

PRIME MINISTER

OD: RELATIONS WITH ARGENTINA

OD is to have a discussion on Thursday on relations with Argentina and, in particular, the forthcoming meeting in Madrid. I attach the Foreign Secretary's paper.
✓ OD (89) 11

As you will see, there is a very considerable gap in perceptions of the Madrid meeting between us and the Argentiniens. This is not so much on the matter of sovereignty, where the chances seem better than last time that the Argentiniens will stick to the deal (at least initially). But they are obviously hoping that the talks will lead us to lift the Falkland Islands Protection Zone in return for a declaration of cessation of hostilities, while it is quite clear that we cannot agree to anything of the sort. Moreover, we shall need at some stage to tell the Argentiniens that we are intending to extend the Falkland territorial waters to 12 miles which they will probably regard as a further blow. There is a more than fair prospect, therefore, that the Madrid talks will come unstuck.

None the less, there is obviously an incentive to try to have a positive outcome. The Foreign Secretary's paper proposes a number of fairly small steps:

some confidence-building measures which would involve some adjustment in the way we operate the FIPZ, for instance notification rather than prior authorisation for ships entering the FIPZ, mutual notification of military exercises, co-operation on air/sea rescue operations;

expert talks on fisheries, but only provided the Argentiniens have by then given us the assurance which we have sought that they will not challenge the existence of the FICZ;

a package of measures combining removal by the Argentiniens of all commercial and financial discrimination, in response to

which we would remove our veto on closer relations with the European Community and agree to start a process leading to eventual restoration of diplomatic relations (with consular relations being the first step).

These ideas seem to me to be very much on the right lines. My only concern is that we should not lift the veto on closer relations with the European Community too soon in the process. It is a high card in our dealings with the Argentinians, and we would want to be sure that we could get a satisfactory overall package from the Madrid meeting before giving it away.

c.p.

CHARLES POWELL

3 October 1989

A:\ARGENTIN.EAM



SECRET - UK EYES A

13a-f

B.O230

PRIME MINISTER

c Sir Robin Butler

RELATIONS WITH ARGENTINA
OD Meeting after Cabinet on Thursday 5 October 1989
OD(89)11

KEY ISSUES

The main issues for resolution at the meeting are:

- (a) to ensure that the UK position on sovereignty is fully preserved;
- (b) whether retention of the Falkland Islands Protection Zone (FIPZ), combined with confidence-building measures, will safeguard our defence needs and provide a successful basis for negotiations;
- (c) specifically, whether the negotiators should offer to allow Argentine civil shipping (but not aircraft) to enter the FIPZ upon prior notification and whether, as a further variant, they might indicate willingness to dispense even with prior notification after 6 months;
- (d) whether to proceed now or later with extending the territorial waters around the Falklands to 12 miles, and when to inform the Argentines;
- (e) whether the proposed way forward on fisheries is acceptable;



5

SECRET - UK EYES A

(f) similarly on trade and financial relations and air and sea links;

(g) whether we should be ready to restore consular relations under the conditions set out.

ATTENDANCE

2. All members of the Committee are expected to be present. The Secretary of State for Northern Ireland and the Chief of the Defence Staff have been invited to attend.

BACKGROUND

3. You are very familiar with the issues set out in the FCO paper. On 27 June the Committee approved direct talks with Argentina provided prior assurances were received that the question of sovereignty would not be introduced and that the existence of the Falkland Islands Conservation and Management Zone (FICZ) would not be challenged. The Committee also approved revised Rules of Engagement (ROE) for the armed forces and endorsed the aim of extending the Falkland Islands' territorial waters from 3 to 12 nautical miles as soon as possible, the timing of this to be considered further in the light of the progress of discussions with Argentina.

4. You have seen the latest JIC assessment (Weekly Survey of Intelligence, 21 September 1989).

HANDLING

5. After the Foreign Secretary has introduced the paper, the Defence Secretary and Chief of Defence Staff might be asked to assure you that the proposals put forward with their



C

SECRET - UK EYES A

agreement fully protect our defences. Discussion might then cover the following points:

(a) The FIPZ

The Argentines are likely to press for dismantling of the FIPZ. The Ministry of Defence (Appendix B) say this is premature until trust has been built up. The Foreign Secretary agrees that the FIPZ cannot be lifted, but identifies three options for change and proposes that the negotiating team should have flexibility to discuss all three during the talks. They are:

(i) confidence-building measures. The most important of these is to allow Argentine civil shipping to enter the FIPZ upon prior notification, as opposed to prior authorisation as at present. The others are notification of exercises, co-operation in air/sea rescue and the establishment of direct means of communication between military commanders;

(ii) as for (i), but with extension of the Falklands territorial sea to 12 miles;

(iii) as for (i), but with an indication that even the prior notification requirement might be withdrawn after 6 months provided there had been no abuse; the extension to 12 miles would also take place after 6 months. ~~_____~~



d

SECRET - UK EYES A

If the Defence Secretary and Chief of the Defence Staff have given the necessary assurances on our defences:

- Are the confidence-building measures acceptable in principle?
- Which of the three options is preferred? Or are Ministers content to give the negotiating team discretion on how far they go?
- Will the measures cause practical difficulty for the garrison?
- What will be the Argentine reaction?
- Would it be acceptable to withdraw the prior notification requirement for civil shipping after 6 months?
- What is planned on the withdrawal of the South Georgia garrison (paragraph 17 of Annex B)?
(Foreign Secretary, Defence Secretary, Chief of the Defence Staff)

(b) Extension of territorial waters to 12 nautical miles

This goes logically with permitting Argentine civil shipping to enter the FIPZ with prior notification only (prior authorisation being required to enter territorial waters). It also complements the Rules of Engagement (ROE) approved by OD in July. It would cause no difficulties with regard to the Treaty of Tlatelolco.

- What is the best timing?
- Is it likely to prejudice the negotiations with Argentina?



e

SECRET - UK EYES A

- Has this any implications for oil exploration (see press cutting at Annex)?
(Foreign Secretary, Defence Secretary)

(c) Fisheries

The Argentines have not yet assured us that they will not challenge the existence of the FICZ (though this was one of our pre-conditions for direct talks). The Foreign Secretary confirms that failure on their part to give this assurance would preclude discussion of fisheries.

- If the assurance is forthcoming, is it agreed that expert talks should follow?
(Foreign Secretary)

(d) Trade and financial relations, air and sea links

The Foreign Secretary proposes that the team should press for the lifting of all Argentine barriers to trade, investment and financial relations and air/sea links.

- Is it agreed that we must insist on this?
- Can we agree in Madrid that direct air flights between the UK and Argentina should be resumed pending expert talks?
- Will the Argentines be told clearly that there is no question of direct links with the Falklands?
(Trade and Industry Secretary, Foreign Secretary)

(e) Resumption of consular and diplomatic relations

The Foreign Secretary proposes that we should be prepared to restore consular relations without delay



F

SECRET - UK EYES A

provided we reach satisfactory agreement on trade, finance, air and sea links.

- Is this agreed?
- Is it acceptable for the team to hold out the prospect of diplomatic relations further down the road?

(Foreign Secretary)

(f) Cessation of hostilities

The Foreign Secretary proposes that a line should be drawn under the 1982 conflict by insertion of language along the lines of Appendix C in an agreed communique on the Madrid talks.

- Is this acceptable? Do we need to do this?

(Foreign Secretary, Defence Secretary)

(g) Further meeting

The Foreign Secretary suggests that the team should have authority to agree in principle on a further meeting.

- Is this acceptable?

(Foreign Secretary)

(h) US reaction

It will be important to ensure that the US reaction to our proposals is positive in order to preserve the veto on arms sales to Argentina.

- What is the likely US reaction?

(Foreign Secretary)

L V Appleyard
L V Appleyard

TIMES, MONDAY 2 OCTOBER 1989

Oil firms set for Falkland drilling

By Our Diplomatic Editor

Exploration for oil in the Falkland Islands appears to be imminent following a flurry of interest from oil companies.

The timing reflects the improving relationship between Britain and Argentina. The industry now accepts that there is no risk of a resumption of fighting and that investment in the Falklands could be profitable.

Even before the Falklands War of 1982 it was thought possible that huge reserves could exist, possibly comparable with the North Sea oil and gas fields. But the best areas are probably offshore, rather than under the islands, and oil rigs would be easy targets for attack. This danger, together with weather conditions even more difficult than those of the North Sea, has until now reduced the oil companies' interest.

A sale of exploration licences could produce a huge improvement in the islands' economy, already boosted by fishing licence fees paid by foreign fleets.

Mr Tony Blake, a member of the islands' Executive Council, said that the oil licences could be worth several times as much as those for fishing, which brought in £30 million this year.

But renewed interest in exploration could complicate the talks to be held in Madrid later this month. Argentina is already seeking participation in the fishing boom and could be expected to want involvement in the oil industry.

Mr Blake said that four companies had approached the Governor, Mr William Fullerton, seeking exploration licences. He said there were also "strong indications" that the Falkland Islands Company, which owns 27 per cent of the land area, is interested. The company has a royal charter which includes mineral rights.

A senior executive of Anglo United, a big Derbyshire coal merchant, is expected to inspect its property this week. In a £478 million deal it took over Coalite, Britain's biggest independent fuel distributor, which in turn owned the Falkland Islands Company.

Its holding includes Lafonia, the area believed to offer the best prospect of yielding onshore oil. Mr Blake said he was surprised to discover how much information was available, even though little exploration had been done. Lafonia, south of the Wickham Heights on East Falkland, appeared to be promising.

Other oil deposits are believed to lie offshore, but as the Falklands has only a three-mile limit for such matters it would not necessarily receive the full benefit.