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FALKLAND ISLANDS: ANNUAL REVIEW

- A 1. I submit the Governor's 1981 Annual Review for the Falkland Islands together with my draft letter of acknowledgement. The despatch is being printed as a Diplomatic Report.
- 2. The despatch concentrates on the sovereignty dispute. It is inevitable that the view it gives should be a partial one. But, as a description of the Islanders' position, it is admirable and worth reading carefully for that reason. It does however take less account of either the difficulties which confront HMG or the realities of the potential Argentine threat. In advance of the New York talks, it is worth looking at the Governor's various points in detail.

The sovereignty issue

3. In 1981 the leaseback initiative ran into the ground and the Islanders moved to open support of a Fortress Falklands policy. At the beginning of 1981 we had some hope, though not much, that the Islanders might yet be brought to see the need for movement on the sovereignty issue as a prerequisite for overall progress on the dispute. Although Island Councillors proposed a 'freeze' at the Anglo-Argentine talks in February 1981 - a concept which we and they knew in advance to be unacceptable to the Argentines - they did not rule out leaseback: indeed, once a freeze had been rejected, leaseback was all that was left. However, against a background of strong parliamentary opposition to any cession of sovereignty, titular or otherwise, we had no option but to adhere rigidly to a policy of putting no pressure on the Islanders. With the stimulus of the Island elections acting unhelpfully, their position at the end of the year was that they were no longer prepared even to discuss the sovereignty issue with the Argentines. Leaseback is now effectively dead. But its demise means that we are left with no alternative way to prevent the dispute moving sooner or later to more open confrontation. As the Governor says, if the Argentines continue to insist on sovereignty first and we continue to maintain that Islander wishes are paramount, it is difficult to see any way forward through negotiations.

UK/Islander relations

4. It was particularly unfortunate that the Islanders should have been given so much cause in 1981 to suspect HMG's motives over the dispute. It is also ironic, given that our commitment to acting only in accordance with Islander wishes is now stronger and more frequently stated than at any time in recent

years. None of the various "insults" cited by the Governor in his paragraph 4 were in fact aimed specifically at the Falklands; they were all part of wider policies, eg the Nationality Act and the Defence Review. On most of the issues the FCO supported the Islanders' view in Whitehall. As regards the aid programme, there is a long history of bad relations between the Governor and the ODA; we in the diplomatic wing have done our best to encourage them to smooth over their differences. There have been faults on both sides and I suspect that the ODA will react to the charge of ineptitude by accusing the Governor of making extravagant demands.

The media and Parliament

5. 1981 was certainly a year when the Islanders received ample coverage in the media and attention in both Houses. To the extent that this increased the stock of knowledge in the UK about the Islands, it has been helpful. But overall, the Islanders have probably been done a disservice: they have been encouraged to adopt a tougher stance in the knowledge that they have widespread support in the UK. But that support will be of no practical help in preventing the consequences if the Argentines choose to increase direct pressures on the Islands.

Argentine/Islander relations

6. On this I agree with the Governor's analysis. The Argentines' apparent inability to understand the Islanders is a major stumbling-block in the path of any hopes of ever achieving a settlement. The Argentines complain that the Islanders take the services offered but give nothing in return: the 'hearts and minds' operation has failed. In view of the arrogant and insensitive way the Argentines have carried out the whole programme, it is hard to see how it could ever have succeeded. And even if the Argentines had handled the Islanders more carefully, it would remain entirely understandable that people used to the British way of life would not voluntarily elect to be ruled by a military government with an appalling human rights record and an economy in a very poor state.

