

N.M.

The outcome is reported in OD(80) 25<sup>me</sup> meeting of 3.12.80, item 2, under the Prime Minister has now seen. All 24/11/82

Ref. A08944

May 1 see the report of the outcome

Prime Minister

Agree that this record should be made available to the Franks Committee?

MR WHITMORE

AKH 9 vii

The Prime Minister should be aware that one of the Cabinet Committee documents which should go to the Franks Committee is a limited circulation record of the discussion in the Defence and Oversea Policy Committee on 7th November 1980, when Mr Ridley reported that there had been confidential exploratory discussions with the Argentine Government which included some discussion of the possibility of transfer of sovereignty accompanied by simultaneous leaseback. The minute makes it clear that the Argentine Government were attracted to the idea, but were not prepared to contemplate a leaseback as long as he had proposed and the Government would need. The record makes it clear that such a solution was not in principle ruled out by Ministers, if it was acceptable to the Islanders. The Prime Minister's summing up said that the Committee generally agreed that a solution on those lines was likely to be the only way out of the present impasse, but that it was essential that the Government should hold to its position that no change would be made to the status of the Falkland Islands without the consent of the Islanders themselves.

2. Because of its sensitivity, this record was not circulated outside this building, on the instructions of the Prime Minister. The circulated minutes have a brief, innocuous and uninformative record of the discussion. But I do not think that we should withhold the full record from the Franks Committee. While it is not public knowledge that the Government was prepared at least in principle to contemplate transfer of sovereignty and leaseback, and that knowledge might cause some stir if it were revealed in the Franks Committee's report, it is clearly and unambiguously on record that no change should be made to the status of the Falkland Islands without the consent of the Islanders themselves - and that is entirely consistent with the position to which the Government has adhered throughout.

RIA

ROBERT ARMSTRONG

8th July 1982



be administered from the Falklands. The Falklands themselves (and the 200-mile EEZ which would be declared) would be transferred to Argentina which would immediately lease them back to the United Kingdom. As regards the length of the lease, he had initially proposed 250 years and Argentina 24 years. Argentina seemed at one stage to be ready to contemplate 75, but he had not been ready to go below 99 years. He believed that it should be possible to settle at, or close to, the latter figure. In the talks it had been envisaged that there would be a symbolic Argentine presence on the Islands, but without any authority or power. The arrangements would be subject to periodic reviews at perhaps five or ten-year intervals. If oil was discovered under the sea round the Falklands, it would belong to the Falkland Islanders, and not to the British Government. His own view was that it would be highly desirable to find some way by which some share of the ownership of the oil, if found, should go to the United Kingdom. The major outstanding difficulty appeared to be that of the length of lease; he could not guarantee it, but he thought it possible that, if the Argentinians knew that an agreement was available subject to satisfaction on that one point, they might well be prepared to accept a 99 year lease. He had been advised that, when the composition of the Argentine Government changed in March 1981, it would be necessary to renegotiate, if agreement had not been reached by then with the present government. Since it was possible that the new government might take a harder line on the Falklands, the best chance of success lay in getting present ministers to commit themselves publicly on the subject before next March.

In discussion the following points were made -

- a. The most important aspect of the proposed arrangement was the cession of sovereignty. Even with the assent of the Islanders, the proposal would be likely to be criticised by the Government's own supporters and, because of the complexion of the Argentine regime, by the Opposition. Notwithstanding adverse votes at the United Nations, the United Kingdom's title to the Falklands was valid in international law; once conceded, that position could not be regained. Moreover, there could be no guarantee that the new arrangements would survive internal political changes in Argentina; the United Kingdom might find it necessary to concede more and more with the passage of time.



- b. The present outlook for the Falkland Islanders was bleak. They would prefer no change if the United Kingdom had the resources to provide indefinitely for the defence and economic development of the Islands; but this was not the case. They would welcome a moratorium on the issue for fifty years; but there was no chance of that. Meanwhile, uncertainty about the future was blighting the morale of the Islanders and ensuring that no firm would risk investing in exploration or development of the Islands' resources. If therefore the proposals were put to the Islanders, some of them might regard the proposed removal of British sovereignty merely as a disagreeable necessity with which they must come to terms as best they can, but many of them could be expected to see in the leasing arrangements a positive way forward from the impasse and the prospect of economic development for the Islands.
- c. It would be important to make satisfactory arrangements for any oil that might be discovered. This point would need to be covered in the terms of the proposed lease. Although no-one had challenged the right of the British Virgin Islands to oil discovered there, further thought should be given to ways in which the United Kingdom might be guaranteed entitlement to a substantial part of the revenues. Such an arrangement would be easier to make before rather than after oil was found.
- d. Once the proposed scheme was broached with the Falkland Islanders, the nature of the proposals would become public in that country. Severe political damage could be done if the proposals were presented to the Government's supporters as a fait accompli, even though some of those most interested in the problem had expressed the view privately that a lease-back, if negotiable, would be a good solution.
- e. An alternative solution, under which the United Kingdom would retain a degree of sovereignty by establishing a condominium was, as experience in the New Hebrides had shown, liable to lead to constant friction.
- f. If possible, it would be desirable to persuade the Argentine government to give up the demand for a symbolic Argentine presence on the Islands; it could cause difficulties. Similarly, the provisions for relatively frequent reviews of the lease would be liable to lead to a progressive weakening of the British presence; the reviews should be as infrequent as possible.



THE PRIME MINISTER, summing up the discussion, said that the Committee generally agreed that a solution on the lines described by the Minister of State, Foreign and Commonwealth Office, was likely to be the only way out of the present impasse. They also recognised that, but for the power of Argentina to disrupt life in the Falkland Islands through her control of the supply routes and the resultant loss of morale and decline in economic activity, and the difficulty and expense for the United Kingdom of maintaining effective defence and providing for economic development of the Islands, the Government would not be justified in a surrender of sovereignty. It was essential that the Government should hold to its position that no change would be made to the status of the Falkland Islands without the consent of the Islanders themselves. It seemed likely that, on balance, given the bleakness of their present situation, the majority of the Islanders would be ready to support negotiations with Argentina on the lines proposed, recognising that, while the Government would not go back on its commitment to defend them, it was not able to offer alternative ways of improving their position. The Committee's discussion had shown that in certain respects, including the proposed period of the lease, the arrangements being contemplated by the Argentina Government were not yet fully satisfactory. Assuming that the Islanders gave broad support to the basis proposed for negotiations with Argentina, it would be necessary to forewarn the Government's supporters in Parliament and the Committee would also wish to consider carefully the terms under which further negotiations with Argentina would take place.

The Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited the Foreign and Commonwealth Secretary to arrange for the Minister of State, Foreign and Commonwealth Office, to propose to the Falkland Islanders that their future should be secured by means of a transfer of sovereignty to Argentina accompanied by simultaneous lease-back of the Islands to the United Kingdom, and to report the outcome.
3. Agreed to consider further, in the light of the reaction of the Falkland Islands population to this proposal, the line to be taken in further negotiation with the Argentine Government.

Cabinet Office

10 November 1980.