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Foreign and Commonwealth Office

London SW1A 2AH

30 January 1987

Dear Charles,

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Prime Minister
summary and
covering letter only
I suggest

Falkland Islands: Annual Review, 1986

The Prime Minister may wish to see the enclosed advance copy of the Governor of the Falkland Islands' Annual Review for 1986.

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The Review concludes that on balance 1986 was a good year for the Falklands. The Islanders' sense of security was reinforced by the near completion of Mt Pleasant, by return visits to the Islands by Lady Young, Mr Raison and Mr Stanley and by the decision announced in October to declare fishery limits around the Falklands. Mr Younger's visit earlier this month further underlined HMG's commitment to defend the Islanders.

But satisfactory though this recital is, uncertainties, especially on the economic side, remain. Wool prices are depressed, the drift from the Camp to Stanley continues and although overall, according to the November census, the population has increased by 100 since 1980, the increase is accounted for by technical cooperation officers posted to the Islands and their families. The indigenous population has declined slightly. Moreover, although the prospect of tourism making a modest contribution to the Island economy exists, some of the other experimental projects to diversify the economy look less certain. Indeed, without the prospect of revenue from the fishery the outlook would be questionable.

All in all, however, Mr Jewkes' positive assessment is justified and, while the Islanders remain allergic to contacts with Argentina, their outlook generally is less anxious. Mr Jewkes' wise and sensitive handling of the Council and the contacts he has established with Islanders have contributed much to this.

Yours ever

(R N Culshaw)
Private Secretary

C D Powell Esq
10 Downing Street

FALKLAND ISLANDS: ANNUAL REVIEW FOR 1986Summary

1. A good year for the Falkland Islanders, especially because of the announcement about the Falkland Islands Interim Conservation and Management Zone (FICZ) (para 1).
2. The shortage of people and skills still a serious problem. Financial position of colony in reasonable shape. Mixed fortunes in sheep industry leading to shedding of labour by large farms. Progress in the subdivision of farms (paras 2 - 5).
3. £31 million development grant largely spent or committed by end of 1986. Falkland Islands Development Corporation enjoyed some success in diversifying the economy along the lines of Lord Shackleton's recommendations but some projects have faced difficulties. Progress in the provision of new housing (paras 6 - 8).
4. Cautious optimism that financial outlook for colony could be transformed by establishment of FICZ. Severe burden to FIG of setting up fisheries regime (paras 9 and 10).
5. Revised constitution worked satisfactorily but Councillors' performance generally disappointing. Gimenez funeral demonstrated only limited progress on the attitude of Islanders towards Argentina (paras 11 and 12).
6. Falklands a continued topic of interest to UK media (para 13).
7. Civil-military relationships generally good, but anxiety about transfer of the remainder of the garrison to Mount Pleasant, and about the new joint civil/military hospital (paras 14 and 15).
8. Ministerial visits (para 16).
9. Need to consider the return of South Georgia to civilian administration (para 17).
10. Efforts to tidy up the administration of the British Antarctic Territory (para 18).

PORT STANLEY

14 January 1987

The Right Honourable Sir Geoffrey Howe QC MP
Her Majesty's Principal Secretary of State
for Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
LONDON SW1

Sir

FALKLAND ISLANDS: ANNUAL REVIEW FOR 1986

1. The past year was on balance a good one for the Falkland Islanders. Their collective wish to remain British, overwhelmingly reaffirmed in an unofficial opinion survey conducted on behalf of the United Kingdom Falkland Islands Committee, was upheld strongly by Her Majesty's Government. Their physical security was ensured by a garrison the size of which it has been possible to reduce with the near-completion of the impressive Mount Pleasant complex. Development of the colony was stimulated by further injections of British capital aid and supported by technical assistance. All of this was crowned for the delighted Islanders by your announcement on 29 October of the intention to establish from 1 February 1987 the Falkland Islands Interim Conservation and Management Zone (FICZ). This long-sought decision erased for most Islanders the major difference of opinion existing between them and Her Majesty's Government.

2. One major problem was not resolved. This was the very serious shortage of people and skills. The provisional results of a census held on 16 November revealed that the usually resident population had risen from 1,813 in 1980 to 1,919 in 1986. (At the time of my predecessor's departure in October 1985, it was estimated to be 1,922.) Much of the increase was accounted for by OSAS and technical /cooperation

cooperation officers and their families. There was also a significant increase in the population of Stanley, much of it at the expense of the Camp. Despite development and steps that are being taken by the Falkland Islands Government and Development Corporation to stimulate a modest level of immigration, including priority consideration of key immigrants for housing, I see little prospect of any significant, sustainable increase in the permanent population within the foreseeable future. The frustrating consequence of this is that the colony seems likely to remain unable to sustain itself as a free-standing community, if present standards are to be maintained or improved, without the continuous recruitment overseas of administrative, professional and technical staff on limited term contracts. It is disappointing to note that the Islanders, who tend to dislike the OSAS system of recruitment, do little to encourage their children to pursue further education with a view to their filling eventually at least some of the posts now occupied by expatriates.

