



PM/81/12

PRIME MINISTER

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DESK OFFICER		REGISTRY
INDEX	PA	Action Taken

Smith 13/3
Mr Davies 16/3
whole amendments made
 R/S
 S/M/D
 PS
 PS/LPS
 PS/Mr Ridley
 PS/PWS
 Mr Ure
 Mr Day
 13/3

Falkland Islands

1. As agreed in OD on 29 January a round of Anglo/Argentine talks on the Falkland Islands dispute took place in New York on 23/24 February. Nicholas Ridley led our delegation, which included two Island Councillors.
2. As expected, no direct progress was made towards a solution of the sovereignty dispute, though the talks were held in a cordial atmosphere. Nicholas Ridley presented the freeze proposal, explaining that this was what the Islanders wanted and that their wishes were, as always, paramount for us. The Argentines rejected the proposal outright. But they were concerned to make clear their interest in reaching a sovereignty solution which the Islanders might accept and which would open the way for economic development.
3. The most significant outcome was the impact of the discussion on the two Falkland Island Councillors present. They were for the first time directly exposed to the full intractability of the Argentine requirement for a "restitution" of sovereignty. They have accepted that there is no future in the freeze idea; and they have reported back to their colleagues that the choice for the Islanders is now between the status quo, with acceptance of the consequences, and a cession of sovereignty (by implication through leaseback). Nicholas Ridley asked them to let him know in due course how they wanted to see the next round of talks conducted. This may be the main issue in the Islands elections this autumn.
4. For their part, the Islanders impressed on the Argentines that economic considerations are secondary to their fundamental requirement that they should be allowed to continue their way of life under British administration. This was a



useful rejection of the contention frequently advanced in Argentina that Britain is clinging to the Islands for economic reasons alone.

5. The talks were thus a helpful education for both Islanders and Argentines: and narrowed the issues. We must now wait to see whether the impetus of debate in the Islands will be maintained. We must be careful not to put on any pressure. With the Argentines, there is little we can do for the present. By agreeing to hold talks with the outgoing administration we have lowered the temperature of the dispute and bought some time. But it remains to be seen whether the new Argentine Government, which takes office at the end of March, will be as amenable as this one and how soon it will be before they put pressure on us for further talks. We can reach no conclusions now; and in principle there is little point in further talks until the Islanders have cleared their own minds. If in the end the Islanders decide that they would prefer the status quo to any deal involving cession of sovereignty, then we must prepare for the possibility of a deterioration of our relations with Argentina: we might have to supply the Islands with essentials if the Argentines cease to do so (and perhaps even to defend them against physical harassment). The cost of such a stalemate could be considerable.

6. The other questions raised at the last OD meeting are being pursued. We are considering with the Treasury the provision of British Government guarantees for commercial loans to the Falkland Islands' Government. The Governor of the Falklands is reporting on the proposal to transfer the present Government Saving Bank into an institution offering normal commercial services, and, in the light of his report, we shall be discussing savings arrangements with the Treasury and the Bank of England.



7. I am copying this minute to other members of OD, to the Secretary of State for Energy, to the Attorney-General, and to Sir Robert Armstrong.

C

(CARRINGTON)

Foreign and Commonwealth Office

13 March 1981