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**SECRET**

CONFIDENTIAL

UTI/FUE/2#07

FALKLAND ISLANDS

SECRETARIAT

FUE/13/3 5

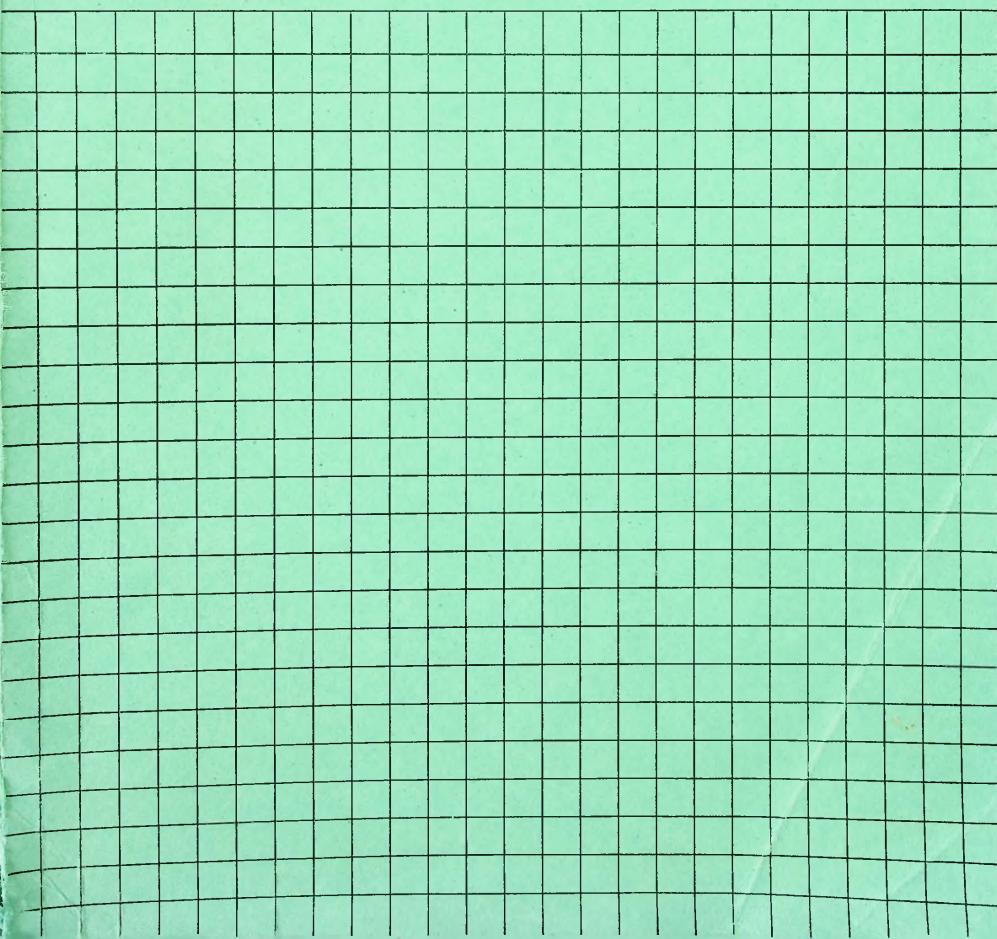
VOL 2

NEGOTIATIONS

WITH Y. P. F.

(VOLUME 2)

File Opened 12/12/73 Closed



Weeded



See 16/1/76

To HE from CS

CONFIDENTIAL

RECOLLECTION OF DISCUSSION: MILNE/MONK

am 17 DECEMBER 1974

(17 Dec)

1. Harry Milne came to see me today as I wanted to show him the telegram of congratulations from the FCO. He was grateful for this, but immediately launched into a typical Milne dissertation regarding the obscurantist ~~attitude of~~ FCO, ~~and~~ HE and the CS.

2. His main points were:-

- (a) Relton had promised to do his utmost to obtain funds from the British Treasury for the construction of a separate jetty for the YPF and also for a temporary arrangement to run oil pipes underwater from the existing FIC tanks to the east end of the FIC east jetty. This would be a strictly temporary measure to expire with the present term of the YPF Agreement at the end of 1976.
- (b) Hall & Relton agreed with Milne that HE and Layng had concealed information from Council in order to push through the YPF Agreement.
- (c) Relton agreed with Milne that the FIC should be allowed to revoke Clauses 7, 8 and 9 of the YPF Agreement which permitted YPF certain use of the jetty.
- (d) Hall & Relton had been much more open with Milne about FCO policy than with HE or myself. As a result Milne was now much better informed and able to be more co-operative.

3. Milne had, as a consequence of his discussions with Hall & Relton sent a letter (by hand of Roberts of BUT) to Mitchell (arriving London 18 December) proposing that Mitchell should contact Hall and Relton on their return to the UK with a view to arranging the finance for the temporary pipeline. Milne was keen on this idea as it would allow FIC to save face and not be seen to be flying in the face of public opinion which looked for cheaper fuel. At the same time it would allow FIC to obtain: -

- (i) some recompense for their efforts; and
- (ii) to set a term to their co-operation with YPF

4. Milne said that he was particularly pleased with the statement made by Relton to the effect that the Agreement was one between HMG and the Argentine Government which would lead to embarrassing repercussions if it was not implemented, that failure by FIC to co-operate would result in Sloggie being made a scapegoat, and show the FIC in a bad light, as well as cause loss of confidence in FIG.

5. Milne offered to send me a copy of his letter to Mitchell, in which he had referred to several of these points.

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/6.

DRAFT

6. The report from Milne is in line with the general feeling that Hall & Relton came out here as "troubleshooters".

7. Their visit has been seized upon by FIC to try and drive a wedge between FCO and FIG. Formerly ~~they were~~<sup>FIC said</sup> always saying how badly informed their London office was by FCO. Now ~~they~~ may attempt to ~~isolate~~<sup>isolate</sup> HE and CS. Milne cannot possibly be as naive as he makes out: he was fully aware that the Agreement was between governments, and his London ~~Board~~<sup>considered</sup> and reported on the Agreement to FCO. Sloggie is, of course, their great embarrassment and the threat to make him a scapegoat is hardly likely to worry him, whereas it would seriously jeopardise FIC's case.

8. If the reports about finance for the jetties are true, it raises the question whether HMG has already ~~decided~~ to shoulder this burden. So far as I am aware we have not been told that they are. We have, over the past weeks, let the case for a separate jetty ~~emerge~~<sup>emerge</sup>, for two reasons: that FIC would willingly co-operate in a scheme which they had thought up themselves, and because there was always the chance that YPF ~~might~~ pay. It is reasonable to suppose that had this proposal been made early in November when the pipes' argument first blew up it would have been rejected out of hand in the atmosphere at the time. In this respect the ~~work~~<sup>results</sup> of Hall's & Relton's ~~talks~~<sup>work</sup> may be considered to have achieved something but it now seems as if HMG ~~will~~<sup>may</sup> have to shoulder the cost - and the FIC will ~~be able~~<sup>try to</sup> extricate ~~themselves~~<sup>itself</sup> from an unpopular position and make ~~is~~<sup>it</sup> a profit ~~as well in the process~~.

9. The dramatic approach with ~~any~~<sup>instant</sup> solutions is only possible occasionally, particularly if it ~~requires~~ involves spending large sums of money. It may be, too, that it can only yield ~~results~~<sup>rewards</sup> at the expense of the reserve of goodwill ~~so~~ laboriously built up over months and years. This is ~~especially~~<sup>especially</sup> so if FIC is able to make capital out of it. / 10

10. Bloomer-Reeve is also aware of the proposal that HMG will build the jetty. I do not know how he learned of it. He told me this early last week and I had to play dumb.

1. The attitude of Milne (even allowing for his usual ~~way of thinking~~) and what he said (confidentially <sup>of course!</sup>) leave me in very little doubt about the ~~machinations of~~ <sup>and</sup> ~~of~~ FIC ~~although~~ <sup>this aspect</sup> there is more to them than just a commercial ~~interest~~. In this connection Milne mentioned that he thought he should be on EXCO. I refrained from reminding him that it had not helped Soggie.

CONFIDENTIAL 131000Z

Telegram No. 186 of 13th December

To Buenos Aires from Falkland Islands

info FCO

YPF Agreement

My telegram No. 359 and B.A. telegram No. 113. Price of Gas Oil. In January this year YPF formally offered us bulk gas oil at 10.4 pence per gallon delivered Stanley and it was with this figure in mind, which appeared to leave adequate leeway for price increases, that YPF Agreement was debated. An increase now to 36 pence per gallon seems fantastic and we would be grateful if you could check that this is current price at the pump in Buenos Aires and thus the price which would apply here.

2. January offer was relayed to us through FIC and Sloggie relied on the price quoted as much as we did. All Council members received personal copies of the draft YPF agreement and Sloggie was in on all discussions on amendments to text. Thus any charges by Mitchell that the wool was pulled over Councillors' eyes cannot hold water.

3. One is struck, after an absence of six weeks, by the marked change of atmosphere in the Islands. The invasion scare and the rumours surrounding it appear to have provoked just that hostility to everything Argentine which had always been forecast if the pressure was turned on, and the present period is being compared to that following the hijacking incident and the visit by Lord Chalfont.

FCO please pass

CONFIDENTIAL

✓ 9

271600Z

From FCO

Routine to Falkland Islands

Tel No 251 of 27 December.

Your Tel No 368

YPF Agreement.

1. Your reference to new use of RN fuel supplies not understood.

Assuming no YPF Agreement, MOD hope to continue to sell you gas oil.

But world fuel crisis may affect their ability to supply and the price.

2. Following are comparative prices per ton in US dollars for  
bunkering oil:

UK diesel 73.96

gas oil 78.76

Las Palmas diesel 81.70

Gas oil 86.32

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RESTRICTED

From Buenos Aires

101425Z

FILE

20

To Priority FCO

Tel No 10 of 10 January

Info Port Stanley

My Tel No 7 and your Tel No 6 (5)

1. Final text was handed over yesterday.
2. Suggest terminal date in Para 20 should now be 31 December 1976.

Grateful your early views since may now hope to aim for signature at the end of the month.

SHAKESPEARE

RESTRICTED

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From FCO  
181550Z  
To Priority BA  
No 8 of 18 Jan  
And to Port Stanley

## YPF AGREEMENT

1. Ministers have decided that the Agreement should not be signed until the Falkland Island Co in London have been given a chance to comment on it. As you know, the FIC have been complaining of lack of consultation during the earlier stages.
2. It is, therefore, unlikely that signature could take place before the first week in February. If the FIC require time to consider the matter, it could be later.
3. The Argentines have asked for the terminal date to be amended, but it is not entirely clear to us whether the (sic) is otherwise acceptable to them. If they intimate that it is, you may wish to play for time on the question of the terminal date.
4. You will no doubt advise if such a delay will cause problems.

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File

27

CONFIDENTIAL

File No

CONFIDENTIAL

(Date/time of transmission)

(Telegram to be transmitted by BA)

From Falklands

Priority to FCO

Info to BA

Telegram No 27 of 20 January

Your Telegram No 8 to BA

YPF AGREEMENT

1. While appreciating the reasons for this decision, the Ambassador and myself are concerned at the possible political implications. When the news of the delay reaches Stanley (and the reasons for it) De la Colina is certain to pick it up and pass it on to BA. This would be enough to arouse MFA's worst fears about the role of the company and could have a detrimental effect on any new political initiative we may be considering. And if we allow the Falkland Islands Company to veto or delay a decision made by the Islands Council, the Argentines will find this very hard to reconcile with our oft repeated argument that the wishes of the Islanders must be paramount.

LEWIS

(FCO please pass)

(Stanley

20 January 1971.)

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From BA

241505Z

To Immediate FCO

Tel No 19 of 24 Jan

Info Port Stanley.

Port Stanley Tel No 35 to you.

YPF AGREEMENT.

1. The final text of the YPF Agreement was handed to the MFA in accordance with your instructions on 9 Jan (Our Tel No 10) with an explanation that the problems causing the delay of which the MFA were aware (Shakespeare's letter of 21 Dec to the Governor copied to you) had now been overcome. The text is acceptable to YPF and to the MFA at departmental level.

2. Any suggestion that the Agreement should now be jettisoned when the Argentines know that the Falkland Councils have accepted it and public opinion has now swung in favour could have far reaching effects. The MFA who have often pointed out that it was HMG who requested the installation in the first place, can quite justifiably protest against being misled and over a major breach of faith. This would not be a good augury for talks and indeed we agree with the Governor's suggestion that ripples might well spill over into the field of communications.

HOPSON

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FILE

38

121100Z

From Falklands

Routine to FCO

Copy to BA

Tel No 66 of 12 February

YPF AGREEMENT

1. Your Tel No 8 of 18 Jan to BA. Blanco, Head of MFA Malvinas Department, telephoned me here on Friday to express his concern over delay in signature of YPF agreement and, also, I suspect, to test the veracity of excuses given for current hold-up.
2. We should be interested to hear the arguments FIC in London have put forward against the agreement. Local price of petrol was increased to 94p per gallon last week.

FCO Please pass

CONFIDENTIAL

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FILE: 42

181255Z

From FCO

To Priority BA Tel No 36 of 18 Feb

Info Priority Stanley.

