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Mr Hall ✓  
 PS/Mr Ridley

FALKLAND ISLANDS

1. I submit a note about the Falkland Islands dispute for the background information of the Minister of State.

*Bure*

J B Ure  
 South America Department

10 May, 1979

Copy to:  
 Sir A Parsons

1. I believe the Minister of State will find this useful. It goes further than a previous paper on the Falklands in particular in outlining options for future policy. The Minister of State will wish to consider these and perhaps to have the arguments expanded on paper and in discussion.

2. As the official principally concerned during the past 18 months in the negotiations with the Argentines, I believe that if Ministers were to decide to proceed along the general lines of Mr Ure's paragraph 11(d) there would be some possibility of achieving a solution, or at least of continuing more or less amicable negotiations with the Argentines for some time to come. For this to be possible I believe that the negotiations would have to be seen in the context of our overall relations with Argentina,

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## THE FALKLAND ISLANDS DISPUTE

### Nature of the dispute

1. Both Britain and Argentina claim sovereignty over the Falkland Islands, the (uninhabited) Falkland Islands Dependencies and over the maritime zones generated by both. In the past, the British Government has been prepared to submit the dispute to international arbitration but the Argentines have never been prepared to accept such arbitration.

### The Political Problem

2. (a) The Falkland Islanders and the UK Domestic Political Dimension. The Falklands have a, declining, population of 1,850. They are all of British descent, firm in their desire to remain British and resolutely opposed to becoming part of Argentina. There is a vociferous and highly organised Falkland Islands lobby in this country with the capacity to enlist considerable support in Parliament and in the media. Its function, in the name of the Falkland Islanders, is to monitor and oppose any attempt by the British Government to establish closer links between the Falkland Islands and Argentina. The lobby is now beginning to turn its attention also to the Dependencies and to the maritime zones where, because of possible fish and oil resources, it perceives an additional threat by Argentina to a British and Falkland Islander interest. The greater part of the Falklands commercial life and economy is in the hands of the Falkland Islands Company, now part of the Coalite group. The Company is an active member of the Falklands lobby. More recently, opposition to any accommodation with Argentina has come also from those, inside and outside Parliament, most concerned with the present Argentine régime's abuses of human rights.

(b) The Argentine position. The Argentines remain resolutely convinced of the validity of their own sovereignty claim. All Argentine political régimes subscribe to this.

The Argentines seek full sovereignty over the Falklands but are prepared to offer residual safeguards for the Islanders after transfer of sovereignty. The present military régime continues to press its Falklands claim vigorously. It has also sought to assert Argentine maritime sovereignty in the South West Atlantic either by licensing mechanisms (West German and Japanese fishing agreements and seismic surveys by two US oil companies) or by naval and air patrolling, including the use of force (against Bulgarian, Russian and Polish fishing trawlers). In the last days of the Isabelita Peron régime, the Argentine Navy also fired at the Royal Research Ship Shackleton.

(c) The International Position. The Argentine claim enjoys widespread international support. Voting in the 1976 pro-Argentine General Assembly resolution was 102 votes in favour, 1 against (ourselves) and 32 abstentions and the Non-Aligned movement at Foreign Minister and Head of State level has regularly included a pro-Argentine passage on the Falklands in its political declarations. The main concern of our European partners and of the United States is to avoid becoming entangled in what they regard as a bilateral dispute between Britain and Argentina.

#### The Economic Problem

3. Life for the Falkland Islanders is hard but in economic terms not uncomfortable (per capita income for 1974 was £1,164). Socially and economically the Islands run on feudal/paternalistic lines with the one major industry, wool, run by the Falkland Islands Company and other absentee landlords. The Colony is in decline, although improved wool prices over the last five years have concealed the underlying downward trend. There has been no new private investment in the Islands and the Falkland Islands Company does little more than reinvest locally sufficient of its profits to keep its operations ticking over at their present level.

4. As a result of the growing problems of the Falklands economy, the Government commissioned Lord Shackleton and a team from the Economist Intelligence Unit to produce a comprehensive report on the Falklands. The report was published in July 1976. It contained a number of proposals, both for internal development measures on the Islands and offshore resources, notably oil and fish. Lord Shackleton's task was to study the economy of the Islands; he had no brief to consider the political background. However, the Report noted that "In any major new development of the Islands' economy, especially those relating to the exploitation of the offshore resources, co-operation with Argentina should, if possible, be secured. The sovereignty issue overhangs our report, as it does the Falklands, and the absence of a settlement could well inhibit the development of the Islands".

5. Meanwhile, the only new money that goes into the Falklands at present is from the ODM. In 1979/80, ODM expect to spend £170,000 on topping up salaries for the range of administrative and social services (doctors, nurses, teachers, pilots, policemen) without which the Colony cannot function and for which it cannot itself pay the full costs. Also in 1979/80, ODM expect to spend £140,000 on technical co-operation for development. From capital aid funds, ODM have just spent £6.0m for the Colony's first permanent airfield and already have funds of £1.57m committed for an oil jetty, a new school hostel and the Colony's first all-weather road outside Stanley (which will link the capital with Darwin, the second biggest concentration of population). Consideration is also being given to the allocation of funds for a new aircraft for the Islands' vital internal air service. None of these projects is directly income-generating in developmental terms; indeed, the initial effect will be to add additional burdens to the Colony's budget. But the road may eventually lead to agricultural development and diversification. All these projects are, however, important in social, welfare

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and morale terms. They also reflect a decision to implement the "onshore" areas of the Shackleton report. Apart from the on-the-spot benefits to the Islands, implementation of these schemes is important as a means of sustaining Islander confidence and in generating willingness to accept the continuation of negotiations with Argentina.

