

PREM 19/4353

Internal Situation. Message of Congratulation

PORTUGAL

The Death of Dr Sa Cameiro

UK/Portugal Relations

PT1: June 1979

Meetings with Portuguese Government.

PT2: November 1986

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
14/11/86							
19.11.86		2.8.93					
23.11.86		18.8.93					
26.11.86		3/9/93					
28.11.86		7/9/93					
6.4.87							
26.9.87							
3.11.87							
7.7.88							
21.7.88							
26.8.88							
19.9.88							
14.11.88							
31.7.89							
15.8.89							
21.2.91							
7.10.91							
17.10.91							
3.6.93							
4.6.93							
28.6.93							
28.7.93							

PREM 19/4353

PART 2 ends:-

PM to Portugese PM . 16. 12. 93

PART 3. begins:-

CDP to RL - 10-4-94.

**SUBJECT
MASTER**

Filed on:



10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

16 December 1993

File
cc F10
Original sent by
Bag direct to
Jaw in Lisbon.

I became so engrossed in the European Council last week that I failed to raise an important point which I had intended to put to you.

I have been following with close interest the bid by a British consortium, led by Trafalgar House, to design, construct and finance the new river crossing over the Tagus. Trafalgar House is an enormously experienced company with a high reputation for its engineering skills, and I am sure that their bid will be highly competitive. I understand that their consortium, TRT, is the only one of the three competing consortia in which Portuguese members hold the majority share.

Sir Charles Powell, a Director of Trafalgar House, whom I know well from his earlier career as a diplomat, would greatly appreciate an opportunity to give you a short, personal explanation of the TRT bid. He tells me that he could visit Portugal at any time up to 24 December. If your diary so permits, I hope that you might be able to fit in a meeting with him.

May I take this opportunity to send you my best wishes for Christmas and a restful holiday. I hope very much that you will be able to take up my invitation to you this summer to visit Britain next year. Stephen Wall stands ready to discuss possible dates with your office.

Yours sincerely,
John H.

His Excellency Professor Anibal Cavaco Silva

FILE F/Wall.KK.

cc FW

Original sent
by bag direct
to JSW.



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

15 December 1993

TAGUS PROJECT AND ALL THAT

I am sending by fax (signed copy to follow by bag) a more or less self-explanatory letter to Cavaco Silva. It is clearly the result of a Private Secretary stitch up between you and Charles Powell.

The history, as you will perceive, is that the Prime Minister forgot to take up the two points in the letter with Cavaco at the European Council; and, somewhat preoccupied with Northern Ireland, I forgot to remind him. Apologies on both behalfs. The letter is a belated attempt to pick up the stitch. I imagine that it may be difficult for Cavaco Silva to see Charles before Christmas. If not, perhaps the letter will persuade him to offer an appointment early in the New Year.

Best wishes to the Family Wall for the festive season. You will have a more relaxed time this Christmas than last. I can hardly bear to confess that I am about to take a holiday of at least a fortnight over Christmas and New Year - that is to say more than I think you managed in total in 18 months.

We are all speaking Gaelic in these parts!

RODERIC LYNE

Stephen Wall, Esq., C.M.G., L.V.O.

SA

OPD put back to 0945.

(4)

Stephen + Sarah
informed.

p.a.

S 8/11

PRIME MINISTER

Stephen Wall will accompany the Governor of the Portuguese Central Bank on a call on Sarah (Hogg) on **Tuesday 23 November at 0930**. He wondered whether he might put his head round the door to say hallo.

See diary extract below. A Questions briefing at 0900 that day (which could overrun a little), followed by an OPD on NATO at 0930 will probably not even leave enough time for a "Hallo". Stephen is in London for the rest of that week, but is adamant that he does not want to take up any of your time. What do you think? Would you like him to:

- a. pop his head round the door at 0930 on 23 Nov, possibly delaying OPD slightly; Yes.
- b. look in briefly at another time: to 09-45.
 - 0845 on Tuesday 23rd;
 - 1130 " " "
 - 0900 on Wednesday 24th?

S.

SANDRA
5 November 1993

PMDIARY\YEARLY



PRIME MINISTER'S ENGAGEMENTS FOR THE PERIOD
SATURDAY 20 NOVEMBER - FRIDAY 31 DECEMBER 1993

Saturday 20 November

AT HUNTINGDON

1100 PETER DEIGHAN (TO SHOW PORTRAIT)
c.1430 DEPART HUNTINGTON + MRS MAJOR
c.1600 ARRIVE CHEQUERS

Sunday 21 November

AT CHEQUERS

c.2100 DEPART FOR NO 10

Monday 22 November

0900 Keep free
0930 Party Chairman + JH
1000 Parliamentary Business Managers
1030 Cabinet Committee Business
1100-1145 Sir Robin Butler + AA
1145 New Belize High Commissioner + RL
1200 Sir Christopher Prout + Conservative MEPs + JH
1300 Lunch for colleagues + GB
?1500 ? Lord Sterling + AA (?+ Lord Cranbourne - D.Day)
1600 Conservative Trade Union Area Chairmen + JH
1700 Home Secretary + MA
1800-1900 Press meeting + GO
1900-2000 Martin Gilbert + AA