From Carless

Stanley Tel No 66: YPF AGREEMENT

1. You will realise that with an Election pending it would be neither practicable nor proper for Ministers to authorise signature of a long-term agreement of this nature immediately before Polling Day. This means that signature will have to wait until after the Election. You and the Governor may so inform the Argentines if further enquiries are made.
2. For your own information Mitchell of FIC has expressed strong opposition to the Agreement and Merton of AIL has also expressed concern, as have several members of the old Parliament. Mitchell's objections are primarily on political rather than commercial grounds. He claims that the Agreement would increase the Islands' dependence on Argentina and ease the way to a renunciation of British Sovereignty; how else, he adds, can one explain YPF's readiness to invest over one million dollars in the Falklands? (Sic) are sending by bag copies of the record of Mitchell's meeting with Mr Amery on Thursday 7 Feb and of his subsequent letter to the Head of WIAD. We shall be seeing Mitchell before the Election and will submit to Ministers as soon as we can thereafter. But you should avoid giving the Argentines the impression that signature will necessarily follow quickly after the Election.
3. Assuming that after the Election Ministers approve (a) signature of the agreement and (b) the proposed visit by a Minister to BA to talk to Peron, would you think it a good idea for that Minister to take the opportunity to sign the Agreement.

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# ALGINATE INDUSTRIES

(4)

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DIRECTORS:  
W. R. MERTON, Chairman.  
R. R. MERTON,  
R. CAMPBELL-PRESTON } Managing  
O.B.E. M.C. Directors  
  
R. H. McDOWELL,  
D. L. BANKES,  
F. L. G. GRIFFITH-JONES,  
M. H. C. PERY,  
R. F. d'ERLANGER.

22, HENRIETTA STREET, LONDON, WC2E 8NB



TELEPHONE:  
01-836 0451/4.  
01-836 0142/3.  
01-836 0961/3.  
TELEGRAMS:  
"ALGINATES."  
LONDON, WC2.  
CABLES:  
"ALGINATES, LONDON, WC2."  
TELEX: 23815.

RRM/mba

14th February, 1974

Re: d1 15/2

The Rt. Hon. Julian Amery, M.P.,  
Foreign & Commonwealth Office,  
Downing St.,  
S.W.1.

Mr. Huijsman

It looks as though Mr. Mitchell  
may be mobilizing a campaign  
against the YPF Agt. I imagine  
Amery can give the assurance in the  
last para. Grateful for draft re/  
as ap

Dear Mr. Amery,

When you very kindly spared time to see me in connection with our plans for the Falkland Islands, I did not raise with you the question of the proposal to grant a monopoly for the supply of oil products to the Argentine State Company Y.P.F. because I did not know whether the proposal would cover supplies to the tank plant belonging to the M.O.D. which it is our intention to make use of.

M/Gov  
cc M/STA  
Sir D. Wm  
Mr. Huijsman

I had, moreover, already raised the matter with the Foreign & Commonwealth Department who had undertaken to find out and let me know. I did, however, mention our concern to Mr. Rawlinson immediately after our meeting and subsequently to Mr. Huijsman over the telephone.

LAD

It has therefore been well known that, whilst we are anxious in no way to obstruct any measures designed to improve the lot of the Falkland Islanders, and although we may wish to purchase from Y.P.F., we nevertheless regard it as essential that we should

be free/....



THE UNITED KINGDOM OF GREAT BRITAIN AND IRELAND

Registered in England (No. 266993) Registered Office 22, Henrietta Street, London W1/2E 8H4

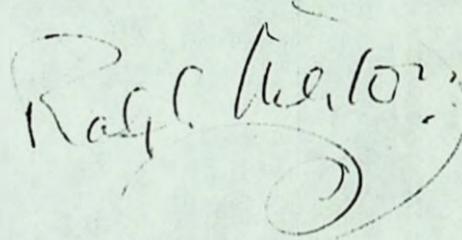
be free to purchase in the cheapest market. We must also be in a position to use oil from the M.O.D. tanks to the specification of which we understand Y.P.F. are unable to supply.

We understand that it has been put to you that Y.P.F. are not in fact interested in the supply of diesel, and that Alginate Industries are therefore unaffected by the proposed agreement.

This is however not the case if under the Agreement Y.P.F. have the right to supply, since this right would prevent Alginate Industries from entering into any contract with another supplier.

An assurance from you that for the duration of our licence to harvest Falkland Islands Seaweed we should be free to make our own arrangements unaffected by the proposed agreement and that we should be free to use oil from the M.O.D. tanks would be much appreciated.

Yours sincerely,



R.R. Merton

Ministry of Defence  
Anthony Kereshaw Esq MC

/ruiting

company ~~TF~~ a monopoly to supply these fuels, but at the prices aviations spilt in the Islands. It does great the Argentine should be to reduce substantially the cost of diesel, petrol and British sovereignty over the Islands and its practical effect agreement is unjustified. It contains provisions safeguarding I think that Merton's alarm over the proposed fuel supply this in my reply to Richard Luce's written question of 24 January that there will be no change in the status of the Islands Argentine gave him the firm assurance that the government's policy remains sovereignty on his proposed investment in the Islands. I then the Islands and the effect of a hypothetical change of this point, being more concerned about British sovereignty over when I saw him last November at your suggestion he did not raise arguments for the supply of oil fuels to the Falkland Islands. Ralph Merton's messages about the proposed agreement with the thank you for your letter of 7 February telling me of

14 February 1974

From The Minister of State

London S.W.1

Foreign and Commonwealth Office



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ruling in Argentina, which are well below those charged in the Islands today. Moreover, insofar as YPF cannot or does not meet the Islands' fuel requirements, the Islanders are free to satisfy them from other sources. It is already known that out of the Islands' present total annual diesel consumption for civilian purposes of about 2200 tons, YPF will only be supplying somewhat under one quarter. The balance will continue to be imported from other sources, so that Merton is in no way bound to take his diesel requirements from YPF. He is probably seized of this point as I understand that his firm has been in contact with YPF and is currently negotiating with the Ministry of Defence for the lease of one of the RN oil tanks at Port Stanley.

DESPATCH  
MINISTER OF STATE'S OFFICE

(Julian Amery)

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# The Falkland Islands Company, Limited

(INCORPORATED BY ROYAL CHARTER 1851)

REGISTERED 1902

Registration No. 74300 (England)  
Telephone: 01-283 6763/4/5  
Telex: Fleetwing, London E1

②.  
FGM/PN

Mr. Hall  
for early action

Registered Office  
94A WHITECHAPEL HIGH STREET  
LONDON, E1 7QY

Mr. Caorthie

Later info. with update

11th February, 1974.

RECEIVED IN  
REGISTRY NO.

15 FEB 1974

HWF 12/1

N.B.J. Huijsman, Esq.,  
West Indian & Atlantic Dept.,  
Foreign & Commonwealth Office,  
London, S.W.1.

Dear Sir,

Proposed YPF Agreement.

At the invitation of the Minister I have studied the details of the proposed agreement with YPF and have the following comments to make -

Summary of Advantages to the Falkland Islands.

No // (1) It is agreed that the absence of bulk storage facilities for petrol and avgas increases the delivered cost of these products at Stanley. We consider, however, that the problem of petrol storage can be overcome without capital investment by the bringing into use of the spare Ministry of Defence fuel barge presently in Stanley Harbour which has a supply capacity of 3 years. The barge would require cleaning and could be supplied from small tankers which are available through our Chilean agents. The potential aggregate annual demand for AVGAS is less than 100 tons and this could be brought within the permanent airfield grant of H.M. Government at the expense of scheduled items which are deemed unnecessary.

H.M. Government is committed to providing funds for a permanent airfield of a length which will provide independence from sanctions by Argentina. In these circumstances it does not make sense to allow Argentine control of fuel supplies. The Chief Secretary in the Falkland Islands has mentioned expenditure of 1m dollars by YPF on the provision of bulk storage facilities. With existing facilities for the Colony's most important fuel, diesel, amounting to over 4 year's supply, we are at a loss to understand the need for an investment of this amount. Will the bulk storage tanks be sited on land leased to YPF and if so, what would be the effect on tenure of a breach of the agreement by YPF?

..1

(2) There can be little doubt that the main price advantage under the proposed agreement stems from the privileged price level offered and not from the handling of fuel in bulk. The Islanders are being treated as Argentine citizens under the agreement.

Today's posted prices under the terms of this Company's contract with ESSO for diesel are -

	<u>\$/ Per ton.</u>
<del>XX/</del>	128.30
London	128.30
Las Palmas	127.05
Argentina	235.00

Subsidies of the nature proposed under the agreement are an example of the pressures which are being brought to bear on the Islanders despite Ministerial assurances. Subsidies of this nature distort normal trade patterns and lead to increasing economic dependence on Argentina.

(3) Underlying our original opposition to the agreement was the conviction that unofficial members of Council were not being informed of the full economic consequences of the proposals. For example, in October 1973 the Chief Secretary at the Legislative Council Meeting said, in moving the Bill - "To reject this legislation means in effect that we are rejecting a reduction of the price of petrol down to thirty something pence from the current eighty something pence or ninety something pence. This is the issue before us." However, using the figures given in the Foreign and Commonwealth Office letter of 26th November, 1973 (30) it can be shown that the increased cost of diesel would have cost the Colony twice as much as the saving in petrol. Since then the cost of diesel under the agreement has inexplicably fallen to 23p a gallon whilst in line with the world market existing sources have doubled in price.

His Excellency, the Governor, in his speech to LEGCO. in January, 1974 stated that the agreement made sound economic sense but we find it impossible to relate this to the costs set forth in the F.C.O's letter of November, 1973 which confirmed our knowledge of prices and the advice given to Costains by the British Embassy in Buenos Aires.

(4) The opinion in paragraph 3 is not shared by at least one major oil Company. Moreover, the long term energy plan 1974-1985 recently announced by the Argentine Government reveals that the use of fuel oil is to be cut back heavily and demand switched to coal and other forms of power.

.../

(5) Supplies of fuel are more readily available in Chile at points closer to the Falklands, it is thought, than any supplies from Argentina.

(6) We now understand that commercial imports of diesel oil will not be affected because the scheduled supply will be for Government only. In these circumstances, if the agreement is signed, will there be official exemption for commercial users for a period sufficient in time to justify proceeding with plans for bulk imports of diesel oil?

Summary of the Provisions of the Proposed YPF Agreement.

Paragraph 1. No reference is made to supply volume. The Company does not recognise the legality of a grant of a monopoly of fuel supplies to YPF.

Paragraph 2. In view of the subsidised prices it is difficult to envisage the appointment by YPF of a marketing agent but we consider that the F.I. Government should have the right of approval.

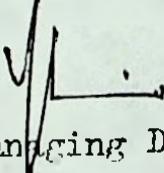
Paragraph 12. What is to be the rate of exchange for conversion of the peso price into sterling? Argentine presently operates a dual rate of exchange.

This Company strongly opposes this proposed agreement. This opposition is shared by other commercial interests in the Islands and, significantly, the Islanders themselves.

When you have had the opportunity of considering these representations I shall be pleased to meet you to discuss the matter further.

Yours faithfully,

For THE FALKLAND ISLANDS COMPANY LTD.

  
Managing Director.

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RECORD OF CONVERSATION BETWEEN THE MINISTER OF STATE FOR  
FOREIGN AND COMMONWEALTH AFFAIRS AND THE MANAGING DIRECTOR  
OF THE FALKLAND ISLANDS COMPANY AND OTHERS IN THE FOREIGN  
AND COMMONWEALTH OFFICE ON THURSDAY 7 FEBRUARY

Present:

The Rt Hon Julian Amery MP	Mr F G Mitchell
Mr N B J Huijsman	Mr A M Clark-Hutchison JP
Mr M I Goulding	Mr Christie

1. Mr Amery said that he was sorry that Mr Mitchell had not been consulted about the YPF Agreement. Our intention had been to consult the FIC through Mr Sloggie in Port Stanley but he had now discovered that it was true that the Deputy Governor had called Mr Sloggie, as a Member of the Executive Council, not to report EXCO proceedings to Mr Mitchell. Mr Amery understood, however, that Mr Sloggie had himself thought that there was much to be said for the agreement from the point of view of the Islanders, even though it might not altogether suit the commercial interests of the Falkland Islands Company. Mr Sloggie might therefore have been subject to divided loyalties and this was perhaps why the Deputy Governor had insisted upon observance of his oath of secrecy. On reflection Mr Amery agreed that Mr Mitchell should have been consulted. Mr Mitchell said that it had also been the Government's policy in the past to keep the Falkland Islands Company in the picture. There could have been no doubt of loyalty because what was good for the Colony was good for the Falkland Islands Company. In this case he thought that he had been misled about the savings which would accrue to the Islanders from the YPF Agreement.

(1) 2. Mr Amery said that the advice he had received was that he should authorise signature of the Agreement because it was in the interest of the Islanders. But before doing so he wanted Mr Mitchell to have an opportunity to study the provisions of the Agreement and to discuss it further with the Department. He did not give Mr Mitchell a veto over our signature of the Agreement. He undertook to take account of Mr Mitchell's views before deciding to authorise signature. (Mr Mitchell and his colleague were then handed copies of the memoranda headed "Summary of the Provisions of the Proposed YPF Agreement" and "Summary of the Advantages to the Falkland Islands").

13.

