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CABINET

MOST CONFIDENTIAL RECORD
TO
CC(82) 2nd CONCLUSIONS

Thursday 21 January 1982

THE UNITED
KINGDOM
STRATEGIC
NUCLEAR
DETERRENT

Previous
Reference:
CC(80) 29th
Conclusions,
Minute 1

THE PRIME MINISTER said that, as the Cabinet would recall, the decision to acquire Trident to replace Polaris as the United Kingdom strategic nuclear deterrent had been announced in July 1980, following agreement with the Carter Administration. The decision was to adopt the American Trident 1(C4) missile to be carried in a new British submarine based closely on the American submarines currently carrying Poseidon and C4 missiles. Since then the Ministry of Defence had carried forward the technical and financial studies on the project which were only possible after the decision had been made public. In October 1981 President Reagan had announced his decision to deploy the Trident 2 (D5) missile in 1989, and to phase out the Trident 1 missile by 1998. The President had indicated that if Britain wished to buy Trident 2 he would agree. A group of Ministers under her chairmanship had been considering this question. They were in no doubt that Britain should continue to have her own independent strategic nuclear deterrent; and that the possibility of acquiring Trident 2 rather than Trident 1 should be seriously considered, provided that satisfactory terms could be negotiated with the Americans. The choice was one of great technical complexity and had considerable financial implications. Over the whole 15 year period of the project the extra capital cost of acquiring Trident 2 would on a July 1980 price and exchange rate basis be about £600 million, bringing the total capital cost over the period to £6 billion if the decision were to go for a 4 boat force; at September 1981 prices and exchange rates the total rose to £7½ billion. The through-life running costs would be likely to be lower in the case of Trident 2, because it would be operating in parallel with an American programme. Both capital and running costs could be accommodated within the defence budget without unacceptable consequences for the conventional defence effort; and in the next four years Trident 2 would in fact cost less than Trident 1. She therefore intended to send a message to President Reagan to suggest that a small team of senior officials should visit Washington to discuss the terms on which the Americans would be willing to make available, if required, the technology, equipment and materials necessary for Trident 2. When these negotiations were completed the matter would be brought back to the Cabinet for decision. Meanwhile the Secretary of State for Defence would be ready to arrange a full briefing, for any member of the Cabinet who wished,

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on the strategic, technical and financial background to the issue. It was of the utmost importance that there should be no leak or public indication of the Government's position, in order not to prejudice the success of the negotiations in Washington. The record of the present discussion should therefore be retained by the Secretary of the Cabinet and not circulated to members of the Cabinet.

In the course of a brief discussion it was noted that any member of the Cabinet who wished to receive the suggested briefing would need to allow $2\frac{1}{2}$ hours for the purpose. The complexities of the potential choice could not be adequately explained in any shorter period. Interested Ministers would contact the Secretary of State for Defence on an individual basis, observing maximum discretion. The Secretary of State for Defence would be discussing separately with the Secretary of State for Scotland the implications for the shore facilities required.

The Cabinet -

Took note.

Cabinet Office

25 January 1982

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CABINET

MOST CONFIDENTIAL RECORD
TO
CC(82) 3rd Conclusions, Minute 5
Thursday 28 January 1982

ECONOMIC
STRATEGY

Previous
Reference:
CC(81) 33rd
Conclusions,
Minute 5

The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(82) 1) on the Government's economic strategy and its implications for the preparation of his forthcoming Budget on 9 March.

THE CHANCELLOR OF THE EXCHEQUER said that the latest forecasts predicted continuing, though slow, recovery in output and a further fall in inflation. Unemployment was likely to edge up a little further in 1982, though at a diminishing rate, while industrial productivity should continue to improve. The general picture was one of continuing recovery, with encouraging signs of real improvement in the economy, though this could be invalidated by events beyond the Government's control such as high interest rates in the United States of America or a serious set-back on pay. For the recovery to continue, and to secure a genuine improvement in the employment situation, it was essential to persevere with the present economic strategy. For domestic and overseas confidence in the strategy to be sustained, the financial framework had to be credible. Within this framework the size of the Public Sector Borrowing Requirement (PSBR) for 1982-83 was crucial. The present forecast, which could change substantially before March, gave a provisional figure of rather less than the £9 billion for which the Government had planned at the time of the 1981 Budget. This forecast was based on the assumptions that public spending next year would be at the level agreed by Cabinet in November - a planning total of about £115 billion; and that income tax thresholds and excise duties would be increased in line with inflation, but that the tax structure and rates were in other respects unchanged. He would now welcome the views of the Cabinet on what might be the appropriate size of the PSBR in 1982-83 and, if some reductions in taxation should turn out to be possible, how these might be distributed.