Tuesday 23 November

0900 Questions Briefing
0930 OPD (NATO)
1045 Keep free
1145 Chancellor of the Exchequer + MF
1245 Lunch and Questions Briefing
1515 QUESTIONS
1540 KEEP FREE FOR MPs
1700 DEPART FOR NO.10
1715-1815 ? New EBRD President M. de Larosiere + RL
1830 AUDIENCE
2000 for Host Dinner for Party Treasurers + JH
2015

Wednesday 24 November

0900 Keep free
1000 Cabinet
1100 OPD (EURO COUNCIL/GATT) + RL, SH

?1255 **GUARD OF HONOUR**
 1300 for 1315 ? Host lunch for Uzbekistan President Karimov + RL,RB
 1415 ? Talks with Uzbekistan President + RL, RB
 1515-1615 Keep free for SH
 ?1615 ?Group of Manchester school children + MA, IB
 1700 Foreign & Commonwealth Secretary + RL
 1745 Prepare for
 1800-1900 Joint Consultants Committee + MF (+S/S Health)
 2130 **HM THE QUEEN'S DIPLOMATIC RECEPTION + MRS. MAJOR**
 (EVENING DRESS)

Thursday 25 November Anglo-German Summit, Bonn

0900 Keep free
 ?0930 ? DEPART FOR AIRPORT
 ?1000 ? ETD RAF NORTHOLT
 ?1230 local ? ETA COLOGNE
 1300 **ANGLO/GERMAN SUMMIT, BONN**
 1800 local ? DEPART FOR AIRPORT
 1830 local ETD COLOGNE
 1900 **ARRIVE NORTHOLT**
 2200 **VOTE (ADDRESS DEBATE)**

Friday 26 November

CONSTITUENCY DAY
 1900 **ASSOCIATION BALL + MRS. MAJOR**

Saturday 27 November

c1930 **YAXLEY BUFFET (LOUNGE SUIT)**
 c2030 **RAMSEY BUFFET (LOUNGE SUIT)**

Sunday 28 November

HUNTINGDON
 2000 Supper in No.10 for Party Chairman + JH

Monday 29 November

0900 Keep free
 0930 Party Chairman + JH
 1000 Parliamentary Business Managers
 1030 Cabinet Committee Business
 1100 Sir Robin Butler + AA
 1145 Alan Rosling farewell call
 1200 Foreign & Commonwealth Secretary + RL
 1245 New Barbados High Commissioner + RL
 1300 Lunch for colleagues + GB
 1500 Keep free
 1600-1630 Photocall and tea with Sports Women of the Year Award winners +MA &
 IB

CONFIDENTIAL

celb

ESP noted for 1994
See last para

From: HMA

Date: 27 August 1993

cc: Mr Ellis
Mr Buck, SED
PS/No 10

Mr Chilcott

2/ Jike MynL
2/ id

THE PRIME MINISTER'S DINNER WITH PRIME MINISTER CAVACO SILVA:
23 AUGUST

1. The Prime Minister and Mrs Major had dinner with the Cavaco Silvas at the Hotel de Guincho on Monday. Catharine and I were also present.

2. I have recorded in a letter to Mr Cary in the FCO the conversation about the Presidency of the Commission. The other points worth recording were:

(i) Cavaco Silva gave an amusing description of his rise to power. On the death of Sr Sá Caneiro he had immediately resigned as Finance Minister and had gone back to work at the Bank of Portugal. At the Party Conference in 1985 he had decided at the last moment to go. He had just bought a new car and had said to his wife: "Why don't we go up to the Party Conference for a day to test the car out?". At the Party Conference he had decided to make a speech which was very well received. His ideas had been fairly radical and one of his opponents, seeking to silence him, had suggested that the ideas in the speech should be voted on to see whether they commanded support as the basis for the Party's platform. To the surprise of everyone, including Cavaco Silva, his speech had been overwhelmingly endorsed and he had been elected Leader of the Party.

(ii) Under his leadership the PSD had broken with the Socialists under Dr Mario Soares and had formed the next government. The PSD had refused to do deals with their opponents and President Eanes had (after a short period of PSD minority government) called elections in which the PSD had been returned with an overall majority.

