



ALW 080/325/14

PM/79/81

PRIME MINISTER

Falkland Islands

1. Our dispute with the Argentines over the Falkland Islands continues. We need to decide how to handle it. There are three broad options:

A. "Fortress Falklands"

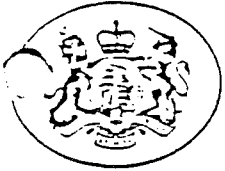
2. We could refuse to talk to the Argentines and retreat into some "Fortress Falklands". But this would not be realistic. The Islands and their Dependencies are small, remote, undeveloped and underpopulated (1,850 people of British stock). Their only hope for a secure economic and political future is through cooperation with Argentina. They are already dependent on Argentina for vital supplies (eg oil) and for communications (air services). The islands are militarily indefensible except by major diversion of our current military resources. The cost of supplying them direct from the UK in face of a hostile Argentina would be unacceptably high. The Islands would be condemned to economic decline and social decay and we would have to commit ourselves to heavy aid expenditure to keep them going (Annex I).

B. Protracted Negotiations

3. We could talk to the Argentines but adopt a negotiating position of no concessions on sovereignty. Some islanders, and their supporters in this country, might favour such a policy. Successive British administrations have played for time in this way for some dozen years. However this would eventually lead to a complete breakdown of exchanges, probably sooner rather than later. The consequences would be similar to those which would result from a "Fortress Falklands" policy.

C. Substantive Negotiations on Sovereignty

4. Both the above options are sterile. We need a more constructive approach. I think the right course is to aim for substantive negotiations. I have written to the Argentine Foreign Minister to tell him of our wish to continue the dialogue in a constructive spirit and with the sincere intention of resolving our difficulties. But serious negotiations will have



to encompass the question of sovereignty. We do not have much to bargain with.

5. From 1977 the previous Government negotiated with the Argentines on terms of reference announced in April 1977 (Annex II). The exchanges included the question of sovereignty but were largely exploratory and without prejudice to either side's sovereignty claim. No substantive progress was made. The Falkland Islanders were kept closely informed throughout and it was made clear to all that no solution would be brought to Parliament which did not have Islander support.

6. There is no point in continuing to delay. Nicholas Ridley, following his recent visit to the Falkland Islands to look at the situation and ascertain Islander views, is firmly of the opinion that delay is benefitting no one. It is in our interest and that of the Islanders to try now to find a way forward. The objective would be to find a solution with which the Argentines might agree and which the Islanders will accept. We shall need to retain the support of the Islanders in whatever we propose and shall of course respect our past commitments to them. Our intention would be to surrender only the trappings of sovereignty in return for guaranteed economic and political security for the Islanders under British rule. It will help if we negotiate in the context of our overall relations with Argentina, including the economic developments of the South West Atlantic (oil - if proven - and fish) and co-operation in Antarctica. An unpredictable and possibly violent Argentine reaction would thereby be made less likely.

7. Theoretically, there are a number of ways in which we could handle the sovereignty question (some are examined in Annex III). But the one best fitted to meet our own and Islander wishes would be to transfer ownership of the Islands to Argentina, on the understanding that they would simultaneously grant us a lease roughly analogous to that of Hong Kong New Territories. The previous Government's exchanges with the Argentines implied such a lease-back solution, and the Argentines know this; but it has never been formally put either to them or to the Falkland Islanders.



During his visit Nicholas Ridley found the Councillors willing to consider such a possibility, provided the lease was long enough (say 99 years), because it would provide that British control of the Islands continued.

8. While we do not know whether the Argentines will accept a lease-back or what price they might seek in agreeing to one (they will obviously seek a fairly short lease), there are positive reasons for pursuing this option. If the Argentines genuinely want a solution, this one could give them the appearance of sovereignty to present as a success to their domestic opinion. It would provide the Islanders with continued British rule, national institutions. A solution would remove the major impediment to better relations with Argentina and bring commercial (eg arms sales) and other dividends. It would go some way towards unlocking the economic potential of the Islands, by helping to create a framework where business and development could flourish without any support being needed from our aid funds as now. What are needed in the Islands, along with a much greater population, are proper banking facilities (including access to private capital); a less onerous tax regime (and one which encourages inward investment); the break-up of the monopolistic Falkland Islands Company which inhibits agricultural development; and publicity for such opportunities. For this a political solution is essential.

9. There will be difficulties in carrying through the course I am proposing. If negotiations develop positively, we shall have to ensure that we have support for our proposals in Parliament. Provided we carry the Islanders with us, we should achieve this. On the other hand, the risks in being passive and doing nothing (Annex I) are clear; we should positively seek a solution.

