

Ref: B06540

PRIME MINISTER

c Sir Robert Armstrong

Possible Future Expenditure Following Repossession
of the Falkland Islands
(OD(FAF)(82) 2)

BACKGROUND

This is the report commissioned by OD(SA) on 2nd June (OD(SA)(82) 49th Meeting, Item 2, Conclusion 2). Its purpose is not to seek specific decisions, but to give Ministers a broad, preliminary assessment of the order of magnitude of the cost of guaranteeing the security of the Falkland Islands and Dependencies, making good the damage, and laying a basis for further long-term development. The assessment is made on the basis of three alternative scenarios, the first two of which assume a hostile, or potentially hostile, Argentina.

2. The section of the report dealing with future force levels (paragraphs 5-8 and Annex A) reflects the Chiefs of Staff's first look at the problem. Their preliminary conclusions will be refined in the light of further study and advice from the force commanders on the spot. But on any of the likely scenarios, the military costs will be substantial: by far the largest item identified in the report. They cannot be considered in isolation from the impact which defending the Falklands in the new circumstances will have on the overall shape of our defence effort.

3 On rehabilitation (paragraphs 9-12 and Annex B) much of the immediate work can be carried out by the garrison, some of it to meet its own needs as well as those of the islanders. But the cost of most of the longer term rehabilitation will be additional to, and separate from, the military costs.

4. On longer term development (paragraphs 18-19 and Annex D), the ground is being covered in detail by Lord Shackleton. This section of the present report is intended only as a tentative indication of the range of possibilities, with a view to putting the garrisoning and rehabilitation costs into some form of perspective.

5. The report does not address the question of how the various costs are to be funded. The problem of defence costs attributable in one way or another to the Falklands crisis was raised in the Defence Secretary's minute to you of 16th June, which you discussed with him and other colleagues on 18th June. Civil rehabilitation costs will presumably be a charge on the FOC/ODA vote: The Foreign and Commonwealth Secretary is likely to have views on this.

HANDLING

6. It might be useful to invite a brief discussion of each of the main sections of the report in turn. The most important questions to be explored are -

Assumptions

a. Are these realistic? Do they need further refinement? How soon can one expect to move through the first two (hostile) scenarios to the more benign scenario?

Security

b. Do the Chiefs of Staff expect further study to result in major deviations from the composition and cost of the garrison illustrated in the report? If the more benign scenario is likely to arrive soon, could the defence dispositions be made on a more provisional basis and at lower cost?

c. Discussion at OD(SA) today suggested that the numbers of military personnel who could be accommodated on the islands had been over estimated. Is this likely to reduce the estimated costs?

d. When will it be possible to start the process of reshaping the garrison as envisaged?

e. Should there be an examination of what kind of third country participation in protecting the Falklands would be needed to enable the size and cost of the British defence arrangements to be reduced? How big could such a reduction realistically be expected to be?

Rehabilitation

f. Is it agreed that essential work should proceed as quickly as possible on the understanding that, once the costs of the programme can be properly assessed, there can be a review of FCO/ODA cash limits?

Communications

g. How soon can approaches be made to the governments of Chile, Uruguay and Brazil about the possible establishment of air/sea communications links with the Falklands? Has the United States a possible role to play in this connection?

CONCLUSIONS

7. Subject to the discussion, you might guide the Sub-Committee to the following conclusions -

- i. The report to be approved as an outline basis for preliminary planning and further study.
- ii. The Defence Secretary to keep the Sub-Committee informed of the progress and results of further studies on force levels.
- iii. Officials to examine and report on possible ways in which third countries might in principle be associated with guaranteeing the security of the Falklands, and the extent to which this might make it possible to reduce the size and cost of the British garrison.
- iv. Rehabilitation work on the islands to be pursued urgently, without prejudice to the question of how the costs are to be allocated as between the different Departments concerned, on which further discussion will be needed.
- v. The Foreign and Commonwealth Secretary, in consultation with the Secretary of State for Trade, to consider the timing and content of approaches to the Chilean, Uruguayan and Brazilian Governments about the establishment of commercial air and sea links with the Falklands; and the possibility of enlisting the help of the United States Government in this connection.
- vi. Further work on the longer term development of the islands to await Lord Shackleton's report.

AD S

21st June 1982

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