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PRIME MINISTER

I have seen Peter Carrington's paper <sup>20.9.79</sup> PM/79/81 to you on the subject of the Falkland Islands. This is a very useful summary of the options open to us, and I agree with his conclusion that there is little to be gained by continuing to try to spin out our talks with the Argentines. The sort of solution he envisages is probably the best we can expect to achieve, given all the circumstances.

I am, however, rather uneasy about the proposed arrangements for the maritime zones outside territorial waters. It is true that the presence of oil (or gas) has yet to be proven, but the continued interest of the oil companies and the results of recent geophysical surveys (which FCO have seen) lead us to think that there is at least a good chance that hydrocarbons are there. We ought to be very careful about adopting a course which could lead to British oil companies losing a favourable position they might otherwise have had, both as regards development and exploitation and the supply of offshore hardware, in which field the North Sea has given us a leading position. It could also involve a substantial loss to the British economy if oil were found. It is impossible to quantify, of course, but I should have thought the potential value to us (and to the Islanders) would bear comparison with - it could possibly exceed - the possible trade benefits mentioned in Peter's paper.

I do feel, therefore, that before we agree to the course he has proposed, we should have a full discussion on its implications and a better assessment of the gains and losses we stand to make.

I do not think the paper as it stands has taken all the relevant economic factors of this sort into account. I would hope that, meanwhile, Peter Carrington will not say anything to the Argentines which could jeopardise the position.

I am copying to other members of OD(5) the Attorney General, Sir John Hunt and Sir Kenneth Berrill.

JH.

SECRETARY OF STATE FOR ENERGY

22 September 1979

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