10. I would like your agreement and that of our colleagues to my proceeding on the above lines. I would let the Falkland Islanders know of our intentions through the Governor. If I am able to visit New York next week for the General Assembly meeting, I would hope to meet the Argentine Foreign Minister in the margins and would like to indicate our willingness to enter into negotiations fairly soon. I would not intend myself to conduct any



Nicholas Ridley might arrange subsequently to meet with his Argentine opposite number. I would expect negotiations to begin in the autumn. The speed with which they go ahead can be adjusted to circumstances as long as the direction of movement is clear. I would report significant developments to you and our colleagues.

11. I am copying this minute to other members of OD, to the Secretary of State for Energy, to the Attorney-General and the Secretary of the Cabinet. If there seems to be any difficulty about what I am proposing, I would be grateful to have an urgent indication of this before I leave for New York at the weekend.

C.

(CARRINGTON)

Foreign and Commonwealth Office

20 September 1979

ANNEX I

"FORTRESS FALKLANDS"A. DEFENCE OF THE FALKLAND ISLANDSCurrent Measures

1. The Falklands are currently defended by a permanent detachment of 40 Royal Marines based in Port Stanley. They are supported in this during the Antarctic Summer (roughly December-March) by 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 Naval presence in the area. These measures cost the MOD some £3.5 million per annum. They provide only a symbolic deterrent and would be effective against only small scale, adventurist incursions.

Measures to Counter Argentine Invasion Threat

2. To counter a sudden and serious maritime threat to the Falklands, the Dependencies or to British shipping in the area, the MOD has assessed that it would be necessary to deploy a balanced naval force of one guided missile destroyer, three frigates and supporting RFAs and, possibly, one nuclear powered submarine.

3. To provide a credible deterrent, in the face of an increased threat of military invasion, would require timely reinforcement of the current garrison by at least a force of an RN Commando Group and a Blowpipe air defence troop. Should the Argentines invade before a deterrent force is deployed, or if the deterrent force failed, to recover the Islands would require a force of at least Field Force (formerly called a Brigade Group) strength. At the very best, such an expedition could not reach the Islands in under a month. The remoteness of the Islands, their limited airfield facilities and the fact that the only alternative airfields which could be used in cases of emergency are in Argentina would make reinforcement by air impossible and make resupply extremely difficult.

- 2 -

Implications of Increased Defence Commitment

4. Such a diversion of our military resources would have far reaching effects. The extra fuel costs alone for the task force in paragraph 2 would be of the order of £1 million. The implications for our commitment to NATO would be serious. There would be a reduction in NATO exercise involvement and a reduction in training, which would adversely effect the fighting efficiency of the Fleet. The deployment of a Field Force would have significant implications for BAOR, for our planned roulement of troops in Northern Ireland and would further exacerbate the problem of over-stretch in the army. These problems would get progressively worse the longer the force was required to remain in the area.

B. ECONOMIC BLOCKADE

5. A number of possibilities for harassment of the Islands are available to the Argentines. They could

- i) abrogate the Anglo-Argentine Communications Agreement of 1971, cutting passenger links with the outside world and the freight service. There is no feasible alternative to the air service and normal passenger services would cease.
- ii) cease to provide fuel: alternative supplies could be provided, at great cost, by the Falkland Islands Company or by the RN RFA which biennially tops up the Admiralty oil tanks at Port Stanley.
- iii) cut off supplies of food stuffs, cancel scholarships for Falklands children in Argentina and suspend medical co-operation. Such facilities could only be replaced in the UK.
- iv) interfere with British shipping: the Islands are almost entirely dependent on the United Kingdom for their trade. Exports (almost entirely of wool) are marketed via the UK; 85% of imports originate from the UK. MOD have assessed that in such circumstances we should need to provide a

-3-

to the Islands. A typical task force might consist of a helicopter cruiser or guided missile destroyer, frigates, possibly a fleet submarine and supporting RFAs. Each operation would take at least 6 weeks.

5. The Argentines could take measures against British economic interests in Argentina eg refuse to pay monies outstanding on the Type 42 destroyer contract; cancel other defence contracts under negotiation worth over £100 million; and expropriate British assets, worth over £200 million. They could orchestrate industrial and/or bureaucratic action against British exports (£114 million in 1978) and harrass the British Community of 30,000 in Argentina (17,000 hold British passports).
6. The Argentines could occupy uninhabited Dependencies (they have already set up a scientific station on one of them, Southern Thule) and/or arrest the British Antarctic Survey team on South Georgia.
7. The effect of such measures, or a selection of them, would be cumulative. In the short term, life on the Islands would continue to be tolerable. But a prolonged blockade would have a disastrous effect on Islander morale. Internationally, we could expect little sympathy or support and the pressure would be increasingly on HMG to make concessions.