In considering the size of the PSBR, a balance had to be struck between the objectives of bringing about lower interest rates and, where possible, making tax reductions. To plan for a PSBR of, say, £7 - £8 billion would give a better prospect for lower interest rates which would be helpful to industry and to people with mortgages; it would not, however, leave any room for tax reductions, apart from those changes already assumed in the forecasts. On the other hand, to go for a PSBR above about £9 billion was likely to lead to higher interest rates than now, to

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affect the confidence of the financial markets, and to risk so large a fall in sterling as to jeopardise the prospects of reducing inflation and to impair, or even reverse, recovery.

In so far as tax reductions were possible, the choice was broadly between measures which would directly affect prices, those which would reduce income tax, and those which would directly assist companies; though elements of all three could be included in the final Budget package and he would also be considering a number of other smaller items, as well as the structure of the North Sea tax regime. Measures to affect prices could include less than full revalorisation of excise duties or a reduction in the rate of Value Added Tax; such changes would avoid additions to the Retail Price Index. For the personal sector, an increase in tax allowance of 10 to 11 percentage points above inflation would be necessary to restore tax thresholds, as a proportion of average earnings, to their 1978-79 levels; an increase would bring benefits in wage bargaining, and would diminish the poverty trap and 'why work' problems. Assistance to companies would have the most direct impact on companies' income, though at the risk of some leakage into wages; the main proposal which had been canvassed was for a reduction in the National Insurance Surcharge (NIS).

In discussion the following were the main points made:-

a. It was generally agreed that the aim should be to maintain the Government's broad economic strategy; any radical departure now, in search of benefits which could be only short-lived, would be damaging to the Government's credibility and deeply disappointing to its supporters. The 1982 Budget should be seen as a development of present policy. Its aim should be to give confidence and hope to industry, to the public generally, and to the Government's supporters.

b. It would be a mistake to go too far in offering tax and other reliefs in the coming Budget. Something should be kept in hand to deal with difficulties which could emerge later in the year. The right course was to leave room for progress in later Budgets in which there could be further tax reductions. It was particularly important to avoid the mistake of going so far in the 1982 Budget that retrenchment might be necessary in 1983. The Government should not put at risk the public's sense of its competence in the handling of the economy through a period of great difficulty and recession. It would be important to be sure that measures included in the Finance Bill would be supported in the House of Commons and, in particular, to avoid any which might have to be withdrawn through lack of support from Conservative Members of Parliament. Care should be taken in the remaining weeks before the Budget not to arouse over optimistic expectations of its contents.

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c. It was generally agreed that it would be better to make tax reductions rather than to plan for a PSBR as low as £7 - £8 billion in the hope of bringing about lower interest rates. Tax reductions offered a more certain, and visible, benefit than the possible reduction of interest rates. The Government could influence the level of interest rates only to a limited extent; the effect on interest rates of a lower PSBR could be more than offset by other factors such as high interest rates in other countries, notably in the United States of America.

d. A number of Ministers thought that it would be right to plan for a PSBR of up to £9 billion. This should allow for tax reductions; it should also avoid putting at risk the recovery of the economy, and the prospects for continuing export led growth, by going so high as to lose the confidence of the financial markets in the Government's economic policy.

e. Some Ministers thought that the PSBR should be somewhat higher - perhaps £10 - £11 billion - and that this would not undermine market confidence, provided that the PSBR was no higher as a percentage of Gross Domestic Product than in previous years. The financial markets might be encouraged to accept borrowing at this level if the PSBR were reclassified to distinguish public sector borrowing to finance capital and productive investment, or possibly to exclude some of such borrowing from the PSBR; on the other hand, the markets might discount such reclassification, and any review of the definition of the PSBR could lead to the inclusion of some types of borrowing at present outside its scope. It was further suggested that, if a high PSBR led to instability in the exchange rate, this might be met by the United Kingdom deciding to participate in the exchange rate mechanism of the European Monetary System.

f. In considering how any financial relief might be distributed, it was generally agreed that the emphasis should be on giving help to companies rather than to individuals. While there were now signs of economic recovery, there was still a long way to go, and it was important to take steps to strengthen the country's industrial and commercial base. This, rather than reductions in the real rate of personal taxation, was the best way to respond to the problem of unemployment and to open up the prospect of creating jobs.

g. It was generally agreed that income tax thresholds should be increased in 1982-83 in line with inflation ("Rooker-Wise"). It was suggested that the Chancellor of the Exchequer should not seek to make good in the 1982 Budget the effects of not indexing thresholds in 1981-82, but that some relatively modest changes in personal allowances, over and above "Rooker-Wise" might be considered for the 1982 Budget. Further changes in personal taxation should be left for consideration in the 1983 Budget.