CONFIDENTIAL

CONFIDENTIAL

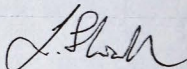
- (iii) Cavaco Silva made clear that he had taken on the President over the asylum law because it was a nonsense of the President to suggest that his nasty experiences under the Salazar regime had any bearing on the influx of asylum seekers to Portugal which had grown much worse over the last year. He implied that he thought the President would play his final card of a reference to the Constitutional Court. Cavaco Silva did not mention his dislike of the President but, when the Prime Minister was talking about political difficulties in the UK, Cavaco Silva said: "Well at least you have a Queen rather than a President".
- (iv) Cavaco Silva referred briefly to his recent visit to Prague and mentioned Vaclav Klaus' impatience with the Visegrad grouping and his determination to get ahead of the rest in his application for EC membership. Cavaco Silva also mentioned that Eastern Europe had been a neglected area for the Portuguese in the past, hence his decision to take Portuguese businessmen with him.
- (v) Cavaco Silva had met Sir Edward Heath at the Salzburg Music Festival. Sir Edward Heath had said that the Prime Minister could have whipped the Maastricht rebels into line at any moment and forced the Maastricht Bill through the House of Commons. The Prime Minister commented that this was a wholly unrealistic reading of the situation. Dra Maria Cavaco Silva commented that she remembered well living in York under Mr Heath's Prime Ministership when her husband had had to study by the light of a single candle.
- (vi) Cavaco Silva expressed the hope that Britain would come back into the ERM. The pound could live with the 15% bands and with Britain in the system influence could be exercised on German economic policy. The Prime Minister said there was no question of our coming back for some considerable time to come. Cavaco Silva did not pursue the point.
- (vii) I raised the problems of the Port wine industry as I had undertaken to the Port wine producers to do. Cavaco Silva was aware of the problem saying that it arose because of over-production and a difference of interests between the shippers and the producers - the latter wanting

CONFIDENTIAL

CONFIDENTIAL

the higher prices which they gained from grapes allocated to Port wine production. (This is rather as I had expected. I did not think that he would go into any more detail and the social nature of the occasion precluded me from pursuing the point.)

- (viii) Dra Maria Cavaco Silva made clear that she continued to lead a separate life from her husband as a university teacher though she took a full part in election campaigns. The PSD benefitted from their image as a close family and people did not like it if she did not appear on public platforms with her husband.
- (ix) Dra Maria Cavaco Silva, in particular, expressed her liking for the UK and her wish to go back on a visit. The liking is obviously shared by Cavaco Silva as well. The Prime Minister hoped that they would come on a visit and come to Chequers. The Prime Minister reiterated this point in his thank you letter to Cavaco Silva.


J S WALL

CONFIDENTIAL

RESTRICTED
FM PRAGUE
TO DESKBY 201200Z LISBON
TELNO MISC 060
OF 201000Z AUGUST 93
INFO ROUTINE FCO, UKREP BRUSSELS

VISIT OF PORTUGUESE PRIME MINISTER, 14/15 AUGUST

1. YOUR FAX OF 12 AUGUST ASKED ME TO REACT TO CAVACO SILVA'S VISIT HERE, SINCE IT WILL BE STILL FRESH IN HIS MEMORY WHEN HE SEES THE PRIME MINISTER ON 23 AUGUST. I AM SORRY NOT TO HAVE COME BACK SOONER : IT HAS TAKEN UNTIL THIS MORNING TO GET HOLD OF MY PORTUGUESE COLLEAGUE, WHO WENT TO GROUND TO RECOVER FROM THE VISIT EXCLAM.

2. THOUGH THIS WAS THE FIRST EVER VISIT BY A PORTUGUESE PRIME MINISTER, IT WAS PRIMARILY INTENDED TO PROMOTE TRADE, HENCE THE PRESENCE OF TRADE MINISTER FARIA DE OLIVEIRA AND A GROUP OF BUSINESSMEN. IN THE SESSIONS WITH KLAUS, EC ACCESSION WAS INEVITABLY TOP OF THE AGENDA. CAVACO REPORTEDLY RECOGNISED THAT THE CZECH REPUBLIC HAD ACHIEVED SUFFICIENT POLITICAL STABILITY AND ECONOMIC IMPETUS TO MAKE IT LIKELY THAT IT WOULD BE IN SHAPE TO ACCEDE AT AN EARLY DATE. KLAUS ACCEPTED THE COMPLIMENT, BUT MADE HIS USUAL COMPLAINT THAT IN REALITY THE COPENHAGEN SUMMIT HAD NOT DONE ENOUGH FOR THE CENTRAL EUROPEANS. REPORTEDLY, CAVACO EXPRESSED IRRITATION AT THIS COMMENT. THERE WAS ROUTINE DISCUSSION OF THE VISEGRAD 4, WITH KLAUS RESTATING HIS KNOWN RELUCTANCE TO SEE THE INSTITUTIONALISATION OF A GROUPING WHICH COULD BE SEEN AS A HALF-WAY HOUSE TO EC ACCESSION. KLAUS WAS EVEN MORE DISMISSIVE OF THE CENTRAL EUROPEAN INITIATIVE.

