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OD(80) 23rd Meeting

COPY NO 45

CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

MINUTES of a Meeting held at
10 Downing Street on
FRIDAY 7 NOVEMBER 1980 at 9.30 am

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw, MP
Secretary of State for the
Home Department

The Rt Hon Lord Hailsham
Lord Chancellor

The Rt Hon Lord Carrington
Secretary of State for Foreign
and Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Francis Pym MP
Secretary of State for Defence

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon Sir Ian Gilmour MP
Lord Privy Seal

THE FOLLOWING WERE ALSO PRESENT

The Hon Nicholas Ridley MP
Minister of State, Foreign and
Commonwealth Office (Item 1)

Admiral of the Fleet Sir Terence Lewin
Chief of the Defence Staff
(Item 2)

SECRETARIAT

Sir Robert Armstrong
Mr R M Hastie-Smith
Mr W N Wenban-Smith

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1. FALKLAND ISLANDS

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Previous reference: OD(80) 17th Meeting, Item 2

The Committee considered a memorandum by the Secretary of State for Foreign and Commonwealth Affairs (OD(80) 66) proposing further discussions with the Falkland Islanders about possible future arrangements for the Islands.

THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE (MR RIDLEY) outlined a basis for possible future arrangements for the Falkland Islands, which would provide for continued British control of and jurisdiction in the Islands and an area within a 200 mile exclusive economic zone round the Islands, and which there was reason to believe might both be acceptable to a majority of the Islanders and be a basis on which agreement could be reached with the present Argentine Government.

In discussion it was generally agreed that there would be considerable advantage in reaching an agreement which preserved British control and jurisdiction, resolved uncertainties about the future of the Islands and thus provided a political climate in which the development of hydrocarbon and marine resources could go forward; but no agreement could be contemplated which did not have the positive support of a majority of the Islanders.

The Committee -

Invited the Foreign and Commonwealth Secretary to arrange for the Minister of State, Foreign and Commonwealth Office (Mr Ridley) to visit the Falkland Islands in order to discover whether his proposals would command a sufficient degree of support there, and to report the outcome in order that the Committee could consider the next steps.

The discussions and conclusions of a Ministers Confidential Report has been produced a copy of which is held in the private office of the Cabinet Office.

The sensitivity of the MCR should be reconsidered when this Confidential Library volume is reviewed for general release.

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2. THE HEALTH OF THE ALLIANCE

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Previous reference: OD(80) 18th Meeting, Item 1

The Committee considered a Note by the Secretary of State for Foreign and Commonwealth Affairs and Secretary of State for Defence (OD(80) 65) proposing that Britain should take the initiative in proposing the institution of a wide ranging reappraisal of the Alliance, in order to make it more relevant and cost-effective.

THE SECRETARY OF STATE FOR DEFENCE said that since the beginning of the present Administration he had been concerned about the state of the Alliance. The North Atlantic Treaty Organisation (NATO) had been created 30 years' ago. Since then, although there had been adjustments to the organisation and various special programmes, there had been no fundamental reappraisal to see whether it was continuing to meet the purpose for which it was created in the most economical and militarily effective way possible. The military strength of the Warsaw Pact was continuing to increase. The Supreme Allied Commander Europe (SACEUR) did not consider that he had the military capability to carry out the existing military strategy of flexible response to which the Alliance had committed itself: with the resources available to him he could not offer more than a tripwire. It would be the aim of the fresh appraisal of the Alliance to obtain a better distribution of effort within the existing structure and levels of expenditure. There was a strong case for a reduction in the British share of the civil and military budgets. It could also be argued that this country bore a larger share of the infrastructure budget than it should. It would be easier to pursue this kind of argument within the context of a wider review than in isolation. Too many petty arguments of this kind were already taking place within the Alliance and they were a cause of weakness. The appointment of a new and forceful Secretary-General to the Alliance organisation would be an essential prerequisite for the success of the proposed review.

THE FOREIGN AND COMMONWEALTH SECRETARY supported the views of the Defence Secretary. It was impossible to be precise at this stage about the outcome of the proposed reappraisal. It would be a case of putting a penny in the slot and seeing what came out. But this would be well worth doing. The

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Alliance was likely to go through a difficult phase over the next few months in any case, because there was some resentment in the United States that continental European allies had not given them sufficient support over Afghanistan, and had continued to obtain big Soviet contracts.

