



10 DOWNING STREET

Clive

This is the
Falklands solution
for economists!

Ala

Note.

I discussed this with Mr
Walker today. We agree that
we shall put it on record for the
time being.

File.

19W.

SECRET

1 A⁹

AN ECONOMIC SOLUTION FOR THE FALKLANDS

1. Any ultimate solution to the Falklands issue must have the following properties:
 - a. it must be consistent with our objectives for the constitutional status of the Falkland Islands before Argentine aggression;
 - b. it must be consistent with the wishes of the Falklanders; and
 - c. it must make Argentina pay, and ensure that they do not profit from their aggression.
2. In its essence we must ensure that, after the cessation of hostilities and the withdrawal of the Argentine forces, we allow the Argentine Government to attempt to persuade the Falklanders, by a compensation payment for each Falklander, man, woman and child who were on the Islands, let us say two years ago, to receive a specified sum. (I was thinking of a sum of about £50,000 per head, but this is fixed by Argentina.)
3. The Falklanders can then vote on plebiscite whether they wish to take their £50,000 per head and receive Argentinian sovereignty, or whether they reject both the compensation and sovereignty. There would have to be agreement on the majority required, probably two-thirds. (Note that the bigger the required majority the higher the necessary bid.)
4. The important point is that this sum must be paid to each Falklander which ever way he votes and whether he chooses to stay on the Islands or to leave them, or indeed has left over the past two years. This payment would be enforceable through a bond posted with a suitable bank and could be easily policed. The Argentinians would be allowed to make other promises, which it would be difficult to police, but which could be taken into account by the Falklanders, such as improvements in infrastructure, transport services, etc.
5. If the Argentinians really want sovereignty then they will bid high in the compensation stakes. And even at £50,000 per head, this would amount to less than £100 million. I suspect more than two-thirds of the Islanders would be willing to settle at that amount. But I have no basis or knowledge here other than intuition.

/6. What happens

SECRET

SECRET

- 2 -

6. What happens if the Argentines misjudge the "market" and bid too little? Then sovereignty remains in the UK, but the interim administration would continue for a year. But to avoid producing another incipient Falklands incident and to induce Argentine acceptance, we might negotiate that, six months later, the plebiscite could be tried again. Granted the acquisitive obsession of the Argentines, their second bid would be likely to be raised to heights which the Falklanders could hardly refuse.

7. At this stage of the conflict this all may appear to be "thirty pieces of silver", but appearances are deceptive. It would have the nice quality of satisfying a majority of all parties - and that is worth striving for.

11 May 1982

ALAN WALTERS

SECRET

SECRET

OUTLINE AGREEMENT

Preamble

Mutual desire for a peaceful settlement within the terms of UN Resolution 502. Acknowledgement that any new arrangements must be acceptable to, and in the best interests of, the Falkland Islanders themselves.

Provision 1

All hostilities will cease on a given Date A.

Provision 2

Establishment of a UN peacekeeping force on Date A, based on the Falkland Islands, with following responsibilities:

- i. to supervise the withdrawal of armed forces under Provision 3, and report breaches to the Interim Authority established under Provision 5;
- ii. to ensure no armed forces are reintroduced within the specified area by either party;
- iii. to support the Interim Authority as necessary.

Provision 3

Mutual and simultaneous withdrawal of armed forces by both parties, to outside a specified area, to be completed by a given Date B.

Provision 4

Ending of financial and economic sanctions taken by either party during the dispute; re-establishment of diplomatic relations; lifting of restrictions of any kind on nationals of one party in the territory of the other.

Provision 5

Establishment of an Interim Authority for the administration of the Falkland Islands, comprising equal numbers of:

SECRET

- i. representatives of the Islanders; and
- ii. representatives of the UN peacekeeping force, with specified powers, effective until Date D.

Provision 6

Sovereignty of the Falkland Islands from Date D to be determined in accordance with a plebiscite of all Falkland Islanders, whether currently resident or not, to take place on Date C.

Provision 7

The question to be put in the plebiscite to be:

"Do you wish the sovereignty of the Falkland Islands to be transferred from the United Kingdom to Argentina?"

For the transfer of sovereignty to take place, a two-thirds [negotiable] majority is required.

Provision 8

Conduct of the plebiscite, and adherence by both parties to the outcome, to be the responsibility of the Interim Authority.

Provision 9

Between Date B and Date C, both parties may introduce to the Falkland Islands up to three civilian representatives of their respective Governments empowered to pledge their authorities in the event of their Government being the sovereign power after Date D, to make a specified compensation payment per head to all Falklanders whether they remain in the Falklands or migrate - this payment to be made in US\$ or £ sterling immediately after the plebiscite. (The completed payments being a condition of the transfer of sovereignty.)

Provision 10

Where, under Provision 9, specified sums are pledged, the pledging party to lodge a bond accordingly with the Interim Authority; such bond to be returned in the event of that party not being the sovereign power after Date D.

SECRET

- 3 -

Provision 11

Complete freedom of movement for the Falkland Islanders and their assets into and out of the Islands after Date B.

Provision 12

Both parties undertake that, whatever the sovereignty arrangements after Date D, the normal way of life of the Falkland Islands, as before the hostilities, will be respected, notably as concerns language, education and local laws.

11 May 1982

SECRET