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RECORD OF CONVERSATION BETWEEN THE MINISTER OF STATE, FCO AND
 THE ARGENTINE MINISTER OF ECONOMY: AT BUENOS AIRES ON 26 JULY 1970

Those present: Mr Nicholas Ridley MP Dr José Martínez de Hoz
 Mr Carless
 Mr Chick

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1. Mr Ridley said that he had found the Falkland Islanders worried about the future, their ability and that of their children to continue the way of life to which they were accustomed. There were, however, signs of a greater disposition to recognise that a settlement of the dispute was needed. But for the British Government any settlement would have to be acceptable to the Islanders. It was not easy to see how a settlement could be achieved, but it was in the interest of Britain and Argentina to discuss ways of resolving the issues, and of exploiting the resources of the South West Atlantic for their mutual benefit rather than leaving them to others.

2. Dr Martínez de Hoz agreed that a solution should be sought through the continuation of the talks. Relations with Britain had suffered because of the dispute. Britain had not developed her commercial relations with Argentina to the extent that other countries had. Some form of special territorial status for the Islands could be studied. Perhaps some models could be drawn up. If so, the Argentines would wish to consider them in relation to their Federal Constitution. In any scheme embracing joint administration, Argentines would look for a tangible part in the administration.

3. Mr Carless mentioned as a possible model, among others, the solution which Sweden and Finland had found to differences over sovereignty in the Aaland Islands. Dr Martínez de Hoz enquired about the arrangements which had been made for Britons to retain their nationality in parts of the Empire which had been granted independence.

4. Mr Ridley said Britain hoped to participate in the Argentine nuclear programme. In parenthesis he expressed misgiving that the award of any contract to a British firm, the General Electric Company, might be drawn in more than one way into the context of the dispute over the Falkland Islands. Dr Martínez de Hoz assured him that the dispute should not be an issue. Competing offers would be studied on their merits, only if there was little to choose between them, would other considerations be taken into

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This is not helpful!
 The island being to Finland
 but the inhabitants speak
 Swedish!

account, such as the bilateral balance of trade or Argentina's wish to see that large contracts were distributed over a number of suppliers.

5. GEC's fortunes were linked to those of the Canadians. There were still difficulties with the latter over the financing of the Río Tercero plant. These difficulties were the result of poor Canadian management and failure to cover the foreign exchange risk in a large overseas construction project. GEC would be well-advised to see that there were no such weaknesses in their joint offer with the Canadians. Mr Ridley took note and handed over a piece of paper about the British company's offer and official support for it.

6. Dr Martínez de Hoz explained how Argentina's high level of inflation was the effect of ingrained habits of mind in the public and private sectors, and the strong inflow of funds stemming from the surplus on the current account. A further difficulty was that the effect of the measures the Government should now take to control inflation in the longer term would fuel inflation in the months ahead, for instance in raising the prices of fuel and electricity.

British Embassy
BUENOS AIRES

27 July 1979

PS/Minister of State

cc: PS
PS/PUS
Mr Hall
South America Dept
Joint Nuclear Unit