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h. It was agreed that, with the exception of petrol and derv, indirect taxes should be fully revalorised. It would be helpful to industry and to rural communities if any increases in the tax on petrol and derv were less than full revalorisation; it was unlikely that a majority in the House of Commons would support a measure to increase the price of a gallon of petrol by 9p, which would be the effect of full revalorisation.

i. Opinion was divided on whether the main measure to help industry should be a reduction in the NIS. Some Ministers wished priority to be given to this reduction: the public were resentful of what they saw as a tax on employment, at a time when 3 million people were unemployed; and it would be warmly welcomed by industry as a response by the Government to their representations. These Ministers doubted whether in present circumstances any significant part of the benefit would be passed on in the form of wages rather than used to restore profitability and to increase investment and output. Other Ministers thought that a reduction in the NIS would be mis-directed: less than one-third of NIS payments were made by manufacturing industry and much of the benefit would go to the banking and North Sea oil sectors whose needs were relatively less pressing. Unless steps were taken to prevent it, some of the benefit would also go to local authorities and nationalised industries. The trade unions would be likely to seize the opportunity of the reduction to reinforce their claims for higher increases than otherwise in the coming round of wage negotiations; the result could be that much of the benefit would be taken up by wage increases.

j. It would be better not to devote any further substantial resources to large programmes of public sector capital investment which would be slow in fruition and in helping to reduce unemployment. A better course would be to consider measures to stimulate, and to accelerate, investment in selected sectors by offering time-limited financial incentives which would be available for, say, investment undertaken in the next two years. In particular, there was support for measures to stimulate a programme of house improvement: this work was labour intensive, and so would be useful in reducing unemployment; a programme could take effect quickly; and it would be seen as a positive and necessary measure to restore the quality of the country's housing stock which was rapidly deteriorating in a number of areas. Proposals for investment by the nationalised industries showing a satisfactory return should not be held back by capital rationing; cash planning systems in the public sector should be operated so that capital programmes did not suffer and were able to benefit from underspending elsewhere.

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k. It would however in general be better for any new assistance to particular sectors of industry to be given by way of tax reductions rather than increased public expenditure. Although some public expenditure had the effect of helping the private sector, this point was not generally and readily perceived; and it was important that the Government should not be criticised for appearing to preside over an inexorably, expanding public sector.

l. Further consideration should be given to proposals for private sector participation in public sector projects, such as the roads programme. There were possibilities for using public sector money in partnership with private sector finance, for example in house building, with a very beneficial gearing effect in the sense that a relatively small injection of public sector money could lead to a considerable investment programme. The Secretary of State for the Environment, in consultation with the Chief Secretary, Treasury, would shortly be making proposals to the Ministerial Committee on Economic Strategy on the possibilities for the direct involvement of market finance in construction projects in the public sector.

m. Although it had so far proved impossible to work out a practicable scheme, it would be helpful if there could be some reduction in industrial energy costs. The Secretary of State for Energy would shortly be making proposals to the Chancellor of the Exchequer on electricity prices for large industrial users. The Secretary of State for Industry had put proposals to the Chancellor of the Exchequer for measures to help small firms, to stimulate enterprise, and to encourage the development of new technology.

n. In considering the measures in the 1982 Budget, account should be taken of their impact on the coming round of wage negotiations. Most wage earners were seeing their personal disposal incomes reduced by increases in tax, national insurance, rates and fuel bills; about two-thirds of trade unionists lived in council houses and they were faced with rent increases too. This would increase the pressure for higher wage increases in the coming pay round. In the public sector, where cash limits operated, it could indirectly lead to cuts in capital expenditure to compensate for increased wage costs. Consideration should be given to the possibility of influencing wage bargaining in selected sectors of private industry; for example, it might be indicated that if the construction industry were to settle at a relatively modest level of wage increases, the Government would then be willing to introduce tax allowances which would stimulate activity, and employment, in the industry.

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THE PRIME MINISTER, summing up the discussion, said that the Cabinet recognised that the Chancellor of the Exchequer would have to determine both the main budgetary judgment and the details of budgetary measures in the light of the situation and prospect as they appeared nearer the time. The discussion had shown that the Cabinet agreed that it would be right to continue on the broad strategy which the Government had followed hitherto. It was essential not to put at risk the objective of reducing inflation; within that the aim should be to enable the country to take advantage of the prospects of recovery.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited the Chancellor of the Exchequer to take account of the views expressed and the points made in discussion in the preparation of his forthcoming Budget.

Cabinet Office

28 January 1982

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CABINETMOST CONFIDENTIAL RECORD
TO

CC(82) 8th Conclusions

Thursday 4 March 1982THE UNITED
KINGDOM
STRATEGIC
NUCLEAR
DETERRENTPrevious
Reference:
CC(82) 2nd
Conclusions