In discussion there was general agreement that the Alliance stood in need of re-invigoration, and the following points were made -

a. It was important that the strong case for a lower British share of the civil and military budget, for some restriction in the British share of the total size of the infrastructure budget, and for some relief in respect of the costs of stationing British forces in Germany should not be submerged in the proposed reappraisal. These claims deserved to be pursued independently on their merits. On the other hand, if a British proposal for an appraisal of the Alliance was to find favour with the Allies, it was important that they should not dismiss it as a mere vehicle for British demands for a reduction in the British contribution to the NATO Budget.

b. It was likely that Chancellor Schmidt would be unreceptive towards any proposals that West Germany should assume some share of British costs of the Rhine's stationing costs. A more fruitful approach might be to suggest that West Germany should make more defence purchases from the United Kingdom.

c. Although OD(80) 65 was right to recognise that it was difficult to make major changes in relation to France, her present position in regard to the Alliance was thoroughly unsatisfactory. She was able to reap many of the benefits of membership in terms of real protection and political influence, and in obtaining infrastructure contracts of her choice, while she remained free to make military deployments without regard for NATO commitments so that she could exert influence in places like the Persian Gulf and obtain defence orders in consequence.

d. The attitude of the other major NATO allies was hard to predict. The Germans might be against the idea of a reappraisal because they were doing well out of the present arrangements. The Americans might be in favour of the proposal with the aim of reducing their own defence expenditure in Europe, and shifting a part of the burden on to their European allies. Because of the Presidential Election it would in any case be difficult to discuss the problem with the Americans in the near future.

THE PRIME MINISTER, summing up the discussion said that there was general agreement with the conclusion that the Alliance was entering a difficult era in which it stood in much need of re-invigoration. The Committee agreed that the best course would be to institute a thorough review, although it was not certain at this stage that a team of "three wise men" would be the best way of accomplishing this: much would and ought to depend on the Secretary-General, and it was relevant that the present Secretary-General was bound to retire before long: the Alliance would need an effective and forceful successor. The primary purpose of the review would be an examination of the division of effort within the Alliance, and the effectiveness of the way in which that effort was being applied. In the longer term, the members of the Alliance should move towards greater specialisation. The review should also consider the basis of financial shares in the civil, military and infrastructure budgets with the aim of achieving a fairer distribution of shares for all members of the Alliance. The Committee agreed that the NATO civil and military bureaucracies needed to be reduced in size and generally shaken up. Because of the in-built inertia within the present structure of the Alliance it was important that the new British initiative should be launched soon, so that a new Secretary-General would be faced with a clear cut task when he was appointed.

The Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited the Foreign and Commonwealth Secretary and the Defence Secretary to be guided by it in initiating bilateral discussion with our allies, with the idea of launching the initiative formally at the North Atlantic Treaty Organisation Ministerial meetings in December.

Cabinet Office
10 November 1980

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OD(80)

OD - MOST CONFIDENTIAL RECORD (MCR)

MCR OF OD(80) 23rd Meeting, Minute 1
Friday 7 November 1980

(to be included eventually with Bound Volume)

CAD 148/196



From the Secretary of the Cabinet

Since this MCR does not in fact "exist" in terms of the published record, it was not included in the set of Cabinet docs. put together by Committee Section. They do not have a copy, nor do the FCO, NoD or even No 10.

JW.

over

If and when the Committee see the "open" minute, they are bound to ask whether there is a more detailed record. And I suppose that the minutes of OD when Mr Ridley reported back will indicate what he was empowered to discuss. I am therefore in no doubt that the MCR will have to go to the Committee.

Indeed, if they do not do so, Mr Ridley is left in a rather exposed position, is he not?

RJA

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Copy No. 2 to Mr R.L. Wade-Gery
on 10.11.80

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CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

MOST CONFIDENTIAL RECORD

OD(80) 23rd MEETING, MINUTE 1
FRIDAY 7 NOVEMBER 1980 at 9.30 am

1. FALKLAND ISLANDS

Previous reference: OD(80) 17th Meeting, Item 2.

The Committee considered a memorandum by the Secretary of State for Foreign and Commonwealth Affairs (OD(80) 66) proposing further discussions with the Falkland Islanders about possible future arrangements for the Islands.

THE SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS said that the Committee had agreed, at their earlier discussion of the problem, that the Minister of State for Foreign and Commonwealth Affairs, Mr Ridley, should undertake confidential exploratory discussions with the Argentine Government. It was clear that the only course of action with some hope of resulting in an agreement was a transfer of sovereignty accompanied by simultaneous lease-back. The Argentines were attracted by the ideas that had been put to them, though the time-scale they had in mind for the proposed lease was unacceptably short. In any case, no solution would be politically possible unless it had the wholehearted and enthusiastic agreement of the islanders. It would be important not to give the impression of pushing the Islanders into an unsatisfactory solution. On the other hand, the penalties of inaction were great: defence of the Islands was both difficult and expensive; and so long as the present uncertainty existed morale would continue to decline and there would be no chance of economic development.

THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE (MR RIDLEY), said that in his talks with the Argentine Deputy Foreign Minister the latter (and now the junta as a whole) had accepted that the Falkland Islands dependencies should remain outside the proposed arrangements, ie they would remain British and have their own 200-mile exclusive economic zone (EEZ), although they could no longer

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be administered from the Falklands. The Falklands themselves (and the 200-mile EEZ which would be declared) would be transferred to Argentina which would immediately lease them back to the United Kingdom. As regards the length of the lease, he had initially proposed 250 years and Argentina 24 years. Argentina seemed at one stage to be ready to contemplate 75, but he had not been ready to go below 99 years. He believed that it should be possible to settle at, or close to, the latter figure. In the talks it had been envisaged that there would be a symbolic Argentine presence on the Islands, but without any authority or power. The arrangements would be subject to periodic reviews at perhaps five or ten-year intervals. If oil was discovered under the sea round the Falklands, it would belong to the Falkland Islanders, and not to the British Government. His own view was that it would be highly desirable to find some way by which some share of the ownership of the oil, if found, should go to the United Kingdom. The major outstanding difficulty appeared to be that of the length of lease; he could not guarantee it, but he thought it possible that, if the Argentinians knew that an agreement was available subject to satisfaction on that one point, they might well be prepared to accept a 99 year lease. He had been advised that, when the composition of the Argentine Government changed in March 1981, it would be necessary to renegotiate, if agreement had not been reached by them with the present government. Since it was possible that the new government might take a harder line on the Falklands, the best chance of success lay in getting present ministers to commit themselves publicly on the subject before next March.

In discussion the following points were made -

a. The most important aspect of the proposed arrangement was the cession of sovereignty. Even with the assent of the Islanders, the proposal would be likely to be criticised by the Government's own supporters and, because of the complexion of the Argentine regime, by the Opposition. Notwithstanding adverse votes at the United Nations, the United Kingdom's title to the Falklands was valid in international law; once conceded, that position could not be regained. Moreover, there could be no guarantee that the new arrangements would survive internal political changes in Argentina; the United Kingdom might find it necessary to concede more and more with the passage of time.

- b. The present outlook for the Falkland Islanders was bleak. They would prefer no change if the United Kingdom had the resources to provide indefinitely for the defence and economic development of the Islands; but this was not the case. They would welcome a moratorium on the issue for fifty years; but there was no chance of that. Meanwhile, uncertainty about the future was blighting the morale of the Islanders and ensuring that no firm would risk investing in exploration or development of the Islands' resources. If therefore the proposals were put to the Islanders, some of them might regard the proposed removal of British sovereignty merely as a disagreeable necessity with which they must come to terms as best they can, but many of them could be expected to see in the leasing arrangements a positive way forward from the impasse and the prospect of economic development for the Islands.
- c. It would be important to make satisfactory arrangements for any oil that might be discovered. This point would need to be covered in the terms of the proposed lease. Although no-one had challenged the right of the British Virgin Islands to oil discovered there, further thought should be given to ways in which the United Kingdom might be guaranteed entitlement to a substantial part of the revenues. Such an arrangement would be easier to make before rather than after oil was found.
- d. Once the proposed scheme was broached with the Falkland Islanders, the nature of the proposals would become public in that country. Severe political damage could be done if the proposals were presented to the Government's supporters as a fait accompli, even though some of those most interested in the problem had expressed the view privately that a lease-back, if negotiable, would be a good solution.
- e. An alternative solution, under which the United Kingdom would retain a degree of sovereignty by establishing a condominium was, as experience in the New Hebrides had shown, liable to lead to constant friction.
- f. If possible, it would be desirable to persuade the Argentine government to give up the demand for a symbolic Argentine presence on the Islands; it could cause difficulties. Similarly, the provisions for relatively frequent reviews of the lease would be liable to lead to a progressive weakening of the British presence; the reviews should be as infrequent as possible.

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THE PRIME MINISTER, summing up the discussion, said that the Committee generally agreed that a solution on the lines described by the Minister of State, Foreign and Commonwealth Office, was likely to be the only way out of the present impasse. They also recognised that, but for the power of Argentina to disrupt life in the Falkland Islands through her control of the supply routes and the resultant loss of morale and decline in economic activity, and the difficulty and expense for the United Kingdom of maintaining effective defence and providing for economic development of the Islands, the Government would not be justified in a surrender of sovereignty. It was essential that the Government should hold to its position that no change would be made to the status of the Falkland Islands without the consent of the Islanders themselves. It seemed likely that, on balance, given the bleakness of their present situation, the majority of the Islanders would be ready to support negotiations with Argentina on the lines proposed, recognising that, while the Government would not go back on its commitment to defend them, it was not able to offer alternative ways of improving their position. The Committee's discussion had shown that in certain respects, including the proposed period of the lease, the arrangements being contemplated by the Argentina Government were not yet fully satisfactory. Assuming that the Islanders gave broad support to the basis proposed for negotiations with Argentina, it would be necessary to forewarn the Government's supporters in Parliament and the Committee would also wish to consider carefully the terms under which further negotiations with Argentina would take place.

The Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited the Foreign and Commonwealth Secretary to arrange for the Minister of State, Foreign and Commonwealth Office, to propose to the Falkland Islanders that their future should be secured by means of a transfer of sovereignty to Argentina accompanied by simultaneous lease-back of the Islands to the United Kingdom, and to report the outcome.
3. Agreed to consider further, in the light of the reaction of the Falkland Islands population to this proposal, the line to be taken in further negotiation with the Argentine Government.

Cabinet Office

10 November 1980.

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OD(80)23rd.

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Argentina

1. FALKLAND ISLANDS

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