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3. Mr Mitchell said that the only thing that concerned the Falkland Islands Company was the pressure that was being brought to bear on the Islanders, contrary to the assurances Ministers had given. He had, for instance, read that at the LEGCO meeting in January a member had complained that he had been told that pressure would be brought to bear from Whitehall if the Council did not accept certain reports by experts and that this pressure would take the form of a refusal by Whitehall to recruit staff for the Islands. Mr Amery asked what reports Mr Mitchell was referring to. Mr Mitchell said there had been many experts' reports but he was speaking particularly of the Peat, Marwick and Mitchell report on communications. It was widely felt by the Islanders that they were no longer masters of their own destiny and that their affairs were dominated by the FCO. Mr Huijsman said that the only reports that might be relevant were those by Messrs Waller and Comben who had looked into the Colony's financial situation and its staffing structure, with specific reference to expatriate recruitment. Mr Comben's recommendations about revenue matters had been accepted by the Councils. Mr Waller besides looking into the structure of the Government service also examined the terms of service of Government personnel. The ODA was able to make certain supplementation payments but unless the local terms and conditions of service were in themselves attractive it would not be possible to attract expatriate recruits. Mr Amery asked whether any pressure had been brought to bear on the Islanders to accept this report. Mr Huijsman said that there had been no pressure; these were matters within the competence of the Falkland Islands Government. Mr Mitchell repeated that a statement to contrary effect had been made by a member of LEGCO in January. Mr Amery observed that unfounded criticisms of the Government were often made in Parliament. He would nevertheless look into what Mr Mitchell had said.

4. Mr Clark-Hutchison said that he understood that the Falkland Islands economy had been doing well. Mr Huijsman said that until 1972 the Colony's budget had been balanced by drawing on reserves. By 1972, however, these had been seriously run down and the Falkland Islands Government had decided that the level of the reserves had to be restored. In the event the sharp increase in the price of wool would soon produce a healthy surplus on current account and this would enable the Government to re-build its reserves..

5. Mr Mitchell said that the only real problem was the one of sovereignty. Mr Amery said that there was no question of sovereignty being transferred unless and until the inhabitants so wished and had given democratic expression to their wish. It was not the desire of HMG to persuade the Islanders to opt for a transfer of sovereignty; rather the contrary. It was true that the Islanders were an irritant in our relations with the Argentines.

/but

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4/ but the Islanders were British people; and real estate was always of value.

6. Mr Clark-Hutchison asked that Mr Amery should also reassure Alginate Industries Ltd about the YPF Agreement. Mr Huijsman explained the provisions of the Agreement relating to diesel fuel and, in response to a further question from Mr Clark-Hutchison, reassured him that the Royal Navy were happy with the proposed arrangements and would maintain their own stocks separate from those of the YPF. (Mr Mitchell and his companions were then given copies of the memorandum headed "Emergency Fuel Stocks").

7. Mr Mitchell said that AIL were more concerned about the fact of the YPF Agreement than about its contents. They regarded it as being politically motivated. They could not see (nor could he) why YPF should want to spend \$1 million in the Falklands unless they expected to be able to participate in off-shore oil developments. Mr Amery said that the Agreement was not politically motivated. Moreover HMG were well aware of the oil possibilities of the Falklands. In the present situation it was inconceivable that any British Government would agree to give up any opportunities that might be proved to exist for obtaining oil from the Falklands.

8. Mr Mitchell and his companions expressed appreciation for the assurances Mr Amery had given. Mr Clark-Hutchison said that he would communicate an account of the meeting to Mr William Clark MP, who had not been able to be present.

Foreign and Commonwealth Office  
11 February 1974

c.c. WIAD (to enter)  
Sir D Watson  
Mr Larmour  
Mr Hankey  
LAD

CONFIDENTIAL

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Foreign and Commonwealth Office  
London SW1

Telephone 01-

Your reference

HE Mr E G Lewis CMG OBE  
Governor and Commander-in-Chief  
Falkland Islands

Our reference HWF 12/1

Date 15 February 1974

*Dear Toby,*

## YPF AGREEMENT

1. I enclose copies of:-
  - (a) the record of a meeting Mr Amery had with Frank Mitchell and others on 7 February;
  - (b) a letter we have just received from Mitchell and which he will be calling to discuss next week;
  - (c) a letter from Mr Amery to Mr Kershaw about Merton's worries in connexion with the Agreement;
  - (d) a letter Mr Amery has just received from Ralph Merton which must have crossed (c) and to which I will have to reply fairly quickly.
2. You will see that at the meeting Mitchell was less concerned with the minutiae of the proposed Agreement than with "pressure" on the Islanders (line 1 of paragraph 3) and sovereignty (lines 1 and 2 of paragraph 5). The only other reference I can find to his allegation (paragraph 3) about pressure from Whitehall is Monk's statement to Legco as reported in the January issue of the Falkland Island Times. We cannot feel that there is anything behind this, but should you have any ideas we should like to have them in due course.
3. Our initial comments on Mitchell's letter are:-
  - (a) It is not only the bulk storage facilities which will keep YPF costs down, but also the commitment to supply fuels at ruling Argentine prices;
  - (b) The airfield costs are being pared to the bone in order to get them approved. We do not want to introduce a new element now; as well as cost implications the inclusion of a storage tank at this late stage could lead to further delay which we are most anxious to avoid.
  - (c) Land for the tanks will be leased to YPF and a breach of the Agreement by YPF could lead to it becoming null and void. YPF might then withdraw and their lease would fall in.
  - (d) Under the Agreement, Falkland Islanders will get the benefits of cheap Argentine subsidised fuel but this does not mean they are being treated as "Argentine citizens". Their sovereignty status

/is



is protected.

- (e) Subsidies of the nature implied in the Agreement are not an example of pressure being put on the Islanders. Council has urged that the Agreement should be implemented without delay.
- (f) The figures quoted for diesel oil in my letter to Mitchell of 26 November (copied to you) are now out of date because FIC raised their own prices shortly afterwards!
- (g) We are still of the opinion that Argentine fuel prices are likely to be less vulnerable to world trends than those of most other countries.
- (h) We do not know what Mitchell means by his paragraph 6.

4. If you have any comments on the foregoing as well as on Mitchell's points concerning specific paragraphs of the Agreement, we would be grateful to have them by telegram as soon as possible.

5. Under the Agreement as it now stands it will be difficult to give Merton the assurance he is seeking in the last paragraph of his letter to Mr Amery. We know that YPF plan to supply about 500 tons a year - only just sufficient for civilian users - and their proposed tankage capacity supports this, but if they decide to bring in larger quantities there seems nothing to stop them. In fact any assurance to Merton would have to rest on the presumption that YPF will not wish to increase their imports of diesel. We can see that YPF's right to supply (as mentioned in Merton's penultimate paragraph) does put AIL in a quandary and we would be grateful for your telegraphic comments.

6. I will write more fully later on the scenario as we see it, but am now hurrying to catch tomorrow's bag.

7. I am copying this letter, together with enclosures, to Shakespeare at Buenos Aires.

*Yours ever*  
*Dan.*

D G F Hall  
WIAD

c.c. J W R Shakespeare Esq MVO  
British Embassy  
Buenos Aires

# ALGINATE INDUSTRIES

L I M I T E D

22, HENRIETTA STREET, LONDON, WC2E 8NB

DIREC...  
W. R. MERTON, Chairman.  
R. R. MERTON.  
R. CAMPBELL-PRESTON } Managing  
O. E. M. C. } Directors  
R. H. McDOWELL,  
D. L. BANKES,  
F. L. G. GRIFFITH-JONES,  
M. H. C. PERY,  
R. P. DERLANGER.

RRM/mba



6/3  
R. D. Watson - AII are now flushed out! The  
R. Hall - YPF agreement will not affect  
them during the original lot  
to the end of 1976. 4th March, 1974  
W/AD  
Mta 6/3

TELEPHONE:  
01-836 0451/4.  
01-836 0142/3.  
01-836 0961/3.  
TELEGRAMS:  
"ALGINATES,  
LONDON, WC2".  
CABLES:  
"ALGINATES, LONDON, WC2".  
TELEX: 23815.

Dear Minister,

or Sir D. Watson  
Mr. Hankey  
LAD

W/3b  
Thank you very much indeed for your letter of the 25th February about the proposed YPF Agreement, and I am much reassured to note that you have instructed your officials to consider what action should be taken regarding the question of supplies of diesel oil.

With regard to the target date for the beginning of our investment and the estimated annual fuel requirements for the first quinquennium of our Falkland Islands enterprise, these are indeed perfectly fair questions for you to ask but they are more difficult than you might suppose to answer.

In the first place, no doubt in common with many others, we have the feeling that the world is falling about our ears! What with the international oil crisis, the three day week, the fact that even before either of these the U.K. chemical industry had been unable to keep pace with the basic requirements of industry, you will not be surprised to hear that on account of these factors alone we have been forced to freeze our plans for the Falkland Islands as the programme would have entailed a large capital outlay this year to establish a pre-production plant on the M.O.D. site. This pre-production plant was designed to lead on to full scale production of calcium alginate late in 1977.

continued..



THE DIRECTOR'S ANNUAL REPORT

Registered in England (No. 205893) Registered Office 22 Henrietta Street, London WC2E 8NB

The recently completed feasibility study carried out by Messrs. Humphries & Glasgow, however, not only disclosed a considerably higher capital cost than we ourselves had estimated, (£7½ m. excluding working capital) but also revealed the tremendous social consequences to Stanley in the form of housing, services etc. which would follow the full implementation of our plans.

Bearing in mind the changed economic circumstances we feel that the risk and responsibility involved would be out of proportion to the size of our Company and we are therefore reinvestigating the original plan which was to harvest, wash, dry and mill the seaweed, as indeed we do elsewhere, and ship it to Scotland for extraction at our existing factories. This would drastically reduce the capital costs, and the magnitude of the consequent social upheaval. Nor would it preclude the possibility of progressing later to the stage of calcium alginate manufacture locally, when perhaps the political future of the Falkland Islands has been settled.

A rough calculation reveals that in fact the fuel consumption would be similar for either case, and would start at around 6,500 tons p.a. and increase by this amount roughly every two years for at least ten years.

In any case I must emphasise that, particularly in the case of producing dried milled seaweed rather than calcium alginate, fuel oil represents by far the most significant item in the cost of production. Hence any decision to establish a factory would almost certainly depend upon the Company being free to purchase fuel oil from the cheapest source.

I am sorry that in the circumstances of today with so many uncertainties, I am unable to be more precise regarding the likely timetable for our project but I am sure you will understand.

The Rt.Hon.Julian Amery, M.P.,  
Minister of State,  
Foreign & Commonwealth Office,  
London S.W.1.

*Yours Sincerely*  
*Ralph H. Weller*



The assurance you seek about the use of MOD tanks is one which only the Ministry of Defence can give. I understand that you are in touch with them.

(Julian Amery)

~~CONFIDENTIAL~~

W 38



From The Minister of State

D.L.S  
Falklands  
F.S.

Ministry of Foreign and Commonwealth Office  
26, 37, 44

London S.W. 1

25 February 1974

Thank you for your letter of 14 February about the proposed YPF Agreement.

Our present information is that YPF propose to supply initially only 500 tons of diesel oil per annum. This is well below the present quantity required per annum for civil and government purposes and in accordance with the terms of the proposed Agreement consumers of diesel oil would be free to buy their requirements in excess of 500 tons from other suppliers.

I accept, however, <sup>that</sup> the fact that YPF would have the right to supply all the Islands' diesel requirements for the duration of the Agreement once it was signed brings an element of uncertainty into your own planning. I have instructed my officials to consider what action we could take to clarify YPF's intention. In the meantime it would help if you could let me know in confidence what the target date for beginning your major investment is and what your estimated annual fuel requirements will be for, say, the first quinquennium of your Falkland Islands enterprise.

Yours  
The

R R Merton Esq  
Alginate Industries Limited  
22 Henrietta Street  
London WC2

CONFIDENTIAL

55

From FCO

071200Z

To Immediate Port Stanley

Tel No 74 of 7 March and to Immediate BA.

YPF AGREEMENT

1. Your Tels Nos 82 and 86.
2. Price of latest diesel delivery (MOD) is £70 a ton. When averaged with prices of your current stores, this puts MOD diesel above presumed YPF price and will doubtless be a deciding factor. Unless you advise to the contrary, we will assume that local opinion remains in favour of retention of diesel in agreement.
3. Wave Chief could not carry more than 2,600 tons on last trip as some of her tankage was contaminated. MOD propose sending next RFA in November. She may be able to carry petrol and AVGAS as well as diesel.
4. MOD confirm they are unable to give an assurance that fuel barge C505 is safe for petrol storage. We will so inform Mitchell.
5. MOD confirm that AIL are likely to be given a lease of one of the tanks (if they still want it) on condition they segregate it (separate pipe line, etc) from the second tank and build a small tank for MOD to provide continuity of supply in the event of second tank having to be repaired or cleaned.
6. AIL will not, therefore, be precluded from storing YPF diesel in their leased tank but YPF's right to supply (sic) The proposed agreement does constrain them from looking for long-term contracts elsewhere should they so wish. Subject BA views, we feel YPF should be asked to state their diesel supply intentions in writing. Paragraph 3 of your Tel No 82 refers.
7. Grateful to know if Argentine fuel prices are in fact subsidised.