THE SECRETARY OF STATE FOR DEFENCE said that the strategic nuclear deterrent was central to the defence of the United Kingdom. No one could foresee what might over the next 30-40 years happen to the North Atlantic Treaty Organisation or to the United States attitude to the defence of Europe. A strategic deterrent under British national control was therefore essential. The Polaris force would be 30 years old by the 1990s and its credibility would be declining. Only a four-boat Trident force could provide a successor which would be credible in Soviet eyes and remain operational well into the 21st Century. The D5 Trident 2 missile would be more cost-effective than the C4 Trident 1 version, because it would preserve commonality between Britain and America. It would also be cheaper during the years immediately ahead. Its total cost over fifteen years would average £500 million a year or just over three per cent of an annual Defence Budget of over £14,000 million. By contrast France's nuclear deterrent was costing twenty per cent of her defence expenditure. For both military and political reasons the British decision could not be further delayed. Following the Cabinet's discussion on 21 January, therefore, secret high-level negotiations had been undertaken with the United States authorities to establish the terms on which the Trident 2 missile could be made available. The upshot of these negotiations had been exceptionally favourable; after a difficult start the Americans had in the end made every effort to be helpful. As in the case of the Polaris and Trident 1 agreements, the missiles would be made available at the contract price applicable to the United States Navy. By way of offset the United States authorities had undertaken to modify administratively the effect of their Buy America legislation, so that British industry could compete for sub-contracts across the whole range of the United States Trident programme. American liaison staff in London would be available to advise British firms wishing to tender for such business. Their success would of course depend on their competitiveness. The Americans had also indicated privately that they hoped to continue their current policy of placing other large defence orders in Britain. The surcharges applicable to a British purchase of Trident 2 would be £35 million lower than those envisaged under the Trident 1 agreement;

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the facilities charge had been waived altogether and the Research and Development levy would be limited to a fixed sum in constant dollars rather than a percentage, so that no cost escalation risk would be involved in either case. In return for these concessions the Americans had sought assurances about British conventional deployments; and while no specific undertakings of this kind would feature in the proposed agreement, the British negotiators had been able to make good use of his decision (which he had already taken on other grounds) to retain the Royal Navy's two assault ships Fearless and Intrepid. As the result of an unexplained leak some account of these terms had appeared in the British Press. Public reactions had been favourable. Subject to the Cabinet's agreement he now hoped that the negotiations could be concluded and the new agreement announced on 11 March. Thereafter every effort would need to be made to maximise public support for the decision. Although a majority of the electorate clearly believed that Britain should retain an independent deterrent, there was as yet less agreement that Trident 2 would be the right choice. It would be important to show that its real cost over time would be no higher than Trident 1's would have been; that it would leave room within the defence programme for significant increased expenditure on conventional forces; and that there would be no need for Britain to deploy the maximum number of missiles or warheads possible with the Trident 2 system, if a more limited number proved militarily adequate.

In discussion there was general support for the Secretary of State for Defence's proposals and appreciation was expressed for the full briefing which he had arranged for members of the Cabinet following their earlier discussion of the subject on 21 January. The decision would be warmly welcomed by almost all the Government's supporters in Parliament, as a meeting the previous evening had made clear. Cost escalation remained a danger; but the proposed offset arrangements should prove particularly valuable, provided that they did not encounter too much opposition in the United States Congress. A major effort would now be necessary to rally public support for the Trident 2 programme. It would not be possible to devise penalty arrangements which would preclude a future Government from abandoning it. But politically it might not prove disadvantageous that comparatively little would have been spent on the programme by the time of the next General Election; the Government could not be accused of pre-empting the issue, and in practice many of their opponents in Parliament would if they came to office be forced to recognise that the decision now being taken was the only possible one. Public emphasis would need to be placed on the annual rather than the fifteen-year cost of the programme; on the inaccuracy of fears that it would seriously undermine Britain's conventional military strength, which could in fact be effectively deployed only in conjunction with an adequate strategic deterrent; and on the continuing search for nuclear disarmament, which would be harder rather than easier if Britain abandoned her position of strength.

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The Campaign for Nuclear Disarmament (CND) gained from being at least nominally a non-party organisation, and from the support it enjoyed among the young and in some church circles. It was perhaps a pity that the CND's many opponents were not also organised on a non-party basis. The CND rightly stressed the terrible nature of nuclear weapons but failed to recognise that Britain's possession of a strategic deterrent lessened rather than increased the danger of nuclear war. Although there were arguments against suggesting that Britain might deploy fewer missiles and warheads than the Trident 2 system made possible, there would on balance be major advantage in making clear to those with a serious concern for arms control that no military escalation would in practice be involved in the switch by Britain from Trident 1. Local opinion in Scotland should also be reassured by the fact that Trident 2 would not involve an extension of the area of the base facilities in the Firth of Clyde. Internationally it would have been unthinkable to leave France as the only effective nuclear power in Western Europe. Britain's allies were not expected to oppose her Trident 2 decision. Nuclear weapons were at present a very emotional issue in the Federal Republic of Germany, particularly within Chancellor Schmidt's party; but the private views of even such left-wing figures as Herr Bahr were that the British and French deterrents were vital for the security of Europe. The French Government, in order to meet domestic criticism of the much higher cost of their own deterrent, felt obliged to argue that British nuclear forces were not fully independent of the Americans. In operational terms, of course, this was quite untrue. Logistically, the British Trident 2 force as at present conceived did involve a degree of dependence on American support, though less than would have been the case with Trident 1 missiles which had a much shorter in-tube life. If such support were ever cut off, the success of the Chevaline programme suggested that Britain would not be technologically unable to replace it on a national basis.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that Trident 2 missiles for a four-boat British force should be acquired from the United States on the terms suggested. Unless an earlier announcement became necessary because of leaks from Washington, the Cabinet would have an opportunity of formally reconfirming this decision on 11 March, prior to the agreement being announced later that day. The Secretary of State for Defence would be publishing an Open Government Document explaining the reasons for the new policy. This might be circulated to the Cabinet for their information on 11 March. Meanwhile it was of the utmost importance that the strictest secrecy should be maintained about the Cabinet's current discussion, the minutes of which should be retained by the Secretary of the Cabinet.

