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Ref: B06510

PRIME MINISTER

c Sir Robert Armstrong

Falklands: OD(SA) on 28th MayI. Current Issues

1. The meeting should begin with the usual reports, from the Chief of the Defence Staff and the Foreign and Commonwealth Secretary, on overnight military and diplomatic developments.
2. At Cabinet this morning the Defence Secretary said he would also like to discuss Lieutenant Commander Astiz, who he thought was arriving in the United Kingdom in the next day or two. In fact, Astiz is not due here until 5th June; and Mr Nott's office have now agreed that the problem need not be considered by OD(SA) until 1st June. This is welcome, since we shall need as much time as possible tomorrow if there is to be a proper discussion of the longer term.
3. The Ministry of Defence have, however, circulated a last-minute *paper seeking discretion for the Argentine Navy to be attacked inside the 12-mile limit. There is in fact only one place, in the extreme south, where they want to do this. There are, therefore, three questions for the Sub-Committee.
 - Do we do this?
 - Do we give warning first?
 - How urgent is it?

You will need the Defence Secretary's recommendations on each point. It may be possible, and wise, to defer the issue until next week. The Foreign and Commonwealth Secretary, on past form, will much dislike being bounced; and he will argue persuasively against such action while the current OAS meeting is in session. But if an immediate decision does have to be taken the Attorney General's views will be important and should be clearly established.



II. Longer-term Issues

4. The main papers were listed in my brief dated 25th May:

- Sir Michael Palliser's paper (OD(SA)(82) 38)
- the Foreign and Commonwealth Secretary's paper on Independence (OD(SA)(82) 56)
- the Foreign and Commonwealth Secretary's paper on Economic Development (OD(SA)(82) 57).

In addition, there is now Mr Pym's minute to you of 25th May on Future Policy (PM/82/38), which has been seen by other members of the Sub-Committee; and Sir Robert Armstrong's personal minute to you of 25th May (A08518), which has not.

5. Quantitative work by officials has now been set in hand. It will seek to estimate on varying assumptions, the order of magnitude of public expenditure costs likely to be involved in

- (a) the current military operations;
- (b) making good our military losses;
- (c) permanent British garrisoning;
- (d) making good war damage to the Islands;
- (e) economic development (ie direct investment by the Government and provision of the infrastructure necessary to attract private investment).

Of these (a) is clearly going to mean increased public expenditure. So presumably will (b) and (d). Key questions for policy are whether (a) and (e) should also involve new money or whether they should be offset by lower Ministry of Defence and Overseas Development Administration expenditure elsewhere.

6. It may help to order tomorrow's discussion if the Sub-Committee is invited to consider successively our interests and objectives

- (i) in the immediate aftermath of repossession;
- (ii) in the longer term.



7. As regards (i), we are presumably aiming at full reestablishment of the colonial administration. But are we prepared to say anything, now or when repossession is complete, about our willingness to consider change and/or international negotiations? If so, what? If not, how do we carry the Americans with us?
8. As regards (ii), the Sub-Committee should try to distinguish security issues and economic issues, although they are inevitably interconnected.
9. The key security issues are -
- Are we prepared to divert our own resources to underwrite the Islands' security in all circumstances? Or do we want this tab picked up by the Americans or others?
 - If we want American help, what levers have we to induce them to provide it on our terms? If we cannot do so, what are their terms likely to be? Will they, for example, insist that we seek an accommodation with Argentina?
10. The key economic issue, apart from cost, is how far development will be possible in the absence of a settlement with Argentina. Discussion should also focus on the Governor's ideas (OD(SA)(82) 57).
11. Finally, the Sub-Committee will need to consider whether independence is really the only long-term option (as Mr Nott argued this morning). If so, the difficulties in the Foreign and Commonwealth Secretary's paper (OD(SA)(82) 56) need to be assessed. If not, which of the other possibilities in Sir Michael Palliser's paper do the Sub-Committee regard as realistic?
12. In the light of the discussion, the Foreign and Commonwealth Secretary should be asked to set work in hand urgently on the line which you and he should take in discussing longer-term policy issues - particularly those in paragraphs 7 and 9 above - with President Reagan and Mr Haig during their forthcoming visit to Europe. Mr Pym may tomorrow wish to suggest a line for a preliminary discussion on these issues between Mr Haig and Sir Nicholas Henderson.

RLW