CONFIDENTIAL

H.U/9 Mar

56

CONFIDENTIAL 081500Z

To Priority Port Stanley

Telegram No. 76 of 8th March 1974

and to Buenos Aires.

1. YPF Agreement. Buenos Aires telegram No. 68 (Saving to you) refers.

2. Whilst content to rest on your advice that local opinion remains in favour of the Agreement as it stands, we feel Buenos Aires suggestion is helpful and may offer a way out. Subject your views we think Lopez should be approached informally.

RESTRICTED

~~Mr Hauseman~~~~In Hall~~

~~X of para 5 seems to me to a curious forecast, like Mr Martin's statement to the Minister that investment in his F.I. venture would eventually drop to 25 million, and have an inflation danger when the F.I. work camps in cash terms. No doubt you will let the Foreign Office know up to.~~

CALL BY MR R R MERTON

1. Mr R R Merton, joint Managing Director of Alginates Industries Ltd, called on Mr Amery this afternoon. He outlined the functions of his Company and especially the project which he has been working on for establishing a factory to manufacture calcium alginate there. He wished to ask Mr Amery whether it would be possible for Mr Amery to give him an assurance that his Company would not "go to Argentina" if the sovereignty of the Falkland Islands were ever handed over.

2. Mr Amery said that he could not give an assurance for a hypothetical event. It was up to the Falkland Islanders as to whether they wished any change in their sovereignty. If we gave a guarantee to Mr Merton it would presuppose that some change in sovereignty was intended.

3. Mr Merton said that he was trying to raise money for his factory and that his backers and others wanted assurances that the Falkland Islands would not be handed over to Argentina. Mr Amery said that he thought it inconceivable that Parliament would agree to any transfer of sovereignty without the agreement of the Islanders. Anyway, he said, he thought that if there were such a transfer of sovereignty - which he thought personally unlikely - the Islanders would want guarantees covering their own interests, one of which

/would

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would be Mr Merton's factory.

4. There was some discussion of the likelihood of the Falkland Islands being integrated into Argentina. Mr Amery and yourself put the matter into perspective. Mr Amery would not give Mr Merton any guarantees about the future of the Falkland Islands and said that he could not do so. At the end of the discussion Mr Amery said that he would be grateful if Mr Merton would not make any public statement which would inflame General Peron or the Argentine Government.

5. As he was leaving the building Mr Merton said that he had been very upset to discover that the Executive Council in the Falklands had been on the point of agreeing to give YPF, the Argentinian petroleum company, sole concessions in the Falklands. He thought that it would have been polite and sensible if he had been consulted at an early stage about this. After all, he said, the fuel requirements of his factory would be many times more than the total for all the fuel for Port Stanley. He said he had not wished to raise this disagreeable matter of a failure of communication on the part of the Foreign Office with Mr Amery but was glad to be able to do so with me.

*I J Rawlinson*

I J Rawlinson

20 November 1973

RESTRICTED



1.11.12 2005 / **Foreign and Commonwealth Office**  
**London SW1**

Telephone 01-

Miss M S Wilkin  
 Ministry of Defence (DS5)  
 Main Building  
 LONDON SW1

Your reference

Our reference

Date 28 January 1974

**FALKLAND ISLANDS: LEASE OF OIL FUEL DEPOT TO ALGINATE INDUSTRIES LTD (AIL)**

1. Thank you for sending me a copy of your letter of 14 January to Denis Doble.
2. I am grateful for the information about progress of negotiations with AIL and would be glad to know from time to time how the matter is proceeding.
3. You ask our advice on the length of the lease of part of the Stanley camber site to the company. HMG's policy is that there shall be no change in the present sovereignty over the Islands against the wishes of the Islanders. Present indications are that the Islanders will not be ready to consider any such change for at least 'a decade or two', although there is a reasonable chance (to put it no higher) that they might be attracted by the current idea that an Anglo-Argentine condominium, containing adequate safeguards for themselves, could settle present differences. This proposal is, however, only at a very formative stage here, and has not yet been put to the Islanders or the Argentines. Any forecasts about the future of the Islands must therefore be purely hypothetical.
4. In practical terms it is sensible to accept that anything may happen during the next 50 years, and it might be unwise for the Ministry of Defence to commit themselves to a lease of this length if premature termination would involve payment of substantial compensation to the company. It seems reasonable that AIL should accept a lease of, say, 20 years with a review clause being provided, covering the possibility of extension of the lease after the

/20



20 year period. This is the sort of lease we aim at for Crown land in the dependent territories where commercial enterprises are involved. No political reasons should, of course, be given to AIL if you decide to follow such a proposal, and we suggest that you merely point out that a 50-year lease is contrary to current practice.

5. As requested, I enclose a copy of the record of the meeting between Mr Amery and Mr Merton of AIL on 20 November 1973.

D G F Hall  
West Indian and Atlantic Department

Copies to:

Governor  
Falkland Islands

Mr Carless

Mr Doble



*K.Y. 11 Nov*  
**Foreign and Commonwealth Office**  
 London SW1

Telephone 01-

C B Allen Esq  
 DST(FM)  
 Ministry of Defence  
 Empress State Building  
 London SW6 1TR

Your reference

Our reference HWF 12/1

Date 1 March 1974

1. I refer to the minutes of a meeting held in your room 1001 on 9 November at which Mitchell of the Falkland Islands Company (FIC) and Pery of Alginate Industries (AIL) Ltd were present.
2. We have been assessing recently the possible effects of the proposed YPF Agreement (which I think you know about) on the activities of both FIC and AIL. Mitchell queried the necessity for YPF building expensive storage facilities. He implied that he was now discussing with MOD the possibility of using fuel barge C505 for bulk petrol storage. We reported this to the Governor who has telegraphed to say that a MOD inspection team, during a recent visit reported that the barge was dangerous and unusable. We should be grateful to have confirmation of the position. Is there any intention of leasing the barge to FIC?
3. I should also be grateful to know progress on the possible leasing to AIL of one of the RN diesel tanks at Stanley. AIL have told me that the proposal is going ahead, but the Governor reports that the lease is not being pursued, and that AIL are going to build their own tank.
4. The Governor has reported that only 2,600 tons of diesel were delivered by the RFA which arrived at Stanley in February, and the RN tanks are three-quarters empty. This is rather disquieting news and I would much appreciate discussing the matter with you if you would care to telephone (930-8440, extn 405).
5. Finally, the Governor has asked if it is possible to advise him urgently of the price at which this fresh consignment of diesel can be made available to the Falkland Islands Government.

D G F Hall  
 West Indian & Atlantic Dept

c.c. Governor,  
 Falkland Islands

BAFO 002/07

58

R FCO

GPS 130

CYPHER CAT A

FM BUENOS AIRES 071700Z

CYPHER

CONFIDENTIAL

TO ROUTINE FCO TELNO 68 OF 7 MARCH INFO SAVING PORT STANLEY.

YOUR TELNO 44: YPF AGREEMENT.

1. WE BELIEVE THAT YPF AND MFA WOULD AGREE TO THE DELETION OF DIESEL OIL FROM THE AGREEMENT, ALTHOUGH WE CANNOT BE CERTAIN WITHOUT CONSULTING THEM. SINCE IT WOULD BE DIFFICULT TO ARGUE THAT THIS WAS IN THE BEST INTERESTS OF THE ISLANDERS, GIVEN THAT YPF DIESEL OIL WILL ALMOST CERTAINLY BE CHEAPER THAN ALTERNATIVE COMMERCIAL SUPPLIERS, WE COULD SUGGEST TO YPF THAT THE EXCLUSION WOULD BE THE BEST SOLUTION IN LIGHT OF THE VERY UNPREDICTABLE MARKET FOR DIESEL OIL IN THE FALKLANDS OVER THE NEXT FEW YEARS, BECAUSE OF THE PERMANENT AIRFIELD, NEEDS OF AIL ETC.
2. IF YOU AGREE, WE WOULD SUGGEST APPROACHING LOPEZ OF YPF INFORMALLY FOR HIS VIEWS.
3. PETROL, BUT NOT DIESEL OIL, IS EXPECTED TO RISE IN PRICE NEXT MONTH, FROM 1.90 A LITRE TO ABOUT 2.50-3.00 PESOS A LITRE.

HOPSON

NNNN

SENT AT 07/1752Z JL  
RECD AT 07/1752Z XBRH

CONFIDENTIAL

131200Z

From FCG

To immediate BA

Tel No 55 of 13 March and to Port Stanley

## YPF AGREEMENT

Your Saving No 1 of 8 March and Governor's Tel No 98.

1. We agree with the Governor that the best solution would be deletion of diesel from Agreement for the reasons given in Para 1 of your Tel No 68. The future market is indeed "unpredictable". Merton's latest estimate of consumption is 6,500 tons initially, rising to 39,000 tons after ten years, but he has given no indication of starting date.

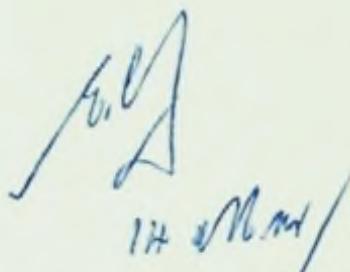
Our guess is that this will not be for about two years.

2. Failing exclusion of diesel, we would be prepared to consider instead written confirmation from YPF of their maximum supply intentions. Para 5 of our Tel No 74 refers.

3. Grateful you approach YPF and MFA and advise outcome soonest.

4. For your information AIL's lease of MOD tank is still under consideration.

CONFIDENTIAL

A handwritten signature in blue ink, appearing to read "H. M. M." followed by a vertical line.

CONFIDENTIAL

141400Z

From BA

To Immediate FCO

Tel No 74 of 14 March and to Immediate Stanley  
Your Tel No 55

## YPF AGREEMENT

1. We have discussed the diesel problem with YPF who have explained that their intention has been to supply only private users with diesel for vehicles and camp generators. Their supply intentions have never included Stanley power station, Government, BAS, Alginates etc. The figure of 500 cubic metres a year for private consumption rising to 600 cubic metres a year was drawn from the 1970 Peat, Marwick and Mitchell (1970 Peat, Marwick and Mitchell Report.)
2. YPF are quite ready to put this in writing.
3. Under the circumstances do you still wish to have diesel totally excluded from the Agreement, or shall we approach MFA to request confirmation of YPF's supply intentions in writing?

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CONFIDENTIAL

FILE: FUE/13/3 S Vol 2

68

221500Z

To Immediate BA  
Tel No 65 of 22 March and to Port Stanley

YPF AGREEMENT

Your Tel No 74 and Governor's Tel No 34.

1. We agree that diesel should remain in the Agreement but that YPF's monopoly in respect of their fuel should not extend to supplies to commercial undertakings, public utilities and HM (F&G) Governments. We now see possible difficulties in accepting a letter of intent from YPF which would gloss over the text of an International Agreement and we would therefore prefer to amend the text itself.

2. To allow to supply, for example, AIL with diesel on a commercial basis outside the scope of the Agreement might give rise to sovereignty problems and ✓ we need to amend the text so as to permit YPF to supply diesel but not to the exclusion of other possible suppliers.

3. Please therefore ask the Argentines if they can agree in principle to amending the Agreement so as to give YPF the monopoly of supply of diesel to private users but only the right (as distinct from a monopoly) to supply diesel to non-private users. We would then suggest a suitable form of words.

CONFIDENTIAL

RECEIVED IN  
REGISTRY No. 41  
25 FEB 1974  
HWF 12/1

RECEIVED FEB 1974  
in main file. D.G.  
25/2

Telephone: 01-247 3783 (3)

THE FALKLAND ISLANDS COMMITTEE

Sir John D. Barlow, Bt., (Chairman)  
Sir Miles Clifford, KBE., CMG., ED., Hon. FRCS (Vice Chairman)  
A.G. Barton, CBE., N.G.H. Bell, C.R. Buxton, Ray Carter, MP., Michael Clark Hutchison, M.P.,  
W.J. Grierson, MBE., Captain R.R.S. Pennefather, RN., Colin Price, QC., Sir Peter Scott, CBE., DSC.

Joint Hon. Secretaries

E.W. Hunter Christie,  
F.G. Mitchell

WAD  
for advice & a reply psc.

ROOM 402

THE LONDON WOOL EXCHANGE,  
BRUSHFIELD STREET,  
LONDON E1 6EW

Dear Minister

cc Minister of State

Sir D. Watson

Mr. Hawkey

LAD

MA  
22/2  
aa  
HWF 12/1 (1973)

22 February 1974  
Rec'd 22/2

2AA

Supply of Petroleum Products to the Islands

You were good enough to see me with other members of this Committee on the 19th December 1973 and again on 7th February 1974.

At a meeting of the Committee held on 13th February the Committee was informed of the provisions of the proposed agreement between Her Majesty's Government and the Argentine Government for the exclusive supply of petroleum products by YPF. The Committee considered the advantages to the Falkland Islands. The members had before them full details of the existing public and private storage capacity for and annual requirements of different grades of fuel and also a memorandum prepared by the Falkland Islands Company.

I am desired by the Committee to inform you that the members present at the Meeting were unanimously of the opinion that for Her Majesty's Government to enter into an agreement in the proposed terms would be contrary to the best interests of the Islanders.