The Cabinet -

Took note with approval of the Prime Minister's
summing up of their discussion.

Cabinet Office

15 March 1982

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MOST CONFIDENTIAL RECORD
TO
CC(82) 17th CONCLUSIONS

Wednesday 14 April 1982

FALKLAND
ISLANDS

Previous
Reference:
CC(82) 16th
Conclusions,
Minute 3

THE PRIME MINISTER said that any leaks of the latest ideas for settling the Falklands crisis could prove fatal to the mission being undertaken by the United States Secretary of State, Mr Haig, who had himself been insistent on this point. On his first visit to London on 8 April, the strength of British feeling about the Argentine invasion had been brought home to him. He had been left in no doubt about British objectives: withdrawal of Argentine forces; restoration of British administration; and the wishes of the Falkland Islanders to be paramount in any subsequent negotiation. Mr Haig had then left for Buenos Aires and returned with a set of proposals, the status of which was unclear. He appeared to have discussed some but not all of these proposals with President Galtieri. They were now embodied in a draft Agreed Memorandum, to be signed by Britain and Argentina. This draft had been extensively discussed on 12 April between Mr Haig and the British Ministers most closely concerned. Agreement on a revised version of it had been reached. This envisaged the withdrawal of all military and security forces from the Falkland Islands and the Dependencies within a period of two weeks and banned their reintroduction. Forces involved in the crisis would return to their normal duties. An interim Commission would be set up, consisting of representatives from the United States, the United Kingdom and Argentina, each supported by a small staff. It would occupy a headquarters on the Islands (not Government House) and each representative would fly his national flag. The traditional local administration would continue, including the Islands' Executive and Legislative Councils, to each of which one representative of the Argentine population would be added. Their decisions would be submitted to, and expeditiously ratified by, the Commission. The Commission would also be empowered to make recommendations to the British and Argentine Governments in the fields of travel, communications and trade between Argentina and the Islands; but either Government would be free to reject such recommendations. Meanwhile the various restrictions and sanctions imposed on Argentina as a result of the invasion would be lifted. The interim period would end on 31 December 1982, by which time negotiations were to be completed for a final settlement. It had been made clear to the Americans that Britain would regard self-determination for the Islanders as an essential element in such negotiations. Mr Haig had intended to fly to Buenos Aires during the night of 12-13 April. But he had altered his plans on learning by

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telephone that the Argentines were once more adopting an extreme position, under which they would appoint the Governor of the Islands and would be assured of sovereignty at the end of the interim period. He now appeared to have shifted them back to a more moderate stance, but was rightly not willing to visit Buenos Aires again until the prospects were clearer. He had therefore returned to Washington, after further meetings with British Ministers, on 13 April. His latest suggestion, in the face of Argentine pressure, had been to amend the provision for negotiations on a long-term settlement to include a reference to United Nations General Assembly Resolution No 1514 (XV), which called for the decolonisation of dependent territories and upheld both the principle of territorial integrity (which underlay Argentina's claim to the Falklands) and the principle of self-determination. This possibility was now being studied. It was not yet clear whether overall agreement could be reached. Any document embodying such agreement would clearly be interpreted differently by Britain and Argentina. But the present proposals had the major virtues of securing both Argentine withdrawal and the maintenance of the infrastructure of British administration.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the United States was anxious to avert a conflict in the South Atlantic in which the Soviet Union was already dabbling. All the evidence was that the Argentines had miscalculated. United Nations Security Council Resolution No 502 and the European Community import embargo had been heavy and unexpected blows. Commonwealth support for Britain had been strong. These pressures, together with the British Task Force, had led them to contemplate a negotiated settlement under which Argentine troops would be withdrawn. It would be a remarkable achievement if this could be brought about, at a time when Britain's military position was still weak. Negotiations were now at a very delicate stage. Mr Haig's next visit to Buenos Aires would be crucial.

THE SECRETARY OF STATE FOR DEFENCE said that there were no Argentine naval vessels in the Maritime Exclusion Zone (MEZ) although the build-up of forces on the Islands was continuing. The Argentine propaganda machine was active, for example putting it out that the airfield at Port Stanley had been extended to take Mirage aircraft. British nuclear-propelled submarines were enforcing the MEZ. If Argentine warships entered the MEZ, it would be the clearest sign that they had abandoned the peace process. The British Task Force continued on its way south; Mr Haig had agreed that it was right to add to pressure on the Argentinians in this way. He himself would announce later that day the doubling of the number of Harriers in the Task Force and the adding of HMS Intrepid to the amphibious capability. Military planning was proceeding on a worst case basis. Argentine military difficulties should not be underestimated, notably in supplying and sustaining the morale of the forces on the Island during the winter.