3. By contrast to the labour situation, the overall financial condition of the colony seemed to be in reasonable shape insofar as this could be judged in the absence of up to date statistics. Tax revenues and the number of tax payers have been rising in recent years. It is expected that the final accounts for financial year 1985-86 will reveal the fourth annual budgetary surplus in succession. The introduction in April of fees for the trans-shipment of fish in Falklands' harbours should add about £1 million to ordinary revenues in a full year.

4. The year was one of mixed fortunes in the only established industry, sheep farming. Although wool production was the best for several years, prices on the Bradford market for the 1985-86 season were down by some 20 to 30 per cent on those of the preceding year owing mainly to the strength of sterling in relation to the Australian /dollar.

dollar. There had to be much belt-tightening among the newer, independent farmers who, unlike many of their international competitors, enjoy no price support programmes. In order to reduce fixed costs, larger farms continued to shed labour from their permanent staffs and to rely more upon itinerant gangs for sheep shearing. Wool prices at the end of 1986 were showing signs of modest improvement, although a very cool and wet Spring led to high mortality among both adult sheep and lambs.

5. The total number of farms (31 in 1980) reached 66 with the sale by the Falkland Islands Company of its Fox Bay West farm and its subsequent division into six units each carrying 5,000 sheep. Port Howard, with 42,000 sheep, is about to be purchased by the Falkland Islands Government from its overseas owners and sold on to a company in which the majority of the equity will be held by the farm's existing local management and workers. Owners of other large, increasingly unprofitable farms, including Hill Cove and Port San Carlos, have let it be known that they too wish to sell. Financial and administrative constraints will determine the rate at which further purchases can be completed. Local opinion is broadly in favour of some slowing down of the purchase and subdivision programme because of mounting concern about the social effects of the break up of settled communities.

6. The £31 million development grant announced by your predecessor in December 1982 was largely spent or committed by the end of the year. Much of it was or is to pay for the renewal of infrastructure, mainly in Stanley. Electricity generating and distribution works were largely completed in 1986. Work commenced on a water treatment plant. Proposals for a desperately needed new internal telecommunication system were under consideration with the ODA for much of the year.

/Work

Work was resumed on the Estancia Track, a prototype Camp road. Sadly, if the speed of construction so far is a reliable indicator, it could take many years to complete even a rudimentary all weather track system in East and West Falkland if the task is left solely to local labour.

7. Under imaginative and energetic managers, the Falkland Islands Development Corporation (FIDC) continued to be the spearhead of attempts to diversify the economy broadly in line with Lord Shackleton's recommendations. The Corporation assisted the emergence of a variety of small businesses in Stanley through grants and loans. Their agricultural infrastructure grant scheme was much welcomed by new farmers. An infant tourist industry, created at amazing speed and based mainly in three lodges situated in areas rich in wild life, showed promise, but the absence of access to the Islands through South America and the cost of travel from Britain could hold back its growth. The recently stocked Stanley dairy resumed commercial milk production. Other larger projects had mixed fortunes. The woollen mill has not been as successful as had been hoped and is to be put under new management. The hydroponic market garden, plagued by technical problems, has yet to go into production. The long-term commercial viability of in-shore crab fishing is still in question after two years' research. The work of the FIDC during its first two years of existence was endorsed broadly following a joint ODA/Falkland Islands Government Review, and its funding has been assured until mid-1989.

8. Success can be claimed for the provision of new housing in Stanley. During the year, six houses were being built under private construction, more in a single year than anyone can recall. More than 20 sites have been prepared or are being prepared by the Public Works Department for semi-permanent or mobile homes. At the new

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hospital, to be mentioned again in Paragraph 15, 11 units of sheltered accommodation and eight houses are under construction. Several older houses will be released for civilian use when military officers accompanied by their wives leave Stanley early this year. The Jersey housing estate is at the early planning stage. This could provide 20 or more plots for family and single housing.

9. I am cautiously optimistic that the financial outlook for the colony could be transformed and the need for further capital aid reduced substantially, perhaps even eliminated, as a result of the introduction of the interim conservation and management regime for the rich fishing grounds around the Falkland Islands. It is expected that management costs of about £4 million will be covered comfortably from licence fees. How much net benefit will actually accrue to the Islands' exchequer remains to be seen. It could be considerable, especially if Falkland-based joint ventures and ancillary services such as bunkering can be developed.

10. The slender senior staffing resources available to the Falkland Islands Government were stretched to the limit in the latter weeks of the year when the work needed to establish the FICZ had to be given precedence over everything else. Great credit is due to my own Chief Executive and Attorney General, the staff of Falkland Islands Department, Mr Peter Derham, Chief Inspector of Fisheries, MAFF, and Dr John Beddington of the Marine Resources Assessment Group without whose combined labours in both London and Stanley the FICZ would have stood no chance of being established on time. The most careful thought needs to be given very soon to the managerial aspects of any successor regime if available staff are not to be seriously overstretched to the detriment of fisheries management and other essential work.