The Islands' economy

7. Here I feel the Governor is being disingenuous. The Islands' economy is in decline. The cost of living is rising, the income from wool is static or falling. FIG's reserves are slowly being whittled away: it is primarily the revenue from stamp sales which has kept them in the black. I cannot agree with the Governor when he says that, if only we showed more determination to keep the Falklands British, the economy would for that reason pick up. There may well be commercial interest in the various areas he lists in his paragraph 10. However, what investors

want from HMG is not an assurance about sovereignty, nor an unspecific commitment to support and defend the Islands: what they want, failing a solution to the dispute, is a permanent and effective defence presence and financial backing for their ventures. No reputable company is going to invest in any significant way in the Falklands if it know that its investment is vulnerable to the whim of the Argentines. If HMG pumped in enough money, the Islands "might actually prosper". But I can see no prospect of the ODA agreeing to increase their relatively substantial aid programme on developmental grounds in view of the relatively high standard of living which the Islanders enjoy. Nor is it apparent why HMG should consider other forms of financial assistance for the economy unless in the context of an overall solution to the dispute or of a rescue operation.

Contingency plans

8. As the Governor is aware, we have already undertaken preliminary contingency plans for action in the event of Argentine withdrawal of services. These include alternative air services to Chile and Uruguay. But we cannot easily go further without allowing such contingency planning to become public knowledge (or without seeking ministerial agreement to a financial context within which to work). I believe that the Governor is too optimistic on the likely cooperation of Uruguay. Chile, itself embroiled with Argentina on the Beagle Channel dispute, would be the better prospect, both politically and in practical terms. But any such solution would be likely to be temporary and very costly for HMG. The most practical long-term replacement for the air-service would be a sea-service, which would be very infrequent and greatly inconvenient to the Islanders.

British Antarctic Territory

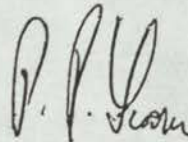
9. The Governor's view of the importance of the Falklands for our position in the BAT is not well-founded. When we started work in the Antarctic 38 years ago, Stanley was the main supply base and, since then, the British Antarctic Survey's establishment in Stanley has been steadily reduced until it is, now, one person. This has been done because of the greater efficiency, helped by better communications, with which BAS can be organised in and managed from Cambridge. All the nations he mentions use ships as the primary means of re-supplying their Antarctic stations. His suggestion that large, multi-million pound aircraft could be used to service our stations from the Falklands makes very little sense. At only one of our six stations is it possible to land any aircraft other than a helicopter. The only facility that the Falklands provide to the Survey that it would be difficult to replace, if use of the Islands were denied to us, is the marine fuel depot. His point about ice-free, deep-water harbours in South Georgia

could be a good one but no-one is clamouring to use them. Even if any oil resources in the Antarctic were to be exploited, a pre-condition would be UK/Argentine agreement on the modalities (within an Antarctic Treaty regime) and we would expect oil companies to prefer to work to the more developed facilities on the South American mainland.

The Outlook

10. The outlook is certainly gloomy. The Argentines are adopting a tough posture. The Islanders are more firmly opposed to sovereignty concessions than ever. We stand uncomfortably in the middle, unable to please either side, but accused by both of failing to end the dispute. If talks break down, the range of actions open to the Argentines will be a good deal wider than the Governor assumes in this despatch: and our limited ability to prevent or withstand Argentine pressures will be embarrassingly apparent. We may still hope that the Islanders will come to the view that an accommodation with Argentina is in their best interest. But it seems more probable that we will find ourselves drawn into increasingly costly political and financial commitments.

11. It will always be difficult for a Governor in Port Stanley to see matters other than through Islander eyes. I have however thought it useful to set out our views in full in the draft reply.



P R Fearn
South America Dept

16 February 1982

cc PS/PUS
Mr Day
Defence Dept

DRAFT: ~~xxxxxx/letter/telefax/despatch/notes~~

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FROM: Mr Fearn

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SUBJECT: ANNUAL REVIEW

.....In Confidence

CAVEAT.....