The Committee's objections are primarily political. The Committee is not concerned to oppose the development of close and friendly relations between the Falkland Islands and Argentina; nor is it directly concerned with commercial matters. It is very much concerned that no pressure of any kind direct or indirect should be brought to bear upon the inhabitants, the cumulative effect of which would tend to force them to abandon their links with this country against their will.

2/...

The proposed Agreement offers possible short term financial advantages. These advantages cannot be assured because of the wide fluctuations in world petroleum prices and in rates of exchange. The grant of a commercial monopoly in a vital commodity ought only to be considered in the most exceptional circumstances and where there is no practical alternative. Such alternatives appear to exist.

### Petrol

The Committee see no reason to grant a monopoly to YPF and support the proposals for the conversion and use of the naval supply barge for bulk storage which it is understood the Falkland Islands Company is making. The annual requirement of petrol - 170 tons - is minimal compared with diesel.

### Avgas

X || YPF it is understood have already installed ample bulk tankage for Aviation fuel to which the requirements of the external air services (100 tons) are delivered by small tanker. It is not understood why they should now be granted a monopoly. The storage facilities already exist. The only reason for adding to them would be to maintain a reserve independent of Argentine Government control or in connection with the proposed airfield.

### Diesel

At the meeting on 7th February the members of the Committee left under the welcome impression that diesel fuel was to be excluded from the agreement. This was, it is accepted, due to a misunderstanding and it is clear from the summary of the agreement that YPF are, as in the case of other fuel, to have a monopoly of the supply of diesel fuel as long as they wish to supply it. Bulk storage for more than 3 years supply of Diesel for all purposes already exists. The Committee saw no compelling reason to disturb existing and contemplated arrangements for the supply of commercial diesel (present requirements 700 tons) by the Falkland Islands Company which in cooperation with the Ministry of Defence appear to be working well.

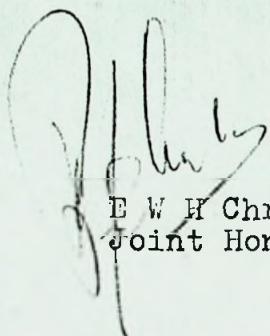
It was felt that, in spite of the provisions for determination of the agreement on 6 months notice, it would not in practice be possible to determine it once entered into without creating an undesirable diplomatic incident. The substantial result of entering into the agreement with the Argentine Government would be likely to be to grant to that Government a permanent monopoly of the supply of all forms of petroleum fuel. The Committee can see no justification or indeed reason for the grant of a monopoly of the supply and marketing of petroleum products consumed in the Islands. The Committee would not have the same objection to the agreement if the

if the provisions for a monopoly were to be excluded.

The Committee desire me to say that it is very much hoped that Her Majesty's Government will take these and other representations into account and will reconsider the provisions of the proposed agreement, particularly as they effect present and future supplies of diesel fuel.

May I thank you on behalf of the Committee for the reception which you gave to its members at our two meetings.

Yours sincerely



E. W. H. Christie  
Joint Honorary Secretary

TELEPHONE NO.  
01-405 6441.

In Hall  
1. We shall need to rely  
on our carrier, &  
also perhaps a carrier &  
the letter to the Minister  
(copy enclosed)  
2. Well we see telephone  
& running YPF  
& diesel motor & so  
there will be some  
continuity in service  
and some right to turn  
letter to the Minister

13, Old Square,  
Lincoln's Inn,  
WC2A 3UA

(40)

Dear Mr

Huijsman

Petroleum Products Agreement with YPF

22 February 1971

I hope that it may be of some use to you if I say frankly what I think about this Agreement.

I advise several major international oil companies, I have permanent retainers from three of them and from two retail trade associations and I am very familiar with oil company agreements for the supply of petroleum products. I know YPF professionally. What I am going to say in this letter is only in substance to repeat what I have said many times when advising oil companies, retail trade associations, wholesalers and individual garage proprietors.

Oil companies always try to get a monopoly position if they can. A monopoly cannot be justified as necessary for the oil company (except to keep out more efficient competition) and it is in the ordinary way wholly contrary to the commercial interests of the purchaser and the eventual consumer. The excuse is always the same - that a monopoly is required to enable the oil company to recover the expense of the storage tanks and installation and to ensure continuity of demand so as to enable the oil company to make the best economic use of its production and distribution arrangements.

This is all nonsense. All any oil company needs in order to recover its investment in plant and maintain continuity of supply is a regular demand. A monopoly gives an oil company, as supplier, nothing that a contract for the supply of petroleum products in bulk with a guaranteed minimum annual gallonage does not give it, except freedom from competition.

The present agreement is almost in common form, invented in the United States and known in the trade as a Solus Supply Agreement. It commits the purchaser to take all his requirements of petroleum fuel exclusively from the oil company during the currency of the agreement. It leaves to the purchaser, in the event of a shortage of supplies what Lord Pearce described in *Esso Petroleum Co Ltd v Harpers Garage (Stourport) Ltd* 1968 AC 269 at p 329 as "the cheerless right in such a situation to seek supplies elsewhere".

Agreements of this type are in my experience commercially disadvantageous to the purchaser without any commensurate advantage. Any substantial purchaser who is properly advised and who is in a position to bargain will insist instead on a normal commercial contract for the supply of a fixed or minimum annual gallenage.

It would be naive to suppose that YPF is concerned only with commercial considerations. YPF is not just a nationalised industry; it is for practical purposes a Government Department and it is being used as an instrument of policy. YPF wants a foothold in the Falkland Islands. If it were really going to invest a million dollars in fixed storage and distribution equipment for commercial reasons, YPF would on these tonnages want 5 to 10 years throughput or guaranteed repayment pro rata on earlier termination. I see enough of these agreements from all over the world.

I do not consider that it is necessary for the British Government (or the Falkland Islands Government) to accept at its face value or expect anyone else to accept the argument that YPF must have a monopoly. If it had to have a monopoly for commercial reasons YPF would not be prepared to enter into an agreement determinable at the end of two years.

If the Government likes to agree with YPF for YPF to supply the whole of the Falkland Island Governments estimated requirements of petroleum products or specified minimum quantities on ordinary commercial terms this could well be economic sense. Such agreements are commonly entered into between oil companies and large consumers or wholesalers who know what they are doing. It leaves both YPF and the Falkland Islands Government free to sell to commercial users and it leaves the consumers in the Islands free to buy elsewhere if they choose. It would give YIF the guaranteed market in the islands they are alleged to need in order to make their proposed investment worthwhile.

In my opinion it is wholly unnecessary to grant YPF a monopoly on any commercial grounds. They can get their investment back far more securely on a normal bulk purchase arrangement.

*W.H. Christie*  
W.H. Christie

RECORD OF MEETING BETWEEN WEST INDIAN AND ATLANTIC DEPARTMENT,  
THE MANAGING DIRECTOR OF THE FALKLAND ISLANDS COMPANY AND THE  
JOINT SECRETARY OF THE FALKLAND ISLANDS COMMITTEE AT THE FOREIGN  
AND COMMONWEALTH OFFICE ON FRIDAY 22 FEBRUARY

Present:

Mr N B J Huijsman

Mr F G Mitchell (Falkland Islands  
Company)

Mr N D Matthews

Mr E W H Christie (Falkland Islands  
Committee)

Mr D G F Hall

Mr B J Baxter

1. Mr Huijsman welcomed Mr Mitchell and Mr Christie and explained that this meeting was being held in accordance with Mr Amery's undertaking to provide Mr Mitchell with an opportunity to discuss the terms of the YPF Agreement with the Department. Mr Mitchell had studied a summary of the provisions of the Agreement and its advantages to the Falkland Islands and had commented on these by letter on 11 February. Mr Huijsman now welcomed the opportunity for a broader discussion of the points raised.

2. Mr Huijsman said that no-one in the FCO, or on the Falkland Islands, was in any doubt that Argentine promotion of the Agreement was part of their attempt to woo the Falkland Islanders. This being so, the Agreement could not be accepted as a normal commercial agreement although it undoubtedly would produce commercial benefits.

3. Commenting on points raised in Mr Mitchell's letter, Mr Huijsman said that the rate of exchange used under the Agreement for conversion of the peso price into sterling would

/be the

be the commercial rate, this rate might of course over a period fluctuate marginally in the Argentines' favour. Prices were not immutable, but the termination clause in the Agreement would tend to keep the Argentines in line in this respect. As far as HMG were concerned, the most vulnerable part of the Agreement was that relating to the frequency of YPF's supplies to the storage plant on the Islands. The Governor had been instructed to build up emergency reserves against the possibility of an interruption in supplies of petroleum products. The Governor and the Ambassador at Buenos Aires were looking into the possibility of requiring YPF to state the maximum amount of diesel they intended to supply per year within the terms of the agreement.

4. Mr Huijsman said that the question of obtaining supplies of fuel from Chile had not been investigated since it seemed doubtful that a similar price advantage could be negotiated with the Chileans.

5. Mr Mitchell said that his main objection to the Agreement was that it had been drawn up by the Falkland Islands Government on the basis of incorrect prices for diesel. Mr Huijsman explained that, while the advice given by the Embassy in Buenos Aires on 26 November 1973 had quoted an erroneously high figure for the Argentine selling price of diesel, this had been corrected shortly afterwards. On 3 and 4 January 1974, when Exco and Legco finally approved signature of the Agreement, members of both Councils were fully seized of price and other implications.

6. Mr Christie said that it was wholly unnecessary on commercial grounds to grant YPF a monopoly for the supply of diesel.

/Agreements

- 3 -

Agreements of this type gave no commercial advantage to the purchaser. The proposed YPF Agreement was patently political in concept. A bulk purchase arrangement for the supply of a fixed annual gallonage would make better economic sense, since both parties to the agreement would be free to sell to commercial users while consumers in the Falkland Islands would be free to purchase elsewhere if they so chose. Such an arrangement would give YPF the guaranteed market they were alleged to need in order to make their proposed investment worthwhile. By commercial negotiation, a similar price advantage to that quoted in the proposed YPF Agreement could be obtained. There were not such strong commercial or political constraints on a monopoly on petrol and avgas.

7. Mr Huijsman said that in order to pursue this, a firm forecast from YPF of the amount of diesel they would undertake to supply would be required, together with a guarantee from the Falkland Islands Government that this same amount would be sold. These points would be considered.

8. Mr Mitchell said that the Falkland Islands Company did not understand the necessity for YPF to invest \$1 million in the provision of tank farm installation when adequate storage facilities existed for diesel and satisfactory storage for petrol could be achieved by bringing into use the spare Admiralty fuel barge in Stanley Harbour. Mr Hall said that the Governor would already have considered using the barge if it had been a practical proposition, because, long before the Agreement with YPF had been mooted, the Falkland Islands Government were seeking bulk storage facilities and had rejected the idea of tanks of their own on grounds of expense.

/9.

- 4 -

9. Mr Mitchell said that he had difficulty in establishing a dialogue with officials in the Falkland Islands Government on communication matters but had no such complaints about the FCO. He said that any report from the Governor that public opinion on the Islands was in favour of the YPF Agreement was wrong, since there was in fact public resentment about it. Mr Christie said that such resentment would not exist if the provisions for a monopoly in diesel were excluded from the Agreement. Why?

10. Mr Christie asked whether the FCO would be interested in the Falkland Islands Committee's views on the long term future of the Islands. Mr Huijsman said that such views would be welcome and mentioned the increasing difficulty of meeting the Islanders' just wish to retain British sovereignty in the light of the limited international support for HMG's case. He said that the discussion of the Falkland Islands problem at the United Nations was complicated by the fact that certain Commonwealth members had started to draw a distinction between the Argentine claim to the Falklands and the other colonial territorial disputes before the United Nations. Suggestions by the Committee on how they could help in this matter would be welcomed. Mr Christie undertook to bear this in mind in the Committee's deliberations.

11. Mr Christie said, and was supported in principle by Mr Mitchell, that the exclusion of diesel from its provisions would make the Agreement broadly acceptable to his Committee. To a lesser extent, a firm undertaking by YPF that they would not import diesel in excess of an agreed maximum per annum, might satisfy the Committee.



6. I enclosed with my last letter a copy of one written by Ralph Merton to Mr Amery. I now attach copies of Mr Amery's reply and Merton's answer. Merton certainly confirms the information given in your telegram 82. It reinforces our suspicions that there will be even further delay over AIL getting off the ground. Their intention of "re-investigating the original plan" is bound to take some time and it does not look as if their diesel requirements will be of any magnitude for several years.

7. However, Merton does say ". . . any decision to establish a factory would almost certainly depend upon the company being free to purchase fuel oil from the cheapest source." The Agreement, as it stands, does not give him complete freedom in this respect, but, failing the exclusion of diesel, an assurance about YPF's supply intentions would enable him to look around for alternative and cheaper sources - if he can find them! At any rate, it is debatable whether Merton will have any large diesel requirement until the Agreement becomes terminable at the end of 1976 and we can assure him that his needs will be taken into consideration at the time. This should suit him, as by then it may be easier to forecast trends in fuel prices, and it could be that the long term price advantage of Argentine diesel will be more apparent.

8. We will not reply to the various letters until the question of diesel is resolved, but we have sufficient material to answer all the peripheral and somewhat irrelevant points raised by Mitchell and Christie; if you have any comments perhaps you could telegraph them.

