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From the Private Secretary

27 March 1984

FALKLANDS AIRFIELD LAND

The Prime Minister has seen your Secretary of State's minute reporting his review of the price which the Government are paying the Falklands Islands Company for the land on which the new airfield is being built and the outcome of his consideration of whether a compulsory purchase order might be justified.

Subject to the views of other members of OD(FAF) and the Secretary of State for the Environment, the Prime Minister agrees that the contract with the Falklands Islands Company should now be signed and that the Defence Secretary should announce the price in a Parliamentary Answer. Mrs Thatcher considers that we now have virtually no option but to take this course.

I am copying this letter to the Private Secretaries of other members of OD(FAF), the Secretary of State for the Environment and Sir Robert Armstrong.

A. J. COLES

Richard Mottram Esq
Ministry of Defence

JK



Prime Minister.

Content

(a) that the contract should be signed?

(b) that the Prime Minister should announce the price in a parliamentary answer?

MO 5/21

I'm afraid we have virtually no options now

Yes

Yes

not

A.C. 26/3

PRIME MINISTER

FALKLANDS AIRFIELD LAND

At the OD (FAF) meeting on 14th March I was invited, in consultation with the Foreign and Commonwealth Secretary and the Attorney-General, to review the price which the Government were paying the Falkland Islands Company (FIC) for the land on which the new airfield was being built and to consider whether a compulsory purchase order might be justified.

2. The background is that negotiations with the FIC last summer established that they would not settle for less than £155,000 for the 8300 acres required: £55,000 for the land and £100,000 for severance of the property and the effect on the farm's operations. The FIC and PSA agreed that £55,000 was a fair market price for the land on the basis that farm land on the Falklands is valued according to the number of sheep the land supports, in this case 2½ acres per sheep. At one point Mr Needham of the FIC offered to gift 4300 acres out of the 8300 needed, (but not the cost of severance) and linked the offer to a suggestion that the MOD should use the money thus saved to build or contribute towards a swimming pool in Stanley. I decided that it would be better to pay a straightforward commercial rate for all the land we needed, so as not to place the Government under any obligation to the Company, and proposed to Mr Needham that if his Company wanted to provide a swimming pool in Stanley, the FIC should finance this directly themselves.



3. The £100,000 for severance and injurious affection was more difficult to assess. The 8300 acres cuts some of the better land out of the middle of Fitzroy Farm, including part of the breeding grounds important for sustaining the sheep flock on the remainder of the farm. FIC claimed that it would reduce the farm to marginal viability; the £100,000 for severance was based upon 6 2/3rd years' purchase of the farm's annual profit in recent years of £15,000. The PSA considered that in view of the low return on capital and the risk attached to sheep farming in the Falklands, 5 years purchase of the loss was a generous offer and the receipts from the forced sale of the sheep which the land taken would carry should be set against that figure. On this basis their calculations were:

	£
a. Market value of Land	
8300 acres at 2.5 acres per sheep =	55,311
3320 sheep at £16.66 each	
b. Severance and injurious affection	
Loss of profit of £15,000 per	
annum for 5 years	75,000
	<hr/>
	130,311
	<hr/>
<u>Less</u> Receipt from forced sale of sheep	
3320 at £6 per head	19,920
	<hr/>
	110,391
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4. In addition, it was agreed that MOD would meet the normal reinstatement costs of resiting the farm-house, sheep pens, fences, telephone line etc at a cost of £83,877.

5. The compulsory purchase option was always available. The Falkland Islands Government could have served a notice upon the FIC, published its intentions in the Gazette, and taken possession



after some 5-6 weeks. Even this short timescale presented problems, however. Mr Needham was unwilling to open negotiations until after the General Election on 9th June 1983 and we needed to enter the land on 1st September to keep to our timetable for the construction of the airfield. By the time the difference between us on the severance payment was established, we were left with perilously little time to go through the compulsory purchase procedures. Since there was no certainty that resorting to arbitration after compulsory purchase would arrive at a cost less than the amount sought by FIC - indeed the official advice was that we might be worse off - it was decided to authorise settlement at this figure.

6. To allow the work to proceed quickly, a licence was agreed with the FIC and accompanied by payment of £155,000 on the undertaking that a mutually acceptable contract would be concluded in due course. Subsequently, the agreed amount of £83,877 for accommodation works was paid to secure entry for the commencement of works. The contract is now near completion, the length of time taken to conclude it being a reflection not only of the usual legal meticulousness but also of the need for exchanges between London, Chesterfield (the FIC head office) and Stanley.

7. In the light of OD(FAF)'s discussion, I have reconsidered the terms of this transaction. I continue to believe that the price, in all the circumstances, should be accepted. Whilst the price for one element of the transaction (the severance and injurious affection compensation) was higher than we would have expected to pay, the amount was small in relation to the total cost of the airfield on which it was vital to make an immediate start. Resort to compulsory purchase would have taken time, soured relations with the FIC and had an uncertain outcome financially.

8. I believe that nothing would be gained by proceeding now with compulsory purchase. The money has been paid over and it must be doubtful whether arbitration on the price would achieve a sum lower



than that on which we had previously agreed to settle. A change at this stage would also undoubtedly colour the FIC's attitude to other leases and licences which are currently under negotiation. It should also be borne in mind that the existing licences under which we are able to work on the site in advance of completion of the contract are renewable monthly. The last renewal has now expired and the FIC have not so far shown any signs of being willing to renew it. If we were to resort to compulsory purchase at this stage it would be open to the FIC to try to prevent the work continuing until compulsory purchase could be effected, possibly with serious financial and other consequences.

9. My recommendation is therefore that the contract on the above basis should be signed when all the formalities are completed. These could be tied up in time for the Falkland Islands Attorney-General to sign the contract before he returns to the Islands on 30th March. I should therefore be grateful to know by this Wednesday evening whether you and the other recipients of this minute are content that he should be authorised to sign. When the contract is completed I propose to make the price public by means of an arranged Parliamentary Question, if possible with the FIC's agreement, but on grounds of overriding public interest if such agreement is not possible. We shall then be better placed to deal with that part of the criticism which is based upon a misunderstanding of the terms of the agreement.

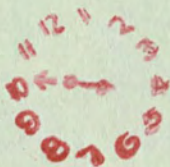
10. I am copying this minute to the other members of OD (FAF), to the Secretary of State for the Environment and to Sir Robert Armstrong.

WJH

Ministry of Defence
26th March 1984

20 MAR 1984

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