1. Many thanks for your Annual Review for 1981. It has been copied widely in the FCO and Whitehall and will be printed as a Diplomatic Report.
2. The despatch provided an admirable exposition of the situation as seen from the Islands. This is valuable to us in itself. Inevitably, on certain aspects, the perspective in the Islands differs from our own view of the realities; and perhaps I could comment on some of these.
3. On the present position in the dispute, we share your own pessimistic view of the prospects for progress. As you say, while the Argentines continue to put sovereignty first and we continue to make Islander wishes paramount, there is no obvious way ahead through negotiations. We cannot simply persuade the Argentines to drop their claim: and I imagine that Islanders would not want us to disregard their own wishes? This means that, while we may still hope to gain more breathing-space from the New York talks, we are now perilously near the inevitable move from dialogue to confrontation. I assume that Islanders do fully appreciate the difficulties which this would cause them? The range of options open to the Argentines goes of course far wider than a withdrawal of present services. It must also be recognised that for HMG it will not only be

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difficult to find the necessary finance but also, in the final analysis, to defend the Islands and the Dependencies in any adequate way.

4. We had a full discussion of the possible scenarios when you were on leave last summer and you will be aware of the contingency planning undertaken against a withdrawal of services. We shall be clearer on the requirement to take this further forward when we have assessed the outcome of the New York talks. But our ability to provide an alternative air service is unlikely to be conditioned only by what is practical and politically possible (which, incidentally, I doubt would be the case with Uruguay). A main factor will also have to be what it costs to the British taxpayer in terms of capital outlay and running costs, given that any such alternative would be required for an indefinite period. I cannot prejudge Ministers' decisions. But it is probable that the only viable long-term service would have to be by ship: and that whatever ship is found (and we are considering separately your letter of 25 January about the RMS St Helena), it may only be able to make infrequent calls at the Islands. Islanders would have to be prepared to live with such a situation not just temporarily but for an indefinite period.

5. This leads me to comment on your view of the prospects for the Islands' economy. I really cannot see that a stronger assertion of HMG's determination to keep the Islands British would in itself do much to encourage private investment. The main reason why private investors are hesitant is because the sovereignty dispute makes their investment insecure. Until the Argentines choose to renounce their claim or the dispute is resolved in another way, the inclination of investors will be to put their money in a safer place. The potential for expansion is certainly present: but it cannot do other than depend on movement in the dispute. Additional aid for the Falklands economy from HMG might be a palliative, but hardly a solution: and here too one could not neglect the famous British taxpayer!

6. I am sorry to write in such Cassandra-ish style and I am sure you will not interpret what I say as being in any sense "pressure" for Islanders to take a different view on the dispute. They should be in no doubt of the strength of HMG's commitment to act only in accordance with their wishes: but they should also be under no illusion on the difficulties ahead or on the limits to our ability to mitigate the consequences. Unless there is to be a negotiated settlement to the dispute, the way forward for the Islands can only be downhill.

7. A final comment on your point about the value of the Falklands as a support base for operations in BAT. I do not think that there is anything in this. The fact is that, when we started work in the Antarctic 38 years ago, Port Stanley was the main supply base. Nowadays the BAT establishment in the Islands is minimal. This has reflected the greater efficiency, helped by better communications, with which BAS can be organised in and managed from Cambridge. All the countries to which you refer use ships as the primary means of re-supplying their Antarctic stations. The cost (including the infrastructure costs) of operating large aircraft to service our own Antarctic stations would be very great and the benefits relatively minor (at only one of our six stations in BAT is it at present possible to land any aircraft other than a helicopter). If the oil resources of Antarctica are eventually exploited, the significance of the Falklands could perhaps change. But the present view is that, since a pre-condition for exploitation within BAT would be UK/Argentine/Chilean agreement on the modalities, oil companies could be expected to look first at the more developed facilities on the mainland.

8. 1982 seems certain to be a difficult year for us and for the Islands. Whatever the inevitable problems of ^{creating} ~~making~~ a greater climate of trust between HMG and the Islanders (and it is ironic if irrelevant that on most of the 'insults' listed in your paragraph 4 the Department supported the Islander view within Whitehall), it is essential that the

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Governor should retain their confidence. I should like to make clear our appreciation of the hard and successful work which you have done to achieve this.