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In discussion there was general support for the manner in which the discussions had been conducted, acceptance of the need for secrecy and recognition that the best way forward lay in diplomatic and economic pressures on Argentina, backed by the Task Force continuing on its way. In Parliament it should be made clear that British policy aimed at the supervised withdrawal of all forces from the Islands and an interim period of local administration leading to a final settlement in which the sticking point for us would be that the wishes of the Islanders were paramount.

In further discussion the following points were made -

- a. Although at the time of his first visit Mr Haig had tried to adopt a position of strict neutrality, by the time he left he had recognised the important principle which was at stake, namely whether or not naked aggression should be allowed to succeed. Nevertheless, although he understood our arguments, Mr Haig had to maintain his position as a go-between. He had to avoid any appearance of collusion with Britain if he was to carry the Argentinians.
- b. Whatever solution might emerge from negotiation, the Argentines would present it as some kind of victory and as the attainment of at least part of their objectives by military means. Their calculation might be that they would need two bites of the cherry instead of one. It was vital to prevent a second bite. Continued United States involvement would be very important in that context.
- c. Britain had been the victim of unprovoked aggression. It would not be right to accept that that had placed the Argentines in a better negotiating position. The aggressor must not be permitted to benefit from his aggression. The wider principle was even more important than the fate of the Islanders. If aggression was shown to pay, it would be a disastrous precedent for the world as a whole. Against this, it was argued that the situation had to be dealt with as it existed. Britain would need the help of world opinion to get the Argentines to withdraw. There was also a risk of losing the broad support of British public opinion if a purely military solution were pursued and the prospect of all compromise ruled out.
- d. In any settlement it would be important to safeguard British title to South Georgia, the South Sandwich Islands and the British Antarctic territory. A lease-back arrangement for the Falkland Islands might strengthen Argentina's territorial claims in the Antarctic, which were sectorally based.

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e. It seemed possible that financial sanctions against Argentina were not being pressed to the full for fear of precipitating her default. This was understandable from the point of view of the banking community. But care should be taken that Argentina was not for this reason enabled to sustain her present policy of aggression more easily.

f. When the Task Force was within striking distance of the Falkland Islands, an air exclusion zone would be necessary as part of a blockade and as a precondition to any assault.

THE PRIME MINISTER, summing up the discussion, said that a diplomatic solution on the lines outlined would be a considerable prize. The withdrawal of Argentine forces would have been secured without military action. Argentina would gain representation on the interim Commission and on the local Councils; and a commitment to negotiations to decide the definitive status of the Islands by the end of the year, although without any commitment to a transfer of sovereignty. Repugnant as it was that the aggressor should gain anything from his aggression, this seemed an acceptable price to pay. But it would be crucial to ensure against a second invasion and the best way of achieving this appeared to be to involve the United States Government in the enforcement of the interim agreement and in the security of the Islands thereafter.

The Cabinet -

Took note.

Cabinet Office

7 June 1982

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MOST CONFIDENTIAL RECORD
TO
CC(82) 19th CONCLUSIONS
Thursday 22 April 1982

FALKLAND
ISLANDS

Previous
Reference:
CC(82) 18th
Conclusions

The Cabinet reviewed the state of the dispute over the Falkland Islands.

THE SECRETARY OF STATE FOR DEFENCE informed the Cabinet of the British forces deployed in connection with the crisis and gave an account of the present location of Argentine naval forces. No Argentine warships had so far entered the Maritime Exclusion Zone (MEZ) declared by the United Kingdom around the Falkland Islands. A number of military options would be open to the Government if efforts to reach a peaceful solution failed. It would be possible, when the carrier borne Harrier aircraft reached the area, to declare an Air Exclusion Zone, in addition to the MEZ. To make a blockade of the Islands effective, it would be necessary to render the airfield at Port Stanley unusable. The Argentine garrison was thought to have sufficient stocks for about 60 days, but the morale of the young conscripts who comprised about 80 per cent of it would be affected sooner. Given air superiority, British forces could successfully recover the Islands, though the operation would be difficult and require more consideration before any decision was taken. The option to recover the Islands militarily would not always be available since the difficulty of the operation would increase if it were delayed. Ships and troops had limited endurance in the hard conditions of the South Atlantic winter.

