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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

21 July 1989

Dear Stephen,

ARGENTINA: NEXT STEPS

The Prime Minister has noted the Foreign Secretary's minute of 20 July about the next steps in dealing with Argentina and is content with it.

I am copying this letter to the Private Secretaries to members of OD(FAF) and to Trevor Wocley (Cabinet Office).

Yours sincerely,

CHARLES POWELL

Stephen Wall, Esq.,
Foreign and Commonwealth Office

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Prime Minister
This seems
sensible.

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PRIME MINISTER

Argentina: Next Steps

1. On 27 July OD will discuss the issues raised in my minute (and enclosed contingency paper) of 16 June to the Defence Secretary, his reply of 4 July and developments since. Menem took office (early) on 8 July. Since then there has been a good deal of movement both within Argentina and on UK/Argentine relations.
2. Despite the country's acute economic problems, Menem is enjoying a honeymoon. He selected a responsible, indeed in key posts a conservative, ministerial team. A severe programme of economic retrenchment has been introduced, with provision for privatisation of the sprawling para-state sector. When this programme bites, it will offend Menem's traditional Peronist constituency - the powerful trade unions and the blue collar workers. We could see a rapid end of the honeymoon and a recurrence of the rioting and looting which marked the last days of Alfonsin's Presidency. Meanwhile the military will remain highly volatile: even if they receive an amnesty on human rights offences, tension will remain.

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3. Since the inauguration we have received a number of signals from Menem and his new Foreign Minister that they wished to improve relations with Britain. In particular they have suggested placing the sovereignty question "in parentheses" to enable progress to be made on practical issues. Argentine statements have not, however, been consistent and the detail of their approach remains unclear.

4. On 13 July, the Brazilians told us that they had been authorised by the Argentines to put a formal proposal to us that British and Argentine representatives should meet under the so called sovereignty "umbrella formula" (as agreed with the Alfonsin Government in last year's fisheries exchanges through the Americans). We have replied through the Brazilians that we would be prepared to hold an initial meeting between Permanent Representatives in New York at which the ground rules for any further talks and their scope might be agreed. This message was passed on 17 July and we expect an Argentine response shortly. A meeting could not, however, take place until Sir Crispin Tickell returns to New York on 4 August.

5. If we get as far as a substantive meeting, which is by no means certain, I believe that the issues should be:

- the restoration of normal trade between Britain and Argentina;

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- normal trade CONFIDENTIAL

- communications (especially resumption of air links);
- the abolition of financial restrictions (already agreed but only partially implemented by Argentina);
- fishery conservation.

6. In the initial talks in New York, as in the past, we should seek two prior assurances:

- that Argentina would not use the talks to introduce the question of sovereignty;
- that the Argentine Government would not challenge the existence of the Falkland Islands Conservation and Management zone.

7. If these assurances were forthcoming, we could then consider moving to direct talks. But we should make it plain that if the Argentines went back on these assurances once talks had begun, we would be fully justified in withdrawing from the talks.

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8. It is doubtful whether Menem and his advisers yet understand the complexity of the issue. His room for domestic manoeuvre may diminish under economic and possibly military pressures within a few months. If this happens, we may have to face a more difficult and dangerous Menem.

9. I believe, however, that we should seek to take advantage of the new Argentine mood, while it lasts. The approach I have set out above is in line with our position up to now and could offer tangible benefits, for example to British exporters and to British Airways. If the Argentines are unable to deliver we shall at least have demonstrated, to our own public opinion as well as to the Americans and internationally, that we are willing to seek a more normal relationship. The proposed meeting in New York will show whether a real chance of progress exists.

10. Looking further ahead, we may be faced with some difficult decisions later this year over the Falklands, South Georgia and their fisheries, which could have direct consequences for UK/Argentine relations and implication for our dealings with the Americans. We are awaiting two reports:

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(i) in late summer on the sensitive question of squid stocks, which has implications for conservation measures in our economic zone outside the FICZ ("the Doughnut"), as well as in the Argentine economic zone and on the high seas;

(ii) next month on fish stocks around South Georgia. This is a less urgent and less sensitive question but could still rebound on Anglo-Argentine relations.

11. We are also examining the question of extension of the territorial sea for certain Dependent Territories (including the Falklands and South Georgia) from 3 to 12 miles. No decision on any of these matters should be needed for a few months.

12. I am copying this minute to members of OD(FAF) and to Sir Robin Butler.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
20 July 1989

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