3. I SUSPECT THAT ONLY THAT PART OF THE EXCHANGE IS LIKELY TO COME UP WITH THE PRIME MINISTER. BUT IT MAY BE WORTH PASSING ON COMMENTS ON THE REST OF THE VISIT. FARIA HAD THREE MEETINGS WITH HIS CZECH OPPOSITE NUMBER, WHILST THE MINISTER FOR EUROPE, VITOR MARTINS, SAW DEPUTY FOREIGN MINISTER BRATINKA FOR MORE DETAILED DISCUSSIONS ON EC MATTERS. FARIA IS PLANNING TO RETURN IN NOVEMBER WITH A LARGER TRADE DELEGATION.

4. FOUR AGREEMENTS ARE TO BE SIGNED : ONE ON INVESTMENT PROTECTION, ONE ON COOPERATION IN TECHNOLOGY, ONE ON DOUBLE TAXATION, AND ONE WILL BE A FINANCIAL AGREEMENT FOR A CREDIT LINE OF US DOLLARS 100 MILLION WHICH CAVACO OFFERED TO PROMOTE

RESTRICTED

167
MDLIAN 2520

BILATERAL TRADE (ACCORDING TO MY PORTUGUESE COLLEAGUE, KLAUS WAS CHARACTERISTICALLY ACID ABOUT THIS, SAYING THAT THE CZECH CURRENCY RESERVES WERE ALREADY SO LARGE THAT THERE WAS NO PROBLEM ABOUT FINANCING FOREIGN TRADE).

BRIGHTY

YYYY

DISTRIBUTION

155

MAIN

135

.CENTRAL EUROPEAN POLITICAL
CED
PUSD
CONSULAR D
EAU
CRD
SCD
CSCE UNIT
ECD(E)
ECONOMIC ADVISERS
CFSP UNIT
INFO D
JAU(CE)
JOINT DIRECTORATE
NEWS D
PLANNERS
RAD//MS GUNN
SECPOL D
WED
ECFAD/ODA

PS
PS/BARONESS CHALKER
PS/MR HOGG
PS/MR LENNOX-BOYD
PS/PUS
MR LANKESTER
MR APPEYARD
CHIEF CLERK
SIR T DAUNT
SIR J COLES
MR LOGAN
MR JAY
MR BONE
MR GREENSTOCK
MR ALSTON
MR LEVER
MR FAINT
MR FREEMAN
MR MUIR

ADDITIONAL

20

CAOFF//MISS NEVILLE-JONES
CAOFF//MR SIBSON
CAOFF//MR DICKINSON
CAOFF//MR PAXMAN
MODUK//MAJOR TENNANT DIC
MODUK//HD DI(EUR)POL3
MODUK//SEC(NATO/UK)(P)
PS/PM
DTI//MR SHEFFIELD OT3/5
DTI//MR RICHARDSON E DIV 4/2

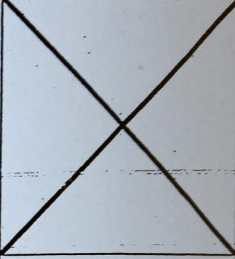
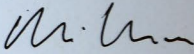
DTI//MR DICKSON KINGSGATE
.HOUSE E4A
DTI//MR K GEORGE E4/1.
(KINGSGATE HOUSE)
HMT//MR HAMMOND
HMT//MS YOUNG

PAGE 2
RESTRICTED

D/EMP//MS MCLAREN RM 608.
.CAXTON HSE
D/EMP//MR LEWIS CAXTON HS
BRICO//MR R ALFORD

NNNN

A The National Archives

DEPARTMENT/SERIES <i>PREM 19</i> PIECE/ITEM (one piece/item number) <i>4353</i>	Date and sign
Extract details: <i>Letter from Petty to Lyne dated 18 August 1993</i>	
CLOSED UNDER FOI EXEMPTION	
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	<i>13/6/18</i> 
TEMPORARILY RETAINED	
MISSING AT TRANSFER	
NUMBER NOT USED	
MISSING (TNA USE ONLY)	
DOCUMENT PUT IN PLACE (TNA USE ONLY)	

Instructions for completion of Dummy Card

Use black or blue pen to complete form.

Use the card for one piece or for each extract removed from a different place within a piece.

Enter the department and series,
eg. HO 405, J 82.

Enter the piece and item references, .
eg. 28, 1079, 84/1, 107/3

Enter extract details if it is an extract rather than a whole piece.

This should be an indication of what the extract is,

eg. Folio 28, Indictment 840079, E107, Letter dated 22/11/1995.

Do not enter details of why the extract is sensitive.

If closed under the FOI Act, enter the FOI exemption numbers applying to the closure, eg. 27(1), 40(2).

