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CABINET
DEFENCE AND OVERSEA POLICY COMMITTEE

FALKLAND ISLANDS

Memorandum by the Secretary of State for Foreign and Commonwealth Affairs

1. As agreed in OD on 29 January, Nicholas Ridley held exploratory talks with the Argentines in late April. An Island Councillor attended as a member of our delegation. The talks went well enough; but the Argentines are now looking for substantive negotiations. We must decide our policy. There are three options.
2. The first is simply to pull up the drawbridge, and tell the Argentines that sovereignty is not negotiable. That would provoke retaliatory action - first by the withdrawal of transport, communication and oil supply facilities to the Islands (which we are in no real position to replace). This would cause a further deterioration in the Islands' economy and be extremely expensive for us. It could also lead to a need to defend the Islands militarily which would be even more costly.
3. The second option is to continue to stall. But, because of the uncertainty, the Islands' economy is already in decline. Morale is low and people are leaving - we may be below 1,800 by now. The dispute prevents us exploiting the oil (if any) and the fish. It would cause our relations with Argentina to deteriorate until we reached the situation described in 2. above. I do not believe we can go on stringing them along much longer.
4. The third option is to continue talking, working with Islanders' agreement towards a solution designed to:
 - (a) give them an assured future;
 - (b) unlock the resources of the South West Atlantic;
 - (c) remove a major impediment to our political and commercial

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relations with Argentina;

(d) end one of our last colonial problems, deleting it from the agenda of the United Nations, where we are regularly in a minority of one; and

(e) save ourselves a great deal of money.

But the Argentines made clear in New York that they will expect to discuss sovereignty at any future talks. Meanwhile, they are not prepared to make progress towards practical economic cooperation in the area, though they recognise it is in all our interests.

5. Any solution must:

(a) have Islander agreement and meet their strong desire to be administered by Britain;

(b) ensure the development of the Islands' economy and access for us to the oil and fish in the area; and

(c) satisfy the essential element in Argentine aspirations (which may be more a recognition of their title to sovereignty than taking over the Islanders themselves or settling Argentine citizens in the Islands).

These requirements will not be easily reconciled.

6. There can be no easy solution but one is conceivable that meets the essential political preconditions at 5(a) and (c) above; and particularly the continued British administration of the Islands. It would involve negotiating with the Argentines an agreement under which:-

(a) titular sovereignty over the Islands, the Dependencies, the Continental Shelf and the maritime zones would be transferred to Argentina; but

(b) all these areas would simultaneously be leased back to Britain, ideally (and possibly) for an indefinite period, but at least for long enough not to inhibit the future economic development of the Islands; thus

(c) British administration of the Islands, the Dependencies and their maritime zones would continue, for the duration of the lease;

(d) there would be:

(i) Anglo-Argentine cooperation to control fishing within a 200 mile fishery zone around the Islands and the Dependencies;

(ii) Anglo-Argentine cooperation in the exploration for and exploitation of any oil deposits in the Continental Shelf;

(iii) Argentine financial assistance to develop the economy of the Islands.

7. It would certainly take time to reach this position. It would not be easy to sell it either to the Argentines, who would have to be patient, or to the Islanders, whose acceptance would be an essential condition. Any arrangement involving a transfer of sovereignty (which would require an Act of Parliament) would cause great anxiety in the Islands, and opposition both in Parliament and among the public in the United Kingdom. Many people here would view with distaste the prospect of a British territory being transferred, however technically, to a military Junta with a deservedly bad reputation. But if we do not explore these possibilities, the dispute could develop into a confrontation which we would find very difficult and very expensive to handle.

8. I seek the agreement of my colleagues to finding out whether such a solution is possible.

Foreign and Commonwealth Office
27 June 1980

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