11. The revised Constitution promulgated late in 1985 worked

satisfactorily in practice. At this stage there seems to be no case for significant further amendment although the census figures indicate that, arithmetically, the Camp is over and Stanley under-represented in the Legislative Council. I regret that, with rare exceptions, Councillors' own performances did not live up to the promise which I identified in my Annual Review for 1985. The fault is not entirely theirs. They are drawn from a very small pool of talent.

Communications between Stanley and the Camp, and within the Camp itself, are so poor that representatives of the Camp constituency find it difficult to maintain contact with Government House, with those whom they represent or with each other. This is compounded by the narrowness of Councillors' experience of the world at large and a failure to appreciate the time and effort which responsible and effective involvement in public affairs requires. Such factors led to a disappointingly poor quality of debate within the Councils and related committees especially where domestic issues were involved. Members' contributions on the only external issue of concern to the Islanders - the wish to avoid any change in their constitutional status or, indeed, any form of relationship with an Argentina which continues to claim sovereignty over the Falklands - were of a somewhat higher order perhaps because patriotic feelings were involved. Moreover, the Islanders' arguments have become well honed over many years.

12. A majority of Councillors are to be commended for agreeing to a visit on humanitarian grounds by Sr. Gimenez for the funeral of his son, Lieutenant Gimenez, of the Argentine Air Force, whose remains were found more than four years after the 1982 Conflict. Such agreement represented progress of a kind. Its effect was reduced almost immediately, however, when Councillor Lewis Clifton, who attended the funeral in a personal capacity, was not re-elected to the Executive Council by his colleagues who clearly felt that he had gone further in demonstrating his respect for a former enemy than

/they

they would have wished.

13. The Gimenez visit provided just one example of the extent to which the Falklands remains a topic of interest to the British media. The Islanders themselves have long ceased to regard journalists as glamorous.

14. Civilian/military relationships, still a most important factor in the life of the colony, remained on an even keel. Cooperation at senior levels was good. At lower levels, the picture was clouded occasionally in ways that reflected a number of factors, including the short postings of military personnel who had little time to familiarise themselves with local problems and conditions. Extra effort will need to be made if the present quality of relationships is to be maintained after the completion within the next few weeks of the transfer of remaining military units from Stanley to the Mount Pleasant Complex.

15. The occupation of the new joint civilian/military hospital in Stanley, now expected to take place about June 1987, will call for imaginative and sympathetic partnership at all levels if the interests of patients are not to suffer. A watchful eye will need to be kept on both joint operating and cost sharing arrangements if the more weakly represented Falkland Islands' interests are not to be overwhelmed by the weighty military administration.

16. It was an especial pleasure that Lady Young, Mr Raison and Mr Stanley were able to return to the Islands during the year. I believe their visits were of mutual benefit to Ministers and Islanders alike. Several visits by groups of Parliamentarians enabled them to become better acquainted with the Islanders and their problems, hopes and fears. A delegation from the British Council of Churches, suspected in advance by the local people of being too

/pro-Argentine,

Pro-Argentine, quickly learned that the Islanders were not in favour of the Council's thinking on the need for reconciliation with Argentina at the cost of their own self-determination.

South Georgia and the South Sandwich Islands

17. As I am also Commissioner for South Georgia and High Commissioner for the British Antarctic Territory, I have thought it right to include a reference to them in this despatch even though they are no longer dependencies of the Falkland Islands. South Georgia is in a form of limbo. I doubt whether we can count upon the MOD being willing indefinitely to maintain an isolated, relatively expensive and largely defenceless garrison, for which they see no military need. It would be wise to make contingency plans for an alternative means of providing a British presence. The most realistic option would seem to be to invite the British Antarctic Survey to return to Grytviken and to contribute something towards the costs of civilian administration undertaken by the Survey from South Georgia revenues. However, our readiness to defend the islands should be clearly demonstrated, and precautions taken against illegal Argentine landings, by restoring regular visits by the re-fitted HMS Endurance supplemented by regular visits by other RN vessels based in Falkland waters, and by reconnaissance by Hercules aircraft based at Mount Pleasant. I believe the return of the islands to civilian administration would be useful to the British cause internationally although we should need to make it clear to the Argentines that this did not mean any weakening of our sovereignty claim but merely a return to pre-Conflict arrangements.

British Antarctic Territory (BAT)

18. The chief development in relation to the BAT has been our attempt in Stanley, in collaboration with the FCO, to sort out the

/muddle

muddle into which the administration had fallen since the Conflict. Although sovereignty claims in the Antarctic have been frozen by the Antarctic Treaty, it is clearly important to ensure that administrative arrangements for the land mass constituting over 90 per cent of the area of Her Majesty's overseas domains are carried out correctly and punctually, especially in the run-up to the probable review of the Antarctic Treaty from 1991.

19. I am sending copies of this despatch to HM Representatives at Montevideo, Santiago, UKMIS New York and the British Interests Section, Buenos Aires.

I am, Sir,

Yours faithfully,

G W Jewkes