Sign and date next to the reason why the record is not available to the public ie. Closed under FOI exemption; Retained under section 3(4) of the Public Records Act 1958; Temporarily retained; Missing at transfer or Number not used.

cell
VUP



Treasury Chambers, Parliament Street, London, SW1P 3AG
071-270 5000

13 August 1993

Roderic Lyne Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

[Handwritten signature]

Dear Roderic,

PRIME MINISTER'S MEETING WITH CAVACO SILVA - ERM/EMU ISSUES

I understand that the Prime Minister will be meeting S Cavaco Silva in Portugal on 23 August. Dickie Stagg will be offering a general briefing letter.

If the future of the ERM and EMU is raised, the Prime Minister may wish to draw on the following:

- we would not welcome an increase in currency instability in Europe. So we understood and supported the decision to widen the existing ERM bands and stick to existing parities, rather than suspend the ERM itself. But the fault-lines in the system which became apparent last autumn have clearly been exposed once again, and the Community will have to consider carefully in the longer term what the lessons and the implications are;
- there is no prospect of the UK returning to the ERM in the near future. We will need to see much greater convergence between the monetary policy needs of all Member States and we shall need to be convinced that the system will be operated for the benefit of all its members;
- in the meantime, the Community's number one priority must now be to work together to produce the conditions that will promote economic recovery in Europe;

CONFIDENTIAL



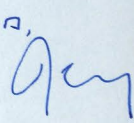
- as to the EMU, we have always made clear that we did not believe the timetable set out in the Maastricht Treaty was practicable. In view of recent developments, the EMU timetable looks more unrealistic now;
- I note that Carlo Ciampi is proposing that we should discuss these issues at the next European Council. The Community will undoubtedly need to consider how to respond to the changed circumstances, and will need to keep monetary developments under close review. Britain will play its part in those discussions, although it is not of course possible to predict at this stage what proposals may emerge.

If the Prime Minister is asked about the hard ecu, he might draw on the following:

- during the EMU IGC, the UK proposed that a new currency known as the hard ecu should be established. It would be managed to ensure that it never devalued against any other Community currency. It would be used in parallel to existing national currencies and would promote disinflationary convergence by competing with them. It has been suggested that we should consider putting this proposal forward again. We are not wedded to any particular proposals or options for the future; but the hard ecu is clearly one of a number of proposals which might be looked at in the period ahead.

As the Prime Minister will recall, the hard ecu was part of our proposals for a more substantive Stage 2. It would have been managed by a European Monetary Fund, with responsibility for setting hard ecu interest rates so as to keep the currency within the ERM narrow band and avoid devaluation. Although our proposals attracted some interest, they ran into strong opposition from the Germans, who were concerned that they would cut across national responsibility for monetary policy. It is not clear how the hard ecu would operate with the wider 15 per cent ERM bands. In any event a Treaty amendment would probably be needed if the proposals were to be implemented as originally conceived.

I am copying this letter to Dickie Stagg (FCO).

7002,

JEREMY HEYWOOD
Principal Private Secretary

PERSONAL AND RESTRICTED



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

2 August 1993

Cite M
bce AA
f/wall slh

FIRST IMPRESSIONS

Many thanks for sending me an advance copy of your inaugural despatch. I shall be going away, frivolously, for the fortnight before the Prime Minister's holiday, but Alex will make sure that a copy is on the plane with him.

Brunsonism seems to be spreading. In the good old days, a new Ambassador would not put "crap" on the first page of his first despatch. Clearly some bad habits learned here. But we are glad to note that in your last sentence you apologise for enjoying yourself. The Prime Minister will bring out the hair shirt which you inadvertently left behind in the cupboard.

I particularly liked the "look of irritation on the Foreign Secretary's brow". Rarely was a truer word spake. Were you not bold enough also to mention the red dice key fob which bangs itself on the table at similar moments?

Mood buoyant ever since the vote of confidence - Christchurch notwithstanding. And not the least glimmer of schadenfreude about the ERM!

RODERIC LYNE

J. S. Wall, Esq., C.M.G., L.V.O.

PERSONAL AND RESTRICTED

ds



BRITISH EMBASSY,
LISBON.

28/7/93

Dear Rod,

The enclosed is mainly designed
as pre-Portugal reading for the PM of a
the place if you ever think he can
bear it.

Well done last week. You were
right not to let the J... side b...
get you down. The way some
of the Press go on you would think
the PM had been brought up in Bournemouth

rather than Britain .

I hope you get a break .

Jan,

Frank

CONFIDENTIAL

- 1) ✓ - Alex (for name to Portugal)
 - Gus
 - Mary/William: nostalgia
- 2) fibe. (I have acknowledged).