In discussion the following points were made:-

- a. Care should be taken to avoid action of which the Americans might disapprove. But the United States Secretary of State, Mr Haig, regarded the application of military pressure as helpful in bringing the Argentine Junta to make concessions. As a result of Press speculation, it was widely believed that British forces would soon retake South Georgia. Unless this were done, it would not be believed that the Government was in earnest. The Islands might be valuable as a sheltered anchorage for British ships

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b. There remained a danger that military action such as the operation to retake South Georgia, as opposed to military pressure, might both reduce Mr Haig's influence in Buenos Aires and take some of the international pressure off the Argentine Government. The effect of the South Georgia operation on Mr Haig's position would depend on whether many lives were lost. Further action of a military nature, which might prevent a negotiated settlement, should not be taken over the next few days, while the Foreign and Commonwealth Secretary was in Washington.

c. It was important to counter the Argentine claim, which was manifestly untrue, that in taking their military action against the Falkland Islands they had sought to avoid casualties. It was unfortunate that British television reports were giving the impression that the morale of the Argentine garrison was high.

d. Reports of Mr Haig's discussions in Buenos Aires had shown the difficulty of dealing with the Argentine Government; major decisions involved some 50 people and could be vetoed by Corps Commanders. President Galtieri was an alcoholic and apparently incapable of rational thought; his future as head of the government seemed doubtful. The Foreign Minister, Mr Costa Mendez, was without influence. But it was essential that any failure to secure a negotiated settlement occurred in a way that left the United States firmly in support of the United Kingdom's position.

f. Once the amphibious force had sailed from Ascension Island, it would be difficult politically to turn it back. A decision to instruct the force to sail should only be taken after careful consideration of the full implications, including the possibility of its use to make an assault landing on the Islands. If military action became necessary, it would be important to move quickly if the present level of all-Party support was to be maintained.

THE PRIME MINISTER, summing up the discussion, said that a number of difficult decisions would be required, often at short notice, during the forthcoming weeks. The Defence and Overseas Policy Sub-Committee on the South Atlantic and the Falkland Islands, under her Chairmanship, would remain in day-to-day charge; but if possible the Cabinet would be consulted before a decision was taken to mount an assault on the Falkland Islands themselves. Meanwhile it was of the highest importance to maintain complete secrecy about possible operational plans.

The Cabinet -

Took note.

Cabinet Office

7 June 1982

MOST CONFIDENTIAL RECORD
TO
CC(82) 20th CONCLUSIONS

Wednesday 28 April 1982

FALKLAND
ISLANDS

Previous
Reference:
CC(82) 17th
Conclusions,
Minute 2

The Cabinet had before them a Note by the Secretary of the Cabinet (C(82) 15) to which were attached draft proposals for a settlement transmitted by the United States Secretary of State, Mr Haig, after his most recent visit to Argentina; and for comparison the earlier draft agreed between him and British Ministers the previous week.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the latest proposals were in a number of important respects less satisfactory than the earlier draft. The military withdrawal provisions were unbalanced; the interim regime envisaged would involve excessive Argentine representation on the local Councils and might allow massive Argentine immigration; above all, the arrangements for the longer term were unacceptable since there was insufficient prospect of self-determination. Nevertheless it was important to try to maintain the momentum of Mr Haig's attempt to secure a negotiated settlement, even though this would have the unwelcome side-effect of preventing the United States openly endorsing Britain's cause. Any alternative negotiating process would be worse from Britain's point of view. He therefore intended to put forward counter-proposals. He was also preparing a commentary on the existing draft which would expose its weakness if it were ever published, which at present Mr Haig did not wish it to be. Meanwhile, the steady movement of the British Task Force towards the Falklands should serve to strengthen Britain's position.

In discussion, there was widespread agreement that the latest proposals would be seen as a sell-out of the Islanders. Whatever their wishes, they would not be allowed to retain their present status. Moreover the Argentines clearly wanted to flood the Islands with immigrants, so that even if there was a test of local opinion they would still be able to take over. It was a matter of particular concern that they wished to control the police force during the interim period. Nor was there any safeguard against a second Argentine invasion some time in the future when the British Task Force had gone away. For that reason the United States Government would need to be involved in guaranteeing the independence of the Islands and the security of Stanley airfield. This underlined the importance of retaining American goodwill at the present stage.

In discussion of what would happen if Mr Haig's mission failed, it was pointed out that the most obvious next move would be at the United Nations. But action there would carry with it certain dangers. It would not be possible to repeat the massive support for Britain which had produced the Security Council's Resolution No. 502. If hostilities started, world opinion would very likely change and there would be a series of hostile United Nations resolutions; it might be possible to parry these for a short period, but in the end use of the British veto would be inevitable. Pressure would grow for Britain to refrain from further hostilities and she would be thrown on the defensive. Referring the dispute to the International Court of Justice would be too risky because the political composition of the Court made success uncertain, however watertight the objective legal case. If a call for immediate referral to the International Court were to be made, it could probably not be ignored; but agreement to it would have to be made dependent on the prior withdrawal of Argentine forces from the Islands. The really decisive factor, if the Haig mission collapsed and no alternative could be found, would be the attitude of the United States. If war was to be avoided, British policy would need to command continued American support. British policy prior to the invasion had been willing to contemplate a lease-back arrangement of some kind. This might be held to weaken Britain's present stand on sovereignty. But it had always been made clear that the acceptability of any such plan would remain subject to the wishes of the Islanders. In practical terms, administration mattered more than sovereignty; but the invasion had made the prospects of a lease-back arrangement much more difficult.

