

Ref: B06507

PRIME MINISTER

c Sir Robert Armstrong

Falklands: OD(SA) on 26th MayI. Current Business

Your meeting at 10.00 am tomorrow will need to start in the usual way with

- a. the Chief of the Defence Staff's report on the latest military news;
- b. a report from the Foreign and Commonwealth Secretary or Sir Antony Acland on latest developments in New York.

Whether decisions will be needed on either topic will depend on overnight developments.

II. Longer-term Issues

2. As agreed at today's meeting, the rest of the time can then be devoted to a preliminary discussion of the longer term. The Sub-Committee will have three papers in front of them -

- i. Sir Michael Palliser should be asked to speak briefly to his paper of 30th April on British Objectives (OD(SA)(82) 38), indicating the essential elements in his analysis which are unaffected by all that has happened since then.
- ii. The Foreign and Commonwealth Secretary should speak to his paper on the Independence Option (OD(SA)(82) 56), which suggests that this course would be feasible but difficult and expensive. The Defence Secretary should comment on the implications for defence policy.
- iii. The Foreign and Commonwealth Secretary should also introduce his paper on the Scope for Developing the Economy (OD(SA)(82)57). This circulates the Governor's memorandum, which you have seen;





and a note by Foreign and Commonwealth Office officials, based on the letter of 20th May to Mr Coles which you have also seen. The Foreign and Commonwealth Secretary's conclusion is that there is a reasonable potential for development; but that the key factors will be security, communications and investment.

3. This will not be the right meeting to take firm decisions on long term issues. Too much depends on the outcome of the fighting in the Islands; and on the effect of that outcome on Argentine policy, American attitudes and British public opinion. Major decisions, in any case, ought probably to be addressed by a wider group of Ministers, ie OD.
4. But there are three preliminary conclusions to which the Sub-Committee could probably be guided -

- (1) The need for time. Our immediate public posture could defensibly be that we shall need time, after the Islands are freed, to consult the Islanders and others about the future in the light of the traumatic events of the recent past.
- (2) The Americans. In the end our freedom of action will be limited by the attitude of the United States Government and of American public opinion. You will clearly need to talk about this to President Reagan when he is here. Meanwhile, Sir Nicholas Henderson could be laying the foundations for such a talk with his White House and State Department contacts; and the Foreign and Commonwealth Office should perhaps be asked to let OD(SA) have a paper on what your meeting might be primarily aimed at achieving.
- (3) Costs. It would help to focus future discussion if officials were commissioned to make some preliminary estimates of
- the cost of making good war damage;
  - the cost, to the Government, of providing the framework for economic development;
  - the cost, both capital and current, of garrisoning the Islands and deterring further aggression.



5. Work on costs could if you wished be organised under Cabinet Office lead. It will no doubt involve devising a range of appropriate assumptions. Conclusions could only be tentative. But they will serve to highlight what are going to be very major issues of aid policy and defence policy. For example, is the Defence Budget to be enlarged, not just temporarily to cover current operations and replace losses (say £500 million?), but permanently to cover garrison costs? If not, what existing defence activity is to be sacrificed to make room? Similarly, is the Aid Budget to be enlarged to cover both rehabilitation and development, or if not whose aid is to be cut? Such questions cannot be addressed until we have some idea of the orders of magnitude involved.

RLW.

25th May 1982

R L WADE-GERY

CONQUEROR