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CABINET
DEFENCE AND OVERSEA POLICY COMMITTEE

FALKLAND ISLANDS

Memorandum by the Secretary of State for Foreign and Commonwealth Affairs

1. Since our discussion in OD on 3 December, Island Councillors have responded to the suggestions put to them by Nicholas Ridley for progress in the sovereignty dispute. In Legislative Council on 7 January they agreed that, while they did not like any of the ideas, further talks should be held with Argentina, at which Councillors should be represented and at which a possible freeze to the dispute for a period of time should be negotiated.
2. In withholding support for leaseback, Councillors' response is less than we had originally hoped. But it could have been worse. A mandate for further talks has been given: and leaseback has not been ruled out for the future. The idea of a freeze or moratorium to the dispute is likely to be given short shrift by the Argentines, to whom it offers nothing. It is necessary to allow time and the realities of the Argentine position to sink in on Islander opinion. The issues are now out in the open and, despite Councillors' initial response, there is already some measure of support in the Islands for the leaseback concept. Our aim must now be to keep negotiations going: and, while applying no pressure, to let the Islanders come to see the need to explore a realistic settlement based on leaseback.
3. The immediate question is when to hold the next round of talks with the Argentines. We have kept in close touch with the Argentine Government. They have so far played their hand patiently and correctly. But they have made clear to us that they are under increasing domestic pressure to take a formal position on our exchanges with the Islanders: and they are pressing us to hold talks in February and to announce a date.
4. I consider that we should respond positively. There is to be a change of Argentine President, and consequently also of Ministers, at the end of March: and it can be argued that it would be best to defer the next round until the new Administration has settled in. But the composition of the military Junta will not change and this will assist continuity of policy. If we were to seek

now to defer talks, against Argentine wishes, we should prejudice the positive relationship developed with the present team and risk raising the temperature of the dispute. I conclude therefore that we should offer a round of talks before the Argentine Government changes. The Governor of the Falklands, who has been consulted, believes that the Islanders would not feel hustled by this timing.

5. Looking further ahead, there are two issues which will require very careful consideration if the Islanders are to be brought to accept a negotiated settlement:

(a) The Home Secretary has already minuted the Prime Minister on the position of Falkland Islanders under the new nationality legislation. This is a most sensitive issue in the Islands: and Island Councillors nearly made their present agreement to further talks contingent on all Islanders being given right of abode in the UK. If negotiations on leaseback are eventually to be undertaken this could be a problem, with Islanders seeking further concessions on immigration or even nationality as a price for their concurrence.

(b) Progress towards a settlement may also require a political commitment to increased British Government finance for the development of the Islands so as to reduce their dependence on Argentina. We can expect more calls on these lines, in particular from our own backbenchers. The Treasury are meanwhile looking into the question of Government guarantees for commercial loans to the Falkland Islands Government.

6. These are factors for the future. I propose now that we should confirm to the Argentines our agreement to further talks in late February/early March with Islanders present, and to announce a date: and I seek the agreement of my colleagues.

C.

Foreign and Commonwealth Office

26 January 1981