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SOUTH ATLANTIC PRESENTATION UNIT (SAPU)

The attached paper contains information and suggested lines to take on the following -

1. MOD Official Statement at noon today
2. Mr Pym's interview on this morning's "Today" programme
3. The UN Secretary General
4. The Peruvian Proposals
5. Effect of Economic Pressure on Argentina

Cabinet Office

21 May 1982

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MOD PRESS STATEMENT - 12 NOON 21 MAY

The Task Force has landed a number of raiding parties on the Falkland Islands during the night. These raids are still in progress. Early indications are that they are achieving their objectives. Bombardment from ships in the Task Force continued in the vicinity of Port Stanley and other areas in East Falklands. Harriers from the Task Force have mounted attacks in the Fox Bay area. All these activities have been directed against Argentine military targets including fuel and ammunition dumps and military stores.

Sadly in the course of a transfer of personnel between ships in advance of these operations a Royal Navy helicopter with 30 men on board met with an accident and ditched. Nine of those on board were rescued. One dead body was recovered. Twenty are missing, presumed dead. The next of kin have been informed.



Military Proposals

Our strategy all along as you know has been to put on the squeeze and increase it diplomatically, militarily and economically and that will continue.

Q: So is it fair to say when you talk of attrition that there is no question of a full-scale assault yet that it will be a series of perhaps smaller assaults.

A: How he deals with his forces is a matter for the Commander-in-Chief but I myself would expect a series of raids rather like we saw on Pebble Island the other day and what we have heard about in recent days I imagine there will be an increase of that sort of activity but the actual decisions of course remain with the Commander-in-Chief

Diplomatic Prospects

Q: With all this does this mean that negotiations are now definitely at an end?

A: I would not say that at all. We know the Secretary-General has concluded his attempts and that's unfortunate but possibly right. But we remain open all the time to further possible negotiations. It may be that Argentina will change her mind. The door must always be open to that. At the end of the day whatever happens there will have to be a negotiated settlement of some kind and we hope it comes sooner but that doesn't look very likely.

Why Withdraw British Proposals?

Q: Indeed, Mrs Thatcher has withdrawn the British proposals. Was it necessary actually to withdraw them this does seem to have cut off any hope of continuing the talks?

A: You must remember that the circumstances surrounding each negotiation are different. There were a different set of proposals when Mr Haig started negotiating and then when the Peruvians came into it the circumstances were different and the offer we made last Monday was done in the circumstances appertaining at that time.



Well, now they are beginning to change but I think everybody has been pleased to see the length at which we were prepared to go. The flexibility we have shown in trying to achieve a peaceful settlement. We are always open to suggestions but what is necessary is for the Argentines to change their minds. They invaded the Island, they've no right to be there. They are under an obligation from the United Nations to go. They show no sign of it. All they have to do is to adhere to the terms of Resolution 502 and get off the Island and then peace can break out again.

International Support

Q: There is a suggestion that perhaps we have lost some world support during all these weeks of negotiations. That it might have been better to have given up earlier and to have gone in and got it over. What do you say to that Mr Pym?

A: I don't know where you got that idea from. We have got a very great deal of support all around the world because lots of other countries in all continents understand very well what we are doing. They realise that if aggression is allowed to pay then there is a lack of stability all round the world and when we have achieved our objectives there will be a sigh of relief everywhere and the reason we are getting support is because every other country particularly the small ones but even some larger ones realise that the principles that we have at stake here, and the action we are taking is something which affects them directly.

Q: I think people got the idea of a falling off of support from the EC who have not given the support to sanctions on this occasion that they did on the original occasion.

A: Whereas that is quite true - and I said in the House of Commons last night - that actually the degree of solidarity and the strength of the support in the governments of the countries of the Community are a great deal stronger than one would have thought from reading the British press. I think the press was quite fair in saying that it was only continued for a week instead of for a month but you must remember that Foreign Ministers



are meeting again next Monday and I have no doubt that even though it isn't on the agenda they will wish to review the situation and I will certainly bring them up to date.

Domestic Support

Q: What about the position at home Mr Pym. Do you feel that your position has been weakened by the differences with the Labour Party and in particular that vote last night where you had about 33 Labour MPs voting against you?

A: Not at all. There has been a very broad measure of support in the House of Commons and one has expressed gratitude for that and there is undoubtedly a great deal of support in the country. And the fact that 33 Labour members decided to vote I think indicates in fact the small numbers of those who disagree. No, I would like to say that the feeling of unanimity, the strength of the support the government has received in the House of Commons is a most important feature in the conduct of the whole operation and I do feel that the whole nation is behind what we are doing.