Thy 2/iii

PORTUGAL: FIRST IMPRESSIONS

SUMMARY

1. Less than two decades ago Portugal was a Fascist dictatorship, poor and introverted. It is now a stable democracy with a rapidly modernising economy. But it is still a bit of a mish mash. (Paras 1-6)
2. Backed by EC funds Portugal has overtaken Greece in prosperity, but she has gone into recession, faces strong competitive pressures from outside and is in a race for convergence. (Paras 7-11)
3. Within the EC Portugal supports the Commission as a perceived source of her prosperity. I am reminding Portuguese Ministers that the second largest net contribution comes from us. (Paras 12-13)
4. The government's popularity is declining but Cavaco Silva would still win an election held tomorrow. (Para 14)

/5. Britain

CONFIDENTIAL

CONFIDENTIAL

5. Britain exported over £1 billion-worth of goods to Portugal last year. Commercial work is at the heart of the Embassy's activity and one of my top priorities. Anglo-Portuguese relations have been chequered but Britain looms large in Portuguese minds. My objectives are:- exports, persuading Portugal to see EC issues our way and keeping Portugal as a good ally. (Paras 15-19)

6. Frustrations? Some. Fun? Lots. (Para 20)

CONFIDENTIAL

CONFIDENTIAL

BRITISH EMBASSY

LISBON

28 July 1993

The Rt Hon Douglas Hurd CBE MP
Foreign and Commonwealth Office
LONDON SW1

Sir

PORTUGAL: FIRST IMPRESSIONS

1. It is 1973. Morning assembly in a Portuguese school. Fatima and her friends gather in the playground. They sing the national anthem ("To arms, to arms, against the enemy"). They give the Nazi salute.
2. In her spare time Fatima and some of her chums are producing a school magazine. It is about as radical as Woman's Own. But the Secret Police have been to the school's Head and warned her that if the magazine is not closed Fatima and other 15 year olds at the school will be put in prison.
3. At night, Fatima goes home to a small flat in Lisbon. Her older brother, 19, has not been home for 18 months. He is fighting a war in Angola. One of his school friends has been killed. Neither Fatima nor her parents have ever been abroad. They are middle class folk. But they have no car, no television, no telephone and no washing machine. Their Prime Minister has told them: "Portugal is alone, but proudly alone".
4. It is 1993. Fatima's teenage sons cannot believe that their mother could seriously have given the Nazi salute. "How could you put up with all that crap?" they ask. They do not understand that few thought to question it, let alone dared. They live a life much like teenagers anywhere else in Europe: family car, telephone, television, washing machine. They have not been abroad but two of their cousins work in Switzerland, remitting money to their

/families:

CONFIDENTIAL

families: when they have saved up enough they will build their dream house back in Portugal. It will look exactly like a Swiss chalet, only hideous. When Fatima's sons turn on their television at night the news on the Government channel is respectful - like the BBC 30 years ago. But one of the new private television channels is owned by a former Prime Minister and potential rival to Cavaco Silva. He gives the Government a hard time. As do the papers.

5. So what? Well, 20 years ago Portugal was a fascist dictatorship with few links to the outside world except their colonies, with the lowest standard of living of any country in Western Europe and locked in a bloody colonial war. Portugal's revolution happened only 19 years ago. Within a year she almost lurched into communism, from which she was rescued, not least by the courage of Mario Soares who must, for that alone, rank as one of the democratic heroes of post-war Europe. Unluckily, he was a muddler as Prime Minister. As President, he is popular, albeit not with Cavaco Silva. He is a thorn in the flesh of the Government and there now exists in Portugal a form of co-habitation almost as tricky as in France.

6. In less than 20 years, Portugal has become a stable democracy, has opened her borders and her economy, has ceased to be a colonial power and has joined the modern EC world. But one leading Portuguese Chairman told me that economically Portugal had lost eight years from 1974-1982 as companies were nationalised, productivity and profits fell and a whole generation of young entrepreneurs went abroad: 30,000 to Brazil alone. This man's company (with retail sales of nearly £400 million last year) has, as a result, no middle managers in their forties. Even now, privatisations are hedged about with golden shares and limits on foreign shareholdings. Labour laws inhibit efficiency. Government intervention is prevalent. Cavaco Silva is clear-sighted and single-minded but he dominates an otherwise mediocre government of technocrats. The old, peasant Portugal is dying fast. In its place has come a bit of a mish mash.

THE ECONOMY

7. Portugal's per capita GDP is \$8,364 (UK \$15,882). She is now more prosperous than Greece. She has, since she joined the Community in 1986, received structural fund expenditure worth 3% of GDP: a total (gross) of over £6.5 billion. The Commission reckon the money has been well spent. Certainly the evidence is everywhere: new roads, bridges, water supply and main drainage schemes, hospitals and schools. 65% of households have a telephone (UK 88%), 67% a washing machine (UK 87%), 40% a car (UK 67%). The

/number

The number of cars on the road has doubled (to 2 million) in a decade despite the fact that the population is virtually static (10 million in a country about the size of England and Wales). Paradoxically for a rather un-Latin people, quiet by temperament and not much given to violence, more people are killed on the road per 1,000 head of population in Portugal than in any other EC country.