#### The Defence Problem

6. The Falklands are currently defended by a small permanent detachment of Royal Marines in Port Stanley and by the annual visit to the area from October to March of HMS Endurance, an Ice-Patrol Vessel with limited armament which carries out scientific work on behalf of the British Antarctic Survey as well as demonstrating a Royal Navy presence in the area. These measures cost the MOD £3.6 million per annum. Even at this cost, they are inevitably little more than symbolic deterrent measures. The distance from the UK and the consequent communications and supply problems make the maintenance of an effective UK deterrent military force prohibitive. Were there to be an Argentine invasion, any operation to dislodge the Argentines would again be not only extremely costly but could only be carried out at major and probably unacceptable cost to our NATO commitments.

#### The Current Position

7. In 1977 the British Government embarked on a new round of negotiations with Argentina about the political and economic future of the Falklands, including sovereignty. These talks were embarked upon with the knowledge of Parliament and the agreement of the Falkland Islanders. They were explicitly "under the sovereignty umbrella", i.e. without prejudice to either side's sovereignty claims.

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8. A number of meetings at Ministerial (Mr Rowlands) and official level have explored the ground, without making any substantive progress. The Argentines have produced lists of "guarantees" they would give to the Islanders in the event of their achieving sovereignty. We have explored "a mixed approach" based on dealing separately with maritime questions and the Dependencies in advance of or in place of making changes regarding the status of the inhabited islands; we have also emphasised that while there might be room for negotiation over territory, any <sup>overall</sup> ~~official~~ settlement would have to leave with us effective sovereign rights over the inhabitants of the Islands.

9. The talks have been prejudiced by the establishment of an Argentine scientific station on Southern Thule, one of the Falkland Dependencies 1,400 miles from the inhabited islands. While we have no real quarrel with the Argentines pursuing scientific work in the area (since in the nearby Antarctic Treaty area we conduct scientific work in collaboration with them) we do, of course, take exception to their establishing a base on British territory without our consent. We have taken legal steps to protect our sovereignty position but have resisted suggestions that we should forcibly evict the Argentines since this would very possibly lead to retaliation against our own scientific station on South Georgia (another of the Dependencies). Recently we have proposed an agreement on scientific co-operation which would extend to the Falklands Dependencies the sovereignty freeze which applies in Antarctica: it would effectively divest the Argentine station on Thule of any political significance. The Argentines were prepared to go along with this, but the Falkland Islanders rejected the idea when we put it to them because they felt it was opening the door to further Argentine activities in the area. We have therefore declined to sign the agreement but it rests "on the table".

/Future Policy ...

## Future Policy

10. Over recent months the Argentines have been fully aware that we have been dragging our feet on these negotiations. They have understood that British Ministers could not make fresh initiatives or arrive at far reaching decisions in the last months of a dying Parliament. However there will undoubtedly be Argentine expectations that the new Government will re-open the negotiations in a more positive frame of mind.

11. This presents us with real difficulties because there are effectively four possible policies for us to pursue:

(a) To refuse to discuss the substance of the dispute at all with Argentina, break off the talks and be prepared to maintain and defend the Falklands against Argentine boycotts on communications and supplies, Argentine harassment or worse. This option is known as "Fortress Falklands". It would involve very heavy additional expenditure on aid to the Islands and almost certainly on defence, with implications for our NATO commitments.

(b) To give up the Falklands, buying out and re-settling the Islanders elsewhere and negotiating whatever safeguards we could for those remaining under Argentine administration. This would be totally unacceptable to the Islanders and would provoke the sharpest possible attacks on the Government from both sides of the House on the grounds that we were "selling out". It appears to be politically - and probably morally - indefensible.

(c) To continue to go through the motions of negotiations with Argentina but to avoid any commitment to political changes which would upset the Islanders or their supporters in this country. With two years of unproductive negotiations

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behind us, this course is likely to prove no longer viable: the Argentines' patience is evaporating and the credibility of such negotiations would rapidly collapse.

(d) To continue the negotiations in good faith with the Argentines to establish whether a solution could be developed which might ultimately prove acceptable to the Islanders and to Parliament. This would be a long drawn out process, attended by criticism from many quarters, and dependant for its success on winning and maintaining the confidence of the Islanders. It would certainly be necessary for the responsible Minister to visit the Islands as soon as possible, ~~and~~ both to gain an appreciation of their preoccupations and begin the process of educating them to the harsh realities of their situation. Negotiations would aim at securing some form of British participation in any future development of resources (including oil in the area) and would also endeavour to achieve a fishing regime with the co-operation of the Argentines. It is not possible at this stage to forecast what sort of ultimate political solution might be forthcoming, but one idea which might ultimately prove acceptable would be some form of "lease back" (analogous to Hong Kong) under which the Argentines gained nominal sovereignty but the Islanders remained under British jurisdiction.