In further discussion, the following points were made -

- a. Although the Argentines sought sovereignty over the Falkland Islands, South Georgia and the South Sandwich Islands, the roots of British title differed in each case. It would be important to maintain the distinction in any future negotiation; and to preserve the position of Britain's Antarctic Territory.
- b. It was vital to mobilise world opinion as widely as possible against the illegal seizure of the Falkland Islands. Support from Germany, Japan and Australia would be particularly valuable since they had close links with Argentina.
- c. The other members of the European Community (EC) had so far shown admirable solidarity with Britain. But they did not want war. They were worried by the spectre of Soviet involvement and by division and disunity in the non-Communist world.

There was also concern at the possible damage to United States prestige if the Haig mission failed. The continuance of sanctions could not be taken for granted; and some EC members were considering how to extract tactical advantage from the present situation.

d. There were many stages still to be gone through before the British Task Force would be on the scene. Public opinion would expect more from negotiations as it approached. The Opposition in Parliament were no less pledged to the principle of self-determination than the Government. Maximum moral advantage should be sought from Argentina's status as an aggressor.

e. The present Argentine regime was very elusive to deal with. Power resided at many levels. It might therefore take a very long time to achieve a negotiated settlement which would stick. But the time actually available for negotiation was limited. Once the British Task Force reached the Falklands area it could not be kept waiting. Military action would become unavoidable.

THE PRIME MINISTER, summing up the discussion, said that maximum diplomatic, economic and military pressure would need to be exerted if the Argentine Government were to be brought to agree to a reasonable settlement. The Foreign and Commonwealth Secretary would be visiting Washington on 22 April to discuss those aspects of the present draft which were unacceptable to Britain. Meanwhile it was important to preserve the confidentiality of the draft proposals, and comment should be kept to a minimum. She would arrange for the Press to be told that the Cabinet had taken stock of the present position, particularly in the light of the latest proposals communicated by Mr Haig.

The Cabinet -

Took note.

Cabinet Office

7 June 1982

SECRET

MOST CONFIDENTIAL RECORD

TO

CC(82) 42nd Conclusions, Minute 2

Thursday 30 September 1982 at 10.00 am

CHINA

THE PRIME MINISTER, reporting on her recent visit to China, said that the second of her two days of talks with the Chinese Premier Zhao Ziyang had been on the future of Hong Kong. She had also had a talk on the same subject with the Vice-Chairman of the Central Committee of the Chinese Communist Party, Deng Xiaoping. When allowance was made for translation, the time spent on substantive discussion came down to less than two hours. It was impossible in so short a time to move far towards agreement: and essentially both sides had outlined their opening position. The Chinese Government's position was that they wanted to assume control over the whole Colony when the lease of the New Territories expired in 1997. She had explained that the British position was that the three treaties governing the status of Hong Kong remained valid and could not be unilaterally abrogated. But if the Chinese would accept the continuation of British administration over the whole of Hong Kong it might be possible for the British Government to consider recommending to Parliament that sovereignty should be ceded to China. Having no understanding of how a free society worked, the Chinese leadership failed to grasp that public assurances that life in Hong Kong under the control of a Communist Government could go on as before would be insufficient to maintain commercial confidence; and that this was dependent on the continuation of a British administration. Given this difference of view, the central feature of the communique had been the statement that both sides wanted to assure the stability and prosperity of Hong Kong and were prepared to enter into talks on how to achieve this common aim. The talks, which would now begin through diplomatic channels, would be difficult: the problem would be to persuade the Chinese that the commercial prosperity of Hong Kong, which it was an important Chinese interest to maintain, could not continue without British administration. On balance, she thought that an accommodation should be achievable. Her own talks with the Chinese leadership, although tough, had not been acrimonious; and the statement in the communique that they had been conducted in a friendly atmosphere had been inserted on Chinese initiative. It was inevitable that her visit to China had aroused hopes in Hong Kong for an early resolution of the problem which could not be satisfied, but she was hopeful that the terms of the communique would be sufficient to sustain confidence for the moment. A critical point would be reached in 1985, since all Hong Kong mortgages were for a term of 12 years. Agreement with China consequently needed to be reached within the next two to three years. The universal concern for the future felt in Hong Kong was

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understandable: 5½ million people there had escaped from communism in China, and Britain had absolute responsibility for them. In this connection account should be taken of the anxieties felt in the Colony on the nationality question. This was one of the subjects which would have to be covered in the discussions with the Chinese Government. Meanwhile the fact that under the 1981 Nationality Act citizens of Hong Kong would no longer be described as British subjects was a cause of particular concern in the Colony and should be re-examined. In carrying out this re-examination the risk of appearing to confer on Hong Kong citizens some residual, moral right of access to the United Kingdom would have to be carefully weighed against Britain's obligation to the people of Hong Kong and the need to maintain their confidence.

The Cabinet -

Took Note.

Cabinet Office

1 October 1982