8. Services account for over half Portugal's GDP. 28% of GDP comes from manufacturing, with exports of textiles and footwear (30%), machinery (13%) and wood and cork (12%) predominant. Portugal also still depends hugely on remittances from the four and a half million Portuguese working abroad. In 1992, they contributed US \$4.25 billion to the economy - nearly double the country's earnings from tourism.

9. Relatively low wages, combined with EC-backed incentives and above average productivity have all helped to bring in investment. Until this year, Britain was the largest foreign investor (new British investment in 1992 was worth £587 million, mostly in real estate). As the tourist industry has slackened off so has our investment. Our industrial investment is not as big as that of France, Germany and Spain. But RTZ run a very profitable mine here, Coats (textiles) and Clarks (shoes) have factories and National Power have just bought into one of the country's biggest coal fired power stations.

10. This year, despite the bragging of the Finance Minister, Portugal has gone into recession. Her budget deficit will rise from 5.25% GDP to 7% of GDP by the end of the year. The structural and cohesion funds will cushion the blow. But the outlook looks squally. On the western edge of Europe, with wage rates becoming less competitive, with poor communications (hence the Portuguese love affair with Trans European Networks) Portugal cannot compete as an agricultural or industrial producer with Spain. Traditional industries like textiles are feeling the intense pressure of competition. Fisheries and agriculture (the latter accounting for 9% of GDP 10 years ago and 5.5% now) have taken a battering.

11. Portugal's Social Democrat Prime Minister (Conservative on economic issues, Liberal on social issues) is determined that Portugal shall catch up. He does not have much in common ideologically with Jacques Delors. But the Commission has been Portugal's best friend in securing very large sums of EC money. When in doubt Portugal toes the Commission line. The same is true for EMU. Cavaco Silva would like to see economic and monetary union established as soon as possible. It provides an external discipline

/to

to the Portuguese economy. He calculates that unless EMU happens within the next decade Portugal will be left on the margin as Community funds start flowing East. He also calculates that with EMU as an established fact the net contributor countries would be obliged to maintain large resource transfers to countries like Portugal in order to ensure that convergence was sustained.

12. This means that we and the Portuguese are rarely on the same side of the European argument, though Portugal, as a fiercely nationalistic country, with a proud imperial past does not want to see a federal Europe.

13. I am amazed at how ignorant even the experts here are at the extent of our net contribution or even of the fact that we are a net contributor at all. In all my calls on Ministers and others I am making a point of telling them. And reminding them that, for our net contribution to be politically acceptable in Britain, British companies need to have a slice of the action when contracts are let for structural fund work.

POLITICS

14. The Government's popularity is declining with the recession. Yet, if an election were held tomorrow, Cavaco Silva would be returned to power, though not necessarily with the overall majority he has at present. People like to hear the President voice their criticisms eg of unemployment (which at 5.1% is regarded as a disaster). But they know that Mario Soares cannot add up and that Cavaco Silva can - and has delivered most of the EC money which has contributed to Portugal's prosperity. Parliament is a pale shadow of what we are used to. Any Government MP who disagrees with a particular policy can resign his mandate temporarily, hand over to the next party man on the list (ie someone for whom no elector has voted) and then resume his seat when the argument is over. The next General Election is due in 1995.

COMMERCE

15. Britain sells more to Portugal than to the whole of Latin America. We exported over £1 billion worth of goods last year. Our trade is virtually in balance. Portugal is our 18th largest market. For example, Rover cars have a bigger share of the market in Portugal than in any other EC country outside the UK. But we still rank 5th overall in market share behind Spain, France, Germany and Italy.

16. I have inherited a commercial operation which is

/vigorous

CONFIDENTIAL

vigorous, professional, successful and respected by businessmen. With the help of the DTI and the two export promoters appointed by the President of the Board of Trade I hope we can do still more. With EC funds still pouring in there are big opportunities for British consultants in construction, water supply, main drainage and other environment projects. I hope, when he comes here next month, the Prime Minister will meet some of those involved - both Portuguese and British. Almost all contract decisions have a large element of politics in them. Price alone is rarely the deciding factor.

ANGLO-PORTUGUESE RELATIONS

17. I quoted the Portuguese national anthem: "To arms, to arms against the enemy". In its original version, written at the turn of the century, it said "To arms against the British": in 1890 we had told the Portuguese that they could not join up Mozambique and Angola by controlling the strip across Central and Southern Africa. A group of Portuguese students taxed me with this on almost my first day. We think of dear little Portugal, the faithful ally. They think of big Britain who has certainly rescued them at various times in their history but has also leant on them heavily when our interests have demanded it. That is why they were ridiculously sensitive about our involvement in military training in Mozambique. That is why they twitched when we unveiled Rory the Lion halfway through their Presidency.