Long-Term Future

Q: Now you mentioned earlier that sooner or later negotiations obviously must start again. Now assuming that we have to retake the Falklands will we resume discussions with Argentina the discussions that were going on before the invasion took place?

A: I think that is going to happen at any time but you see that makes my point. The circumstances then would be quite different from what they are now or what they were last week. It may be that we shall repossess the Islands. It may be that we shall take them by force and if we do that then we are in a totally new situation.

Q: But its still a possibility in that situation that if the Islanders themselves agree the Islands could still be handed over to Argentina.

A: Certainly not unless the Islanders so decided which seems extremely unlikely. What you have to realise is that when all this is over they have got to re-establish themselves. They have got to rehabilitate themselves.



And it will take some time I think for them to take a view about what they would like for their future. There are a number of possibilities. They have got to think of their security. I would have thought that they would wish to stay as they always have British.

Q: During that period as you say it might take some time. Does this mean that we will probably have to keep a substantial garrison on the Falklands so this sort of thing doesn't happen again?

A: Well, it may be. I don't know how substantial. In the context of the agreement we have been hoping to negotiate we visualise that other countries, third parties, would come in and hold the peace in the mean time but if that is not going to happen and we are going to repossess the Islands then of course we have got to provide adequate protection for them. I myself think it is very unlikely that the Argentines would want to do again what they would have just have then failed to achieve but we have certainly got to look to the defences and I think this is an important aspect to the long term future and I would hope that eventually we can come to some arrangement with other countries in the South American hemisphere so that the protection of the Islands can be shared but all that is for the future and it remains to be seen.



### 3. The UN Secretary General

Mr Perez de Cuellar announced in his letter of today to the President of the Security Council that his efforts did not "offer the present prospect of bringing about the end to the crisis". He reported that substantial progress was achieved in the last two weeks towards a diplomatic solution but "I must now state that the necessary accommodations which were still needed to end the conflict have not been forthcoming . . . . I would like to assure you of my continuing commitment to the search for a lasting resolution to this problem".

We welcome this commitment and will continue to remain closely in touch with the Secretary General. As Mr Pym said in the House, before the Secretary General's announcement that he was bringing his active mediation to an end, "he deserves in this the constructive support of all members of the UN and he will certainly continue to get it from us".

### 4. New Peruvian Proposals

The President of Peru has announced a renewed attempt to contribute to a settlement of the present crisis. His proposals are brief and are concerned with how to reach agreement rather than with the substance of an agreement. They do not, therefore, in present circumstances, seem to point to the way forward; but the Government's attitude is that it remains interested in negotiations. If Argentina were to demonstrate a genuine change of position, including readiness to withdraw in accordance with Security Council Resolution 502, the prospects for negotiations would be transformed.



## 5. Effect of Economic Pressure on Argentina

The Foreign Ministers of the 10 are meeting again on 24/25 May to discuss the need for a further renewal of sanctions against Argentina. A number of other countries continue to exert economic pressure. The ban on imports imposed by Canada, Australia, New Zealand, Norway and Hong Kong remains in force. An embargo on arms and military equipment by our community partners, the US, and all other major arms exporting countries have seriously reduced Argentina's ability to procure advanced military equipment.

The actual and prospective effect of these measures and the shock to confidence produced by the invasion itself is having a visible effect upon the Argentine economy, both internally and externally.

Externally, the most immediate impact has been the concern of international banking circles about Argentina's credit-worthiness. Argentina's total debt is US dollars 34 billion, of which US dollars 10 billion is short-term. Short-term credits are being rolled over. But longer-term loans are not being replaced as they mature, and Argentina has not been able to raise any new loans since the invasion.

The authorities have been obliged to introduce severe restrictions to prevent foreign currency outflows. There are now limits on imports and extensive controls on all foreign payments. The pound has been devalued 14% against the dollars, but there is still a wide gap between the official rate of 14,000 pesos to the US dollar and the unofficial market rate of 18,000 - 20,000. Foreign currency reserves, which had fallen by 400 million US dollars in March, fell a further 500 million US dollars in April.

Within Argentina, there has been a steady run on the banking system, as large numbers of people withdrew their deposits. At least seven financial institutions have collapsed. Interest rates have risen sharply and would have gone higher except that the authorities pumped more liquid funds into the system so that the amount of pesos in circulation rose by 50% in April alone.

The economy was already in recession before the invasion: this has got worse. Lay-offs in key sectors, in particular the car industry, have led the Government to ask companies not to suspend any more employees while the



crisis lasts. The cost of military activities is placing a severe strain on Government financing and has led to higher taxes, eg on petrol (up to 30 %), cigarettes and alcohol. All the measures taken - increased money supply, devaluation, higher indirect taxes and interest rates - have added to pressures on inflation, already well over 100% per annum.