FALKLAND ISLANDS: TERMS OF REFERENCE FOR NEGOTIATIONS (WRITTEN PARLIAMENTARY ANSWER BY THE SECRETARY OF STATE, 26 APRIL 1977)

The British and Argentine Governments have now reached agreement on the Terms of Reference for negotiations about the Falkland Islands dispute, as follows:

The Governments of the Argentine Republic and the United Kingdom of Great Britain and Northern Ireland have agreed to hold negotiations from June or July 1977 which will concern the future political relations, including sovereignty, with regard to the Falkland Islands, South Georgia and South Sandwich Islands, and economic cooperation with regard to the said territories, in particular, and the South West Atlantic, in general. In these negotiations the issues affecting the future of the Islands will be discussed, and negotiations will be directed to the working out of a peaceful solution to the existing dispute on sovereignty between the two states, and the establishment of a framework for Anglo-Argentine economic cooperation which will contribute substantially to the development of the Islands, and the region as a whole.

A major objective of the negotiations will be to achieve a stable, prosperous and politically durable future for the Islands, whose people the Government of the United Kingdom will consult during the course of the negotiations.

The agreement to hold these negotiations, and the negotiations themselves, are without prejudice to the position of either Government with regard to sovereignty over the Islands.

The level at which the negotiations will be conducted, and the times and places at which they will be held, will be determined by agreement between the two Governments. If necessary, special Working Groups will be established.

FALKLAND ISLANDS: SOVEREIGNTY OPTIONS

I "Fortress Falklands"

1. This is the idea that we need make no sovereignty concessions to Argentina in that, if we stand firm, the Argentines will give way or, otherwise, we would be able to defend the Islands against any attack, direct or indirect. The concept is false. The Argentines are not going to give up a sovereignty claim they have maintained for decades.

2. The economic and military costs in attempting to defend and maintain our position in the Islands are looked at in Annex I. We could not expect support from anyone in adopting such a position, certainly not Chile, Uruguay or Brazil, to whom we have to look for alternative transit facilities. We are in a minority of one in the United Nations on this issue. The "fortress" concept would effectively prevent all development of the Islands.

II. Sovereignty "freeze"

3. This would require Argentine agreement to leave the sovereignty dispute in abeyance for a given period, say 30 years, at the end of which we would both review the sovereignty claim. There is nothing in this that would appeal to the Argentines who want some early progress on the sovereignty front.

III Joint sovereignty or Condominium

4. The Anglo/French condominium of the New Hebrides is an example: co-sovereignty would have to lead eventually to co-administration. It would present extremely complicated problems. It would be unacceptable to the Islanders because it would involve Argentine intervention in their way of life in one form or another. It would probably be unacceptable to the Argentines in that it would involve their admitting the UK to a

- 2 -

joint share of sovereignty which they want exclusively.

IV A "Mixed Approach"

5. We would seek to differentiate between territory, in which the Argentines are primarily interested, and people which is the main burden of our concern. We would agree to concede sovereignty over the uninhabited Dependencies and the maritime zones to Argentina who would abandon her sovereignty claim over the inhabited Falkland Islands. This would be unacceptable to Argentina because it would not involve the concession of sovereignty over the Falkland Islands which they are seeking.

V Other Models

6. Two existing examples of shared sovereignty are:

- a) Spitzbergen where Norway has sovereignty but other powers have the right of "economic access".
- b) The Aaland Islands where Finland has sovereignty but the Islanders enjoy certain special rights reflecting their relationship with Sweden.

Neither would be acceptable to the Islanders, because they would involve an Argentine presence and intervention in their British way of life.

VI Leaseback

7. We would concede to the Argentines sovereignty over the Falkland Islands, the Dependencies and their Maritime Zones. Argentina would simultaneously give HMG lease over the Falkland Islands and South Georgia (where we have an Antarctic base) and their territorial waters and agree on equal co-administration of the economic resources of the Maritime Zones and seabed pertaining to all the Falkland Islands and Dependencies.

8. A perpetual lease would be best but the Argentines are most unlikely to agree to this. The term would have to be negotiated: we would try for say 99 years but might have to settle, as a last resort, for something like 30 years. If the period were short, it might be necessary to devise special arrangements to enable some of the Islanders to settle in the UK but, if the economy were to blossom in the period agreed, only a few people would be involved, particularly the older generation.