). While decisions on how to stimulate the economic life of the Islands will require careful and detailed study, it will be important for Islanders' morale and to public and parliamentary opinion in the UK that a clear statement of the Government's intent is made at an early stage. Depending on the circumstances, one way to demonstrate this might be through the despatch of a fact-finding mission to the Islands. (Lord Shackleton has already expressed his willingness to be involved in such work and there could be both political and practical advantage in using his experience of the area.)

The Potential

3. The potential exists for developing the economy of the Falkland Islands. The wool industry will continue to provide the basic platform: and there is scope for greater productivity in this sector in the longer term through improvement of pasture (on which the Grasslands Trial Unit is employed) and stock. Further subdivision of large farms into smaller owner/occupier holdings could also give greater vitality by providing Islanders with a

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direct stake in the Islands' economy. The possibilities here will depend on the willingness of the present owners of large farms, in particular the Falkland Islands Company, to make land available; on the ability of the Falkland Islands Government to purchase such land for redistribution; and on the availability of loan finance to enable Islanders or immigrants to take out mortgages on the property.

4. In the shorter term, economic growth will require diversification, making use of the Islands' other resources. Mr Hunt's paper identifies the potential for new industries (inshore fishing, salmon ranching, frozen meat production, kelp harvesting). These would require substantial outside aid or investment. Licensing of deep-water fishing by third parties, following the establishment of a 200-mile fisheries zone, could produce useful additional revenue though the costs of enforcement would be considerable. The exploitation of any oil on the Islands' continental shelf would of course provide a radical stimulus to the Islands' economy.

Constraints on Economic Development

5. The following three factors will be critical for the development of the Islands' economy:

(a) Security

The key issue will be (as it has always been, though now in much sharper focus) the degree of assurance that can be given to Islanders, immigrants and investors that the Islands can be guaranteed a stable and peaceful political future. Whatever our own continuing defence commitment, conditions of confidence will depend crucially on our ability to reach an arrangement for the Falkland Islands which at least has Argentine acquiescence. It is of course very unlikely that Argentina will simply give up its claim to the Falklands and cease to pose a threat without such an eventual arrangement. Without such a political background it would be difficult to develop the Islands' maritime resources

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(oil and fish), on which a measure of Argentine cooperation will almost certainly be required. While the Islanders might survive in a Fortress Falklands situation, some or many would be likely to leave, outside investors would understandably fight shy, and the cost to HMG of maintaining the Islands would be substantial and continuing.

(b) Communications

The maintenance, and even more the expansion, of the Islands' economy will be vitally affected by the nature of access to the Islands. Without a political settlement, access through Argentina will remain blocked; and in the short and probably also the longer term, we cannot safely rely on obtaining alternative communications to other points on the South American mainland, since Argentina's neighbours will need to take account of their own relations with Argentina. Communications would therefore need to be by sea from the UK (on the basis of about 4 round trips a year). The alternative would be to extend the Port Stanley airport runway to take long-haul aircraft (the estimated cost for construction has been about £16 million and such an air service would require a huge Government subsidy). While limitation to a sea service need not affect the Islands' wool economy - hitherto all wool has been collected by the charter vessel of the Falkland Islands Company and shipped directly to the UK - it could be a disincentive to investment in some of the additional activities (surplus mutton, kelp harvesting, salmon ranching, inshore fishing), which Mr Hunt in his paper identifies as having a potential for development. It would also necessarily affect the scope for specialist tourism.

(c) Government-led Investment and Aid

Prior to the Argentine invasion, our aid programme to the Falklands had been running at about £1 million per annum. While high in per capita terms and broadly spread between infrastructure and development projects, it has not been at a level to provide any strong stimulus to the expansion of the economy. On this our policy has been to encourage the Falkland Islands Government to

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obtain private investment funds - and more recently to seek access to commercial credit through a better mobilisation of its reserves. As Mr Hunt's paper indicates, some headway was being made, although all too often in the past the initial enthusiasm of potential investors has faded because of the political uncertainties. In the new circumstances following the Argentine invasion, it will be for HMG to provide the funds, not only for reconstruction but also for further development. Private investment is only likely to follow a clear demonstration of the Government's determination to sustain the Islands and of its faith in the Islands' future. For both reconstruction and development new money will be needed and on a substantial scale.

FOREIGN AND COMMONWEALTH OFFICE

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