18. These sensitivities are a sign that the relationship still matters. I was told in the Ministry of Foreign Affairs when I arrived that the British Embassy was the most important in Lisbon. The President (Francophone though he is) told me much the same. I have had very good access so far to almost all Ministers. News about Britain features prominently in the Portuguese press. All the Ministers watch SKY news. All the younger generation of educated Portuguese speak English. It is up to us on the spot to exploit the relationship for Britain's good. But there is also no substitute for well targetted Ministerial visits and I shall be making recommendations with specific targets in mind.

19. At this point, I can see that look of irritation on the Foreign Secretary's brow which warns Private Secretaries, at least, to shut up. Behind the waffle, what are the points we need to pay attention to? I think my objectives over the next year should be:-

/i) To

CONFIDENTIAL

- i) To help British exporters do still better here and to encourage profitable new investment. In Portugal, that is as much a political as a commercial task.
- ii) To get Portugal to see EC issues our way - by taking them into our confidence on some of our thinking; by making them realise that it is our money the Commission are so liberal with and that, if they are to dip into our pockets, our requirements have to be met.
- iii) To keep the Portuguese as good allies in NATO and in other areas where we co-operate, eg Southern Africa.

20. Dictatorship in Portugal is 20 years away but the memories, and the shame of collaboration, have not healed completely. Portugal is committed to the EC, not least to the tangible benefits she has gained. But in their hearts most Portuguese still look west across the Atlantic and south to their former colonies. The old and the new, the Third World and the First, live side by side in this country. In some ways it reminds me of Britain in the 70s with corporatism and trade unionism still too prevelant for its own good. By that yardstick it is, as one Anglo-Portuguese put it to me: "A good place to live in but not to work in". I have been here barely three months but I regret to report that I am having fun on both counts.

*Clearly
painful.*

21. I am copying this despatch to HM Representatives in EC Posts, Washington, Luanda and Maputo.

I am, Sir
Yours faithfully

J S WALL

Ponson

**SUBJECT
MASTER**

*File CAM
atw*



Filed on:

**10 DOWNING STREET
LONDON SW1A 2AA**

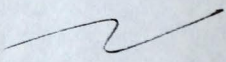
THE PRIME MINISTER

30 June 1993

Dear Anibal,

I am delighted that you will be in the United Kingdom, if only briefly, to receive an honorary degree from the University of York. I send you my warmest congratulations. I was very pleased to hear that the University, where I know you studied with such distinction, had decided to honour you in this way. Am I allowed to think our shared views on economic policy owe something to those years at York?

It was good to see you in Copenhagen, and I am only sorry that you will be here at a time when I have to be away at the Economic Summit in Tokyo. However, I believe that the British Ambassador at Lisbon has plans to bring us together again before too long.

*Yours Ever,
John
*

Professor Anibal Cavaco Silva

M

PERSONAL AND CONFIDENTIAL

file MFT
bc SP



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

30 June 1993

Handwritten signature

**PRIVATE VISIT BY THE PRIME MINISTER TO PORTUGAL:
MEETINGS WITH BRITISH BUSINESSMEN AND WITH
THE PORTUGUESE PRIME MINISTER**

The Prime Minister and Mrs Major will be taking a holiday in Portugal at the end of August. The Prime Minister is making the arrangements directly through our Ambassador at Lisbon. Information about this visit should be held as closely as possible, for obvious reasons.

There will be a small official element to the visit. On Monday 23 August, Stephen Wall is arranging a reception at his Residence for British businessmen, followed by a dinner with the Portuguese Prime Minister and Mrs Cavaco Silva. The Prime Minister will obviously need a certain amount of briefing for these two engagements, although I think that his requirements will be pretty light. I suggest that, nearer the time of the visit, you liaise with Stephen Wall, and send us whatever you and he deem to be necessary.

Handwritten signature

RODERIC LYNE

Christopher Prentice Esq
Foreign and Commonwealth Office

PERSONAL AND CONFIDENTIAL

Handwritten signature



Foreign &
Commonwealth
Office

London SW1A 2AH

28 June 1993

GR

To type
Dun

Dear Rodeni,

**PRIVATE VISIT BY PORTUGUESE PRIME MINISTER TO YORK: MESSAGE
FROM THE PRIME MINISTER**

Professor Cavaco Silva will be visiting the UK privately on 8-9 July to receive an honorary degree from York University (where he took his economics doctorate in 1973). We have explained to his office that the Prime Minister is unable to see him during his visit due to his absence in Tokyo for the G7 Summit. But Stephen Wall in Lisbon has advised that a message from the Prime Minister, which could be delivered in Lisbon before he departs for York, would be much appreciated by Professor Cavaco Silva. I enclose a draft.

Yours ever,

Christopher Prentice

(C N R Prentice)
Private Secretary

Roderic Lyne Esq CMG
10