9. I am copying this letter together with enclosures to Shakespeare.

*Yours ever  
DGH*

D G F Hall  
West Indian and Atlantic Department

Copied to:

J W R Shakespeare Esq MVO  
British Embassy  
BUENOS AIRES (with encs)

Mr Burrows } without encs  
Mr Relton }

HWF 7/1



CONFIDENTIAL

25/2

71

Foreign and Commonwealth Office  
London SW1A 2AL

Telephone 01-

His Excellency  
Mr E G Lewis CMG OBE  
Governor and Commander-in-Chief  
FALKLAND ISLANDS

Your reference

Our reference HWF 21/1

Date 15 March 1974

*Dear Sirs.*

YPF AGREEMENT

1. Following my letter HWF 21/1 of 15 February, which I copied to Shakespeare, I now write again to keep you up to date, although, no doubt, this letter will be overtaken by events before you get it.
2. Frank Mitchell duly called. He was accompanied by Bill Christie. I enclose a copy of the record of the meeting, and also copies of two letters which Christie sent us. Both these list points which were elaborated at the meeting.
3. You will see that Mitchell and Christie would be content to withdraw their opposition to the Agreement if diesel could be excluded. We were glad to see from your telegram 98 that you would be happy about this. Buenos Aires telegram 68 contains the helpful suggestion that the exclusion of diesel could be justified on the grounds of its unpredictable level of consumption during the next few years.
4. We now have confirmation (Buenos Aires telegram 74) that YPF are quite ready to put their limited supply intentions in writing, and, in the light of this, await your view as to whether a total exclusion of diesel is still desirable.
5. Fred Burrows has drawn our attention to a legal point which we feel you will want to consider. There seems to be an assumption that if diesel is excluded from the draft Agreement, YPF will be free to supply diesel to the Islands on the open market, in competition with FIC or anybody else. There would be no "sovereignty umbrella" to cover this sort of activity and you might have continuing difficulty with the Argentines over, for example, documentation. The conclusion of a Commercial Agreement would put up a "sovereignty umbrella". We await a final decision about the exclusion of diesel before examining this in more detail.

/6.

10/22/4

77

From FCO

RESTRICTED

To BA

Tel No 92 of 19 April

Priority to Port Stanley

Your Tel No 88 of 27 March

YPF

1. We agree that the definition of private users presents difficulties and for this reason would prefer to write into the Agreement a degree of flexibility giving special Consultative Committee authority to name persons or entities who could buy either from YPF or from other suppliers.

2. To achieve this, and at same time deal with point in para 3 of your tel under reference would require para 1 of text of 13 November to be rewritten as follows:

1 (a) With effect from date of completion of construction of storage plant referred to in para 3 of this agreement, or such earlier dates may be agreed in special Consultative Committee, YPF shall, subject to provisions of sub-para (b) of this para, be responsible for the supply and marketing of products referred to in para 11 of this agreement which are consumed in the Falklands.

(b) 1 Provisions of sub-para (a) of this paragraph shall not apply in respect of products used by the Armed Forces of UK.

11 ~~Such corporations, commercial enterprises and associations~~  
<sup>individuals, associations</sup> as may from time to time be agreed in the Special Consultative Committee may obtain gas-oil either from YPF or from any other source.

111 And for so long as YPF are unable to supply the Islands' needs in respect of any of the products referred to in para 11 of this agreement YPF shall be relieved of any obligation to do so, and these products may be obtained from any other source.

3. In addition, there would be a draft exchange of letters between our representatives on the Special Consultative Committee to be agreed and signed on same date as main exchange of notes. Initiating letter from representative would refer to para 1(b) (11) of Agreement contained in notes exchanged that day and propose that following should be regarded as falling within provisions of sub-para: there would then follow a list of names, and our representative would conclude by asking Argentine Representative if he agreed.

RESTRICTED

2.

4. Falklands Islands Government will no doubt wish to indicate which firms and public utilities should be included initially. We may be able to get away with reference to the FIG in an exchange of letters in consultative committee. If the Argentines will not wear this, list could refer to "all local authorities in the Islands". //

5. We agree that to be inserted in para 20 should be 31 December 1976

6. FIG will understand the effect of amendment suggested will be that although the entities named in exchange of letters will be excluded ab initio from diesel oil monopoly, exclusion of future users would depend on reaching agreement within Consultative Committee.

7. If these proposals are acceptable to FIG and the Argentines, we (sic) (corrupt)

shall send you a clean draft incorporating these and the two earlier amendments.

RESTRICTED

RESTRICTED 251445Z

81

From Buenos Aires

To Routine Port Stanley

Telegram No. 47 of 25th April

and to FCO

Your telegram No. 142 to FCO:

YPF Agreement.

1. Your para 2. Under the Agreement, gas oil would sell in Stanley for 1 peso 30 centavos the litre. This would be cheaper than say, any gas oil bought from YPF by you now since it would not include the drums or freight charges.

2. For this reason, YPF, despite the wording of para 1A of the Agreement would not be willing to begin selling its products until the storage plant was complete, since otherwise by the terms of para (12) it would be selling at a loss.

60  
26/4

*E.U. 9/5*

89

CONFIDENTIAL

To Immediate Port Stanley  
Tel No 124 of 9 May

Herewith repetition requested in your Tel No 157  
from BA

To Priority FCO Tel No 153 of 7 May and to Port Stanley  
your Tel No 95

YPF AGREEMENT

1. Your Para 1. Blanco does not like the word quote authorities unquote in Para 1B11 of text which can only denote the local authorities which the Argentine Government do not recognise and has suggested substituting instead quote concerns unquote to be translated by quote Empresas unquote. He is prepared to subsume the FIG, FIGAS etc under quote concerns unquote.
2. This is the only outstanding point on text of Agreement.

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RESTRICTED

091300Z

From Falklands

Tel No 159 of 9 May

Priority to FCO  
Info BA

My Tel No 124

YPF

1. Proposed re-draft was mentioned in Council this morning and all members were satisfied that YPF should be given a monopoly of supply of diesel to private users but only the right (as distinct from a monopoly) to supply diesel to non-private users.

RESTRICTED

RESTRICTED

AG 12/5

92

From BA to FCO  
Tel No 155 of 10 May  
Info Port Stanley  
Your Tel No 98  
YPF AGREEMENT

1. MFA and YPF accept your new formulation and would translate the phrase by quote *Asociaciones, Corporaciones y Otros Cuerpos* unquote.
2. MFA will now prepare final Spanish version and recirculate internal departments with definitive text. They should be ready for signature in about a fortnight.

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94

Priority to BA

Tel No 100 of 15 May

And Priority Stanley

From FCO

BA Tel No 157:

DRAFT YPF AND COMMERCIAL AGREEMENTS

1. We shall do our best to get authority for you to sign these Agreements before the end of the month, but there are still certain minor points to be cleared up first.
2. The Draft Exchange of Letters in the Special Consultative Committee containing the list of entities to be excluded from the YPF monopoly needs to be agreed with the Argentines. The text should be on the following lines: Quote I refer to discussions which we have had in the Special Consultative Committee about Para (1) (b) (II) of the Agreement contained in the notes exchanged to-day and I understand that the following should be regarded as falling within the provisions of that sub-paragraph /list of names/. I should be grateful if you would confirm my understanding Unquote. We should be grateful if FIG would advise as soon as possible which names they wish to be included. Please telegraph the draft texts of our letter and the Argentine reply when they have been agreed with the (sic) the Commercial Agreement will be that of the draft exchange of notes of 26 April 1973 amended as follows: Preamble : Quote And at the recent meetings in London attended by representatives of our two Governments Unquote. Para 4: Change both references to 1974 to 1976. Please telegraph if you have negotiated any other amendments to that text. Clean revised text dated 14 May follows by bag.
3. Have you obtained Argentine concurrence to the signature of both Agreements at the same time?

CONFIDENTIAL

13 November 1973

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DRAFT EXCHANGE OF NOTES

No 1

HER MAJESTY'S AMBASSADOR AT BUENOS AIRES  
TO THE ARGENTINE MINISTER FOR FOREIGN AFFAIRS  
AND WORSHIP

Your Excellency,

I have the honour to refer to the recent discussions in the Special Consultative Committee referred to in paragraph (1) of the Joint Statement which was initialled by the Representatives of our two Governments on 1 July 1971 and approved by them on 5 August 1971 (hereinafter referred to respectively as "the Special Consultative Committee" and "the Joint Statement"), about the supply and marketing of products of Yacimientos Petroliferos Fiscales (hereinafter referred to as "YPF") in the Falkland Islands. Accordingly, I have the honour to inform you that the Government of the United Kingdom of Great Britain and Northern Ireland are prepared to conclude an agreement in the following terms: -

(1) (a) With effect from date of completion of construction of storage plant referred to in Paragraph 3 of this Agreement, or such earlier dates may be agreed in Special Consultative Committee, YPF shall, subject to provisions of sub-para (b) of this paragraph, be responsible for the supply and marketing of products referred to in Paragraph 11 of this agreement which are consumed in the Falklands.

(b)

- (i) Provisions of sub-para (a) of this paragraph shall not apply in respect of products used by the Armed Forces of the UK.
- (ii) Such associations, corporations and other bodies as may from time to time be agreed in the Special Consultative Committee, may obtain gas-oil either from YPF or from any other source.
- (iii) And for so long as YPF are unable to supply the Islands' needs in respect of any of the products referred to in Paragraph 11 of this Agreement, YPF shall be relieved of any obligation to do so, and these products may be obtained from any other source.

13 November 1973

SUBSTITUTED

95

DRAFT EXCHANGE OF NOTES

No. 1

HER MAJESTY'S AMBASSADOR AT BUENOS AIRES TO THE  
ARGENTINE MINISTER FOR FOREIGN AFFAIRS  
AND WORSHIP

Your Excellency,

I have the honour to refer to the recent discussions in The Special Consultative Committee referred to in paragraph (1) of the Joint Statement which was initialled by the representatives of our two governments on 1 July 1971 and approved by them on 5 August 1971 (hereinafter referred to respectively as "the Special Consultative Committee" and "the Joint Statement"), about the supply and marketing of products of Yacimientos Petroliferos Fiscales (hereinafter referred to as "YPF") in the Falkland Islands. Accordingly, I have the honour to inform you that the Government of the United Kingdom of Great Britain and Northern Ireland are prepared to conclude an agreement in the following terms:

(1) With effect from the date of completion of the construction of the storage plant referred to in paragraph (3) of this agreement, or such earlier date as may be agreed in the Special Consultative Committee, YPF shall be responsible for the supply and marketing of the products referred to in paragraph (11) of this agreement which are consumed in the Falkland Islands, except those used by the armed forces of the United Kingdom. Nevertheless, these products may be obtained from any other source if YPF are unable to supply

/the Islands'

*Amended at  
R 71 8/91*

the Islands' needs.)

- (2) YPF may market these products themselves or through any agent designated by them.
- (3) YPF shall make the necessary arrangements for the construction of a storage plant for fuels and lubricants, including tanks, pumping equipment, pipelines and buildings, hereinafter referred to as "the storage plant", and shall supply the materials and equipment required for its construction, operation and maintenance. They may also modify the two overhead electric power lines which at present cross the site and bury them underground. They shall employ mainly personnel from the Argentine mainland, but with the participation of local personnel.
- (4) The United Kingdom Government shall provide the land required for the storage plant and a building as living quarters for the personnel from the Argentine mainland who construct the storage plant. For that building and for the construction, operation and maintenance of the storage plant, the United Kingdom Government shall provide electricity and telephone lines. The United Kingdom Government shall also provide space at a quayside in Port Stanley for the unloading of materials needed for the construction of the storage plant.
- (5) For the construction, equipment, operation and maintenance of the storage plant -

/(a) the

(a) the United Kingdom Government shall bear the costs of providing

- (i) the necessary land for the storage plant;
- (ii) the installation of the electricity and telephone lines, and the quayside space, referred to in paragraph (4) of this agreement;
- (iii) the electricity consumed, and local telephone calls made, during the construction of the storage plant; and

(b) YPF shall bear all other costs, including the costs of modifying and burying the overhead electric power lines referred to in paragraph (3) of this agreement.

(c) YPF or their representative shall station in the Falkland Islands the personnel necessary to look after the storage plant and the other installations. The composition of the operation and maintenance team shall be as agreed in the Special Consultative Committee.

(7) YPF shall be exempted from payment of docking charges in carrying out the operations referred to in paragraph (3) of this agreement. YPF shall also be exempt from payment of rates, taxes or any other charge in respect of the installations referred to in paragraph (3) of this agreement. Except where a pipeline is constructed on land which is subject to an existing right of way, the United Kingdom Government shall make the necessary arrangements so that the land on which the storage plant referred to in paragraph (3) stands is not encumbered by any rights of way.

/(8) The

(8) The United Kingdom Government shall take the necessary measures so that the YPF tankers may use the private East jetty without the payment of any fee or tariff, and take on drinking water at the same jetty also without any charge.

(9) It is understood that the use of the private jetty described in the previous paragraph refers to the off-loading of goods both in bulk and in drums or containers. It shall be the responsibility of YPF to maintain the necessary vigilance while the tanker unloads goods in bulk and in drums or containers, and to avoid any spillage or contamination of the waters. The United Kingdom Government shall take adequate measures to secure the suspension of all other activities on the jetty in question during the operation of unloading the goods referred to in this paragraph.

(10) The frequency with which YPF shall supply the storage plant shall be approximately every four months.

(11) The products to be supplied by YPF shall be the following:

Super petrol

Kerosene

Gas-oil

*Aero fuels*

Aviation-combustibles (aviation fuel and aviation kerosene)

Lubricants

Asphalts

(12) The prices of these products in Port Stanley shall be those in force on the Argentine mainland. Payment /may be

may be made in Argentine or British currency. If payment is made in local currency the United Kingdom Government shall exchange it for convertible pounds sterling and pay any bank charges thereby incurred.

- (13) No duties or taxes shall be applied in the Falkland Islands on:
  - (a) the materials and equipment taken into the Falkland Islands by the Argentine Government or YPF for the purposes of this agreement;
  - (b) the personal effects taken into the Islands by the personnel from the Argentine mainland by virtue of the arrangements stipulated in paragraphs (3) and (6) of this agreement;  
or
  - (c) the salaries or other emoluments paid by their Argentine employers to the personnel from the Argentine mainland.
- (14) The expression "personnel from the Argentine mainland" means personnel occupied in the construction, maintenance or operation of the storage plant who come from the Argentine mainland and are in the Falkland Islands for the purpose of this agreement.
- (15) No duties or taxes shall be applied in the Falkland Islands on the introduction, distribution or sale of YPF products.
- (16) The Argentine Government may construct and maintain a jetty, should it deem it appropriate, for the docking of vessels supplying the storage plant.

(17) The

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(17) The storage plant shall cease to be operational when any of the notices referred to in paragraph (20) of this agreement has been given. In this event YPF shall remove any materials and equipment which they have provided under paragraph (3) of this agreement. Such materials and equipment shall at all times remain the property of YPF.

(18) The Special Consultative Committee shall deal with questions which might arise over the interpretation or application of this agreement.

(19) This agreement is concluded in accordance with the Joint Statement, and references to the Joint Statement in the Exchange of Notes between the two governments dated 5 August 1971 (hereinafter referred to as "the Exchange of Notes") shall be deemed to include references to this agreement.

(20) This agreement shall remain in force until 31 December 1974 or until the expiry of notice given in accordance with paragraph (18) of the Joint Statement and with paragraph (2) of the Exchange of Notes. After 31 December 1974 either of the two Governments may denounce this agreement subject to six months' prior notice in writing.

If the foregoing is acceptable to the government of the Argentine Republic I have the honour to propose that this Note, together with Your Excellency's reply in that sense shall constitute an agreement between the two Governments which shall enter into force on the date of your reply.

I avail myself of this opportunity to renew to Your Excellency the assurance of my highest consideration.

95

No. 2

THE ARGENTINE MINISTER FOR  
FOREIGN AFFAIRS AND WORSHIP FOR  
HM AMBASSADOR IN BUENOS AIRES

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Your Excellency,

I have the honour to acknowledge receipt of Your Excellency's Note No. of today's date, which reads as follows:

[Note No. 1 in full]

I have the honour to inform Your Excellency that the foregoing proposals are acceptable to the Government of the Argentine Republic who therefore agree that Your Note and this reply shall constitute an agreement in this matter between the two Governments which shall enter into force on this day's date.

I avail myself etc.

98

CONFIDENTIAL

191700Z

From Falklands

Tel No 76 of 19 May

Immediate to BA DESKBY 209000 local

& Immediate to FCO DESKBY 201000Z

YPF AGREEMENT

FCO Tel No 100.

Para 2 fourth sentence

1. Initial names to be included:

Falkland Islands Government

British Antarctic Survey

Alginate Industries Ltd

Falkland Islands Company (but only in their capacity as Admiralty agents  
and bunkering agents for overseas shipping lines)

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CONFIDENTIAL

From FCO

To Immediate BA

Tel No 103 of 23 May

Info Priority Port Stanley

DRAFT YPF AND COMMERCIAL AGREEMENTS

1. Subject to agreement with the Argentines on the text of the letters to be exchanged between representatives on the Special Consultative Committee, you are authorised to sign both Agreements and to exchange the letters, all on the same date.

CONFIDENTIAL

CONFIDENTIAL

107

271700Z

From Falklands

Tel No 183

of 27 May

Priority to FCO DESKBY 281000Z

Priority to BA DESKBY 281000 local

YPF AND COMMERCIAL AGREEMENTS

1. Your Tel No 103 to BA.

As I am making my Address at the Budget Session of LEGEO on 4 June, this would be a most suitable date as far as we are concerned for making an announcement about the signing of these AGREEMENTS

CONFIDENTIAL

COPY

CONFIDENTIAL

From BA  
To FCO  
Tel No 174 of 30 May  
Info Stanley

My Tel No 168

YPF AND COMMERCIAL AGREEMENTS

1. Blanco has confirmed that Argentines are prepared to sign both the YPF and Commercial Agreements at the same time, probably the week beginning 24 June. They have also accepted the text of our draft letter to accompany the former and supplied translation of both agreements. (Copies to Relton by tomorrow's bag).

The British Representatives on the Special Consultative Committee created by the Joint Statement initialled on 1 July 1971 by representatives of the British and Argentine Governments have the honour to refer to the recent discussions in the Special Consultative Committee about para (1) b (ii) of the Agreement contained in the Notes exchanged today.

The British representatives on the Special Consultative Committee understand that the Argentine Representatives on that Committee agree that the following should be regarded as falling within the provisions of that sub-sub-paragraph:

The Falkland Islands Government

British Antarctic Survey

Alginates Industries Limited

The Falkland Islands Company (but only in their capacity as marine bunkering agents).

The British Representatives on the Special Consultative Committee would be grateful if the Argentine Representatives on that Committee would confirm their understanding.

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From BA

Immediate to FCO

Tel No 272

of 12 August

Info Stanley

Your Tel No 168

Blanco informed us tonight that there is no objection to  
the exclusion of Johnstons from Agreement.



16/9  
**Foreign and Commonwealth Office**  
 London SW1A 2AL

130

Telephone 01-

E W H Christie Esq  
 The Falkland Islands Committee  
 Room 402  
 The London Wool Exchange  
 Brownfield Street  
 London E1

Your reference

Our reference KWF 121

Date 21 August 1974

I write to let you know that because of the disquiet you expressed, on behalf of your Committee, to Ministers in the last administration, we have succeeded in negotiating some relaxation of the diesel oil (gas oil) monopoly in the proposed Yacimientos Petroliferos Fiscales (YPF) Agreement.

You will remember that when you saw Mr Julian Amery on 7 February he handed you a summary of the provisions of the proposed Agreement. As then drafted, the proposed Agreement granted to YPF a monopoly for the supply and marketing of petroleum products, including diesel oil. The amended draft now states in Section 1 (b) (ii):-

"Such associations, corporations and other bodies as may from time to time be agreed in the Special Consultative Committee may obtain gas oil from YPF or from any other source."

Initial exclusions from the monopoly in terms of this Section have already been agreed as follows:-

The Falkland Islands Government  
 British Antarctic Survey  
 Alginat Industries Ltd  
 The Falkland Islands Company (but only in their capacity as marine bunkering agents)  
 Johnston Construction Ltd (but only in their capacity as constructors of the permanent airfield)

HM Forces have, of course, always been excluded from the terms of the proposed Agreement.

I appreciate fully that the amendment does not totally exclude diesel oil from the monopoly, as proposed by you on behalf of the Committee when we met on 22 February, but any further erosion of their monopoly could have put the proposed Agreement in jeopardy; this would not have been acceptable to the Falkland Islands Executive and Legislative Councils.

/I do



- 2 -

I do hope you will feel that the amendment goes some way to dispel your original objections. It has not been easy to secure acquiescence to these exclusions from the monopoly, and at the same time, preserve the main structure of the proposed Agreement in the interests of the Islands as a whole.

The proposed Agreement is not yet signed, and its details are still the subject of confidential exchanges between the two governments concerned. Accordingly, I must ask that you regard the contents of this letter as confidential until the proposed Agreement is signed.

I am writing similarly to Frank Mitchell, for the information of the Falkland Islands Company, and to Ralph Merton of Alginate Industries Ltd.

D G F Hall  
West Indian & Atlantic Department



16/9  
**Foreign and Commonwealth Office**  
 London SW1A 2AL

131

Telephone 01-

R R Merton Esq  
 Alginate Industries Ltd  
 22 Henrietta Street  
 London WC2

Your reference

Our reference HWF 12/1

Date 21 August 1974

You wrote on 4 March to Mr Julian Amery about your undertaking in the Falkland Islands and emphasised, in the context of the proposed Yacimientos Petroliferos Fiscales (YPF) Agreement, that your decision to establish a factory would depend on your Company being free to purchase fuel oil from the cheapest source.

As the drafted, the proposed Agreement granted to YPF a monopoly for the supply and marketing of petroleum products, including diesel oil, but because of representations made by yourself and others we have managed to secure a substantial diminution of the monopoly as it applies to diesel oil.

The amended draft now states in Section 1 (b) (ii):-

"Such associations, corporations and other bodies as may from time to time be agreed in the Special Consultative Committee may obtain gas oil from YPF or from any other source."

Initial exclusions from the monopoly in terms of this Section will include Alginate Industries Ltd.

Your Company will thus be free to purchase diesel oil from any suitable source, including YPF should it so wish.

I do hope you will feel that the amendment meets your requirement. It has not been easy to secure acquiescence to exclusions from the monopoly and at the same time preserve the main structure of the proposed Agreement in the interests of the Islanders as a whole.

The proposed Agreement is not yet signed, and its details are still the subject of confidential exchanges between the two governments concerned. Accordingly, I must ask that you regard the contents of this letter as confidential until the proposed Agreement is signed.

I am writing similarly to Bill Christie, for the information of the Falkland Islands Committee, and to Frank Mitchell of the Falkland Islands Company.



6/16/74  
132  
**Foreign and Commonwealth Office**  
**London SW1A 2AL**

Telephone 01-

**F G Mitchell Esq**  
The Falkland Islands Co Ltd  
94A Whitechapel High Street  
London SE1

Your reference

Our reference HWF 12/1

Date 21 August 1974

Following my letter of 13 August I write to let you know that because of the disquiet you and others expressed to Ministers in the last administration, we have succeeded in negotiating some relaxation of the diesel oil (gas oil) monopoly in the proposed Yacimientos Petroliferos Fiscales (YPF) Agreement.

You will remember that when you saw Mr Julian Amery on 7 February he handed you a summary of the provisions of the proposed Agreement. As then drafted, the proposed Agreement granted to YPF a monopoly for the supply and marketing of petroleum products, including diesel oil. The amended draft now states in Section 1 (b) (ii):-

"Such associations, corporations and other bodies as may from time to time be agreed in the Special Consultative Committee may obtain gas oil from YPF or from any other source."

Initial exclusions from the monopoly in terms of this Section have already been agreed as follows:-

The Falkland Islands Government  
British Antarctic Survey  
Alginate Industries Ltd  
The Falkland Islands Company (but only in their capacity as marine bunkering agents)  
Johnston Construction Ltd (in their capacity as constructors of the permanent airfield)

HM Forces have, of course, always been excluded from the terms of the proposed Agreement.

I appreciate fully that the amendment does not provide for farms and individuals to purchase diesel oil from your Company as in the past, but any further erosion of YPF's right to supply fuel could have put the proposed Agreement in jeopardy; this would not have been acceptable to the Falkland Islands Executive and Legislative Councils.

/1 a



- 2 -

I do hope you will feel that the amendment goes some way to dispel your original objections. It has not been easy to secure acquiescence to these exclusions from the monopoly, and, at the same time, preserve the main structure of the proposed Agreement in the interests of the Islanders as a whole.

The proposed Agreement is not yet signed, and its details are still the subject of confidential exchanges between the two governments concerned. Accordingly, I must ask that you regard the contents of this letter as confidential until the proposed Agreement is signed.

I am writing similarly to Bill Christie, for the information of the Falkland Islands Committee, and to Ralph Merton of Alginate Industries Ltd.

D G F Hall  
West Indian & Atlantic Department

CONFIDENTIAL

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From BA

Priority to FCO

Tel No 304 of 4 Sept

Info Stanley

Carless' letter to Maynard of 30 August

YPF AGREEMENT/COMMERCIAL AGREEMENT

1. We have checked once more with Blanco (Head of Malvinas Department) who says the delay still remains with Treaty Dept., who are dissatisfied with the Spanish translation of the YPF Agreement. He and the Director of Treaty Dept would be revising the text tomorrow.
2. Blanco assured us that there are no other reasons for the delay; the Commercial Agreement had already been approved by the Foreign Minister and the latter's approval for the YPF Agreement should be no more than a formality.

CONFIDENTIAL

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Deskby Port Stanley 122300Z

BA to FCO

Tel No 323 of 12 September  
And Flash Stanley

Info UKMIS New York and Washington

Hall's telecon with Miss Evans of 12 September

YPF AND COMMERCIAL AGREEMENTS

1. MFA confirmed in the event that Vignes would be willing to sign the Agreements at 11.00 am local tomorrow 13 September.
2. We have told MFA that we regret we do not now have authority to proceed to signature but may receive such instructions early tomorrow.
3. I Very much hope that you will be able to authorise me to sign at the very least, the Commercial exchange of notes and preferably both Agreements tomorrow. Under considerable domestic pressure and an increasingly (sic) congressional lobby. The Argentine authorities have been going along with us and our difficulties as far as they can. Their recent note to the UN Secretary General bears witness to this. Signature of the Agreements would give them something tangible to show for the "contacts" with the British Government. A last minute failure to sign already publicised Agreements would place the Argentines in an acutely embarrassing position and would make it difficult if not impossible for them to continue with any policy of patience and co-operation in future.
4. Governor may wish to comment on Island opinion about signature.

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CONFIDENTIAL

From FCO

To Flash BA

Tel No 207 of 13 Sept

and to Stanley

YPF AND COMMERCIAL AGREEMENTS

Your Tel No 323

1. You may proceed to signature of both Agreements.
2. I propose to issue short press announcement soonest after signature. Grateful to know form and content of any publicity proposed by Argentines.
3. Please report signature by Flash telegram.

CONFIDENTIAL

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From BA

To Flash FCO

Tel No 324 of 13 September

And Flash Stanley

YPF AND COMMERCIAL AGREEMENTS

Your Tel No 207.

Agreements signed today at 11.25 am local (14.25 Z).

Ceremony extensively covered by press and television.

Further publicity planned but details not yet known.



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Port Stanley 6th OF NOVEMBER 1974

LINEAS AEREAS DEL ESTADO

To The Chief Secretary

Mr. A. MONK

~~XXXX~~

Dear SIR:

Regarding our last meeting and in the spirit of the Joint Agreement signed on the 13th of September 1974, I would like to inform you of the needs of YPF(YACIMIENTOS PETROLIFEROS ARGENTINOS) following the completion of the plant on approximately the 15th of March 1975:

- 1) Acceptence of the security measures YPF needs to apply to the plant.
- 2) Unencumbered use of the JP 1 tanktruck of 8000 lts. that is presently in use.
- 3) Unencumbered use of the tanktruck of 5000 lts. to be introduced.
- 4) Unencumbered use of two vehicles ,one a five(5) passenger pick up with trailer (presently in use) and one small car (3 CV or 4 L type) to be introduced.
- 5) Land on lease as required ,to erect 2 or 3 houses for YPF personnel stationed at Stanley
- 6) Radio Operation to include a SSB R/T with allocation of several crystal controled frequencies to contact COMODORO RIVADAVIA and B.A. headquarters and a VHF R/T to contact the YPF tankers ships operating in the Bay.
- 7) The erection of a garage for the tanktruck at the provisory air field as the tank is deteriorating in the open.
- 8) The use of the YPF querters at Davis Street 44 as long as YPF needs it or can be replaced.

- 9) Preference ,if possible,for the use of the private Jetty(FIC) when a YPF tanker ship arrives as a mean to lower operational costs.
- 10) What has been determinated on paragraph 8 of the agreement allready named.

Yours faithfully

  
Carlos F. Bacombe

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From BA

To Immediate FCO

Tel No 381 of 7 Nov

and Immediate Stanley

Stanley Tel No 393: YPF AGREEMENT

1. Urgent representations have been made to us by MFA and YPF on the question of the three additional pipelines to run under YPF jetty destined to carry the three additional bulk fuels to be supplied under agreement. (Full plan of installation is to be sent to Governor). Blanco says that allegedly Milne has made following points:-

- (i) that he and FIC know nothing of the agreement
- (ii) that they know nothing about pipelines and
- (iii) that this Embassy did not know that the proposal affected private interests

2. MFA legal advisers have stressed HMG's obligations under Paras 2, 8 and 90 of Agreement which permit YPF to lay the extra pipes, which are essential for the unloading of the bulk fuels. Blanco added minatorily that given our volte face on a previous agreement (clearly the STN service) (we do not know if he has <sup>/been</sup> informed of the vote by Bloomer Reeve), it was to be hoped that we were not contemplating another especially when bound by written agreement.

3. We hope this matter can be resolved as expeditiously as possible with FIC

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081600Z

From Falklands

Tel No 126 of 8 November

Immediate to BA  
and Immediate to FCO

YPF

Your Tel No 381 to FCO

1. We are not contemplating a volte face on the YPF Agreement and in fact no objections were raised to the Agreement in the last meeting of the Executive Council, which was attended by Blake.

2. On Wednesday 6 November YPF engineer approached FIC about preparatory plans for three additional pipelines under FIC jetty.

3. Although we have papers referring to discussions with FIC about these pipelines (in a letter dated 26 April 1973 Slaggie suggested what the charges should be) no formal agreement was entered into pending consideration of the detailed drawings of the installations. This is the basis for stand by Milne who reacted in high dudgeon and told YPF no pipes could be laid.

4. CS saw Milne, who further moderated to a position that permission for wayleave must be referred to London. CS then issued letter to Milne proposing wayleave and enclosed copy of YPF Agreement for information.

5. Milne then came to see Monk and was much calmer and a long congenial discussion ensued, although Milne reiterated that he could not authorise pipelines without London's authority.

6. Presumably FCO have now got in touch with FIC in London as proposed in my Tel No 393.

7. Bloomer-Reeve has been kept fully in picture and has been candid in return. A moderate posture by YPF has been impressed on him as any other would play into Committee's hands. Milne has admitted that he and Mitchell would welcome confrontation with and withdrawal by YPF and other Argentine facilities.

8. Reliance on FIC jetty under Sections 8 and 9 of the Agreement is obviously undesirable as FIC can always deny the use of the jetty's facilities to a tanker by saying that the jetty is under repair or that it is needed for more urgent traffic to move the wool clip. I hope, therefore, that consideration might be given by the Argentines to building a floating platform with direct access to the tanks in accordance with Paragraph 16.

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## NOTE FOR FILE

## THE YPF AGREEMENT

1. Mr D G F Hall and I visited the Falkland Islands in December 1974. We had several discussions with Mr Harry Milne, the Port Stanley manager of the Falkland Island Company (FIC) about the problems involved.

2. The Agreement provides inter alia that HMG will make the East Jetty (which belongs to FIC) available to YPF to allow them to run pipelines from their tanker under the jetty to their tank farm on shore. There is already a pipeline for JPI (a kerosene-type aviation fuel) under the jetty.

## 3. FIC contend:

- (a) that their Head Office in London was not consulted or informed about the proposal to put pipelines under their jetty and adjacent warehouses;
- (b) that although their then Colonial Manager, Mr Alastair Sloggie, knew of the Agreement in his capacity as a member of the Executive Council, his oath of secrecy prevented him from advising his Head Office about it;
- (c) that Mr Sloggie had no authority to grant leave to lay pipelines on or under their property;
- (d) that the existing pipeline for JPI was also laid without authority;
- (e) that the proposed pipelines would constitute a fire-hazard to their property;
- (f) that the jetty could not be used for normal traffic while the tanker was discharging and this would cause serious inconvenience and expense to the Company.

4. A meeting to discuss the YPF proposals was held in Port Stanley on 15 May 1972 (a copy of the minute is attached). Mr Sloggie was not under oath of secrecy at that meeting, and there seems no reason why he should not have advised his Head Office. In the absence of advice to the contrary, the Colonial Government were reasonably entitled to believe that Mr Sloggie spoke for, and with the authority of, his company since he was, after all, their senior manager in the Islands.

5. We are not competent to judge whether or not the lines present a fire hazard. There is no obvious reason why the advice of an independent expert should not be sought on this point.

6. Nor can we assess the inconvenience and cost of the arrangement to FIC, but there is no doubt that they, or their agent, agreed to it and they must therefore accept responsibility for the decision. But it is not in the

/interests

CONFIDENTIAL

interests of either HMG or FIC that the company should be held to an arrangement which they regard as unfair and inconvenient.

*Buk saw his  
honor well.*

7. Mr Harry Milne appears to accept, subject to the views of his board, that FIC have some responsibility for the arrangement made by his predecessor and is disposed to recommend to his board that he be authorised to discuss an arrangement to enable YPF to discharge their tanker at the FIC Jetty as a temporary arrangement (perhaps a year or 18 months) so as to allow time for some permanent and more satisfactory arrangement to be made.

*Relton*

30 December 1974

Stanley Relton  
Latin America Dept

Distribution: CAD  
WIAD  
Secretariat Port Stanley  
Chamay, Buenos Aires

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COPY

Notes taken at a meeting held in the Conference Room, Secretariat, at 10:30 am on Thursday 18th May 1972.

Present:

His Excellency the Governor (Chairman)  
The Acting Colonial Secretary (Mr H L Bound, MBE., JP) (who deputised as chairman for HE during the latter part of the meeting)  
The Colonial Treasurer  
Comodoro Degan Lob  
Captain Campos  
V/Comodoro C de la Colina  
Mr F D Gooch (who acted as interpreter)  
Mr A Sloggie (Colonial Manager, FIC)  
Superintendent of Works (Mr T W Royans)  
Superintendent, Power & Electricity (Mr E C Gutteridge)  
Director of Civil Aviation (Mr J Kerr, MBE)  
Harbour Master (Mr H T Luxton)  
Captain D J Sollis, BEM (Master, m.v. "Forrest")

His Excellency opened the meeting by extending a welcome to those present, and in particular, expressed his gratitude to the Captain of the "Cabo San Gonzalo" for bringing further supplies of AVGAS. He went on to explain the purpose of the meeting, namely, to take cognizance of the future requirements of petroleum products in the Islands, now that with the re-orientation of the Colony's communications pattern the link with mainland South America had switched from Uruguay to Argentina, and especially to examine the question of bulk storage.

After a very full discussion on the situation and connected matters, the following points emerged:

1. That the site previously chosen for the tank farm by Mr Sloggie and Mr Royans was the same as that selected independently by the Argentine delegation. It was now for the Falkland Islands Government to make arrangements with the Falkland Islands Company who owned the land (on which the old butchery buildings are erected) to make it available to the Argentine authorities for the construction of the tanks in the terms of the Agreement and Exchange of Notes by the British and Argentine Governments.
2. That the Argentine authorities would install the necessary feed pipes from the FIC East Jetty to the tanks to allow replenishment from a tanker moored to the jetty. The tanker would also be able to replenish the existing FIC diesel tanks. Mr Sloggie confirmed that the Company would have no objection to the use of the jetty for this purpose and no objection to the plan was raised by the civil authorities.

3./...

That if for technical or other reasons the plan to use the East Jetty become impracticable the Argentine authorities would build a further supply system consisting of a permanent mooring platform for tankers and three rigid feed pipes to take JP1; Kerosene/diesel; and super petrol, surmounted by a cat-walk (no cargo whatever would be off-loaded this way). The construction would be sited directly off-shore from the tanks, or as nearly so as practicable.

The Argentine delegation made the point that this scheme would take longer to complete and be more expensive but would have an advantage from the security angle in that no highly combustible material would be passing through built-up areas, but be fed directly to the tanks which would be sited within a safety zone.

4. That in the tank farm there would be a tank, constructed at the request of the local Government, for the bulk storage of petrol and of about 150 tons capacity.
5. That a tanker would be sent across to the Islands by the Argentine authorities every three or four months to replenish stocks. The frequency of the visits would be stepped up whenever the necessity arose. The supplier would be the Argentine State Combine known as YPF.
6. The tanker would fill the Government petrol tank on each visit, and would bring in diesel oil for the Government tanks sited near the Power Station and in addition drummed AVGAS.

Given the regular visits by a tanker, at the frequency proposed, it was considered that there was no necessity for the construction of tanks on behalf of the civil authority for bulk storage of diesel oil and aviation spirit - sufficient storage space already existed.

The foregoing presupposed the continued availability of the Admiralty oil-barge. Should this ever cease to be so then consideration would be given to either:

- (a) laying feed pipes from the FIC East Jetty to the Government Jetty (from where piping to the Government tanks is already laid), or
- (b) to extending the Government jetty seawards so as to enable tankers to berth alongside.

Water, electricity and telephone services would be provided to the tank site by the local Government. (It is understood that there is already water to the site).

That the matter will now be referred to the principal Governments for approval.

RESTRICTED

From FCO 181735Z

To IMMEDIATE Buenos Aires

Telegram No 77 of 18th February

info IMMEDIATE Port Stanley.

MIPT

YPF AGREEMENT TERMS OF REFERENCE

1. The Argentine State Petroleum Company (YPF) propose to lay pipelines under the East Jetty and warehouses belonging to the Falkland Islands Company and other adjacent property for the purpose of conveying petroleum fuels from YPF tankers to their tank farm on shore in Port Stanley.

2. You are required to advise Her Majesty's Government on the following points -

- (a) whether the present arrangement is in accordance with standard international practice in the oil industry.
- (b) whether an unacceptable degree of fire or other hazard might result from this arrangement.
- (c) whether the risks involved are commercially insurable and the likely cost of such insurance.
- (d) if you are of the opinion that the arrangements would be hazardous, whether and how the hazards may be reduced to an acceptable level, and the approximate cost thereof.
- (e) if there is no practical way of reducing the risks to a level which would be acceptable in accordance with standard practice in the oil industry, to recommend some alternative method of replenishing the YPF tank farm and to give an estimate of the approximate costs involved.

3. In carrying out this study you should consult representatives of the Argentine State Petroleum Company, the Falkland Islands Company, and the Falkland Islands Government, as well as any other person whose advice may be of value.

copied to L.S.  
26/2/75  
AB.