



N. B. P. R.

FCS/82/156

A. J. C. 14/10

CHANCELLOR OF THE EXCHEQUER

f.a.

Falkland Islands Rehabilitation

1. Thank you for your minute of 2 September about the way in which we should finance Falklands rehabilitation expenditure in 1982-83.
2. I think that I can find savings on non-aid votes which can be used to cover the £4 million cost of the settlement with the Ilois people to compensate them for moving from Diego Garcia. This will release the £4 million we have been earmarking in the aid programme for this purpose; and (although the aid programme's contingency reserve for this year is now more or less exhausted) we can - with a number of other changes - finance allocations in such a way as to:
 - i) cover the first £3 million of the Falklands rehabilitation expenditure as you propose;
 - ii) cover between £4 million and £7 million of extra costs arising from changes beyond my control in the amount of European Community aid attributed to the aid programme; this is contrary to our previous expectation and I need no longer press (as in my minute of 16 July) for extra funds to cover these amounts;
 - iii) cover the £2.7 million extra for the Tanzania road this year about which I minuted you recently.

There are also, of course, a number of other specific allocations from this contingency reserve which have been agreed between our officials. In total they now exhaust the funds available for allocation for this year. I will, of course, aim to resist any further claims for spending this year or, if they are inescapable, absorb them by savings elsewhere. But if any of these claims are

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sizeable I may need to approach you with a proposal to draw on the Central Contingency Reserve.

3. Indeed there is already one particular case, that of Jamaica, where I think we should provide more aid this year. This would need to be financed from Central Contingencies. I am minuting to you separately on the details.

4. Finally, I think it is useful that a separate subhead has been agreed within the aid vote for Falklands rehabilitation expenditure. It may be, however, that when we come to financing some of the proposals in the Shackleton Report and longer term development work in the Falklands there will be political advantage in using a separate vote. I would like to keep this option open.

5. I am copying this minute to other members of OD(FAF), and to Sir Robert Armstrong.

(FRANCIS PYM)

Foreign and Commonwealth Office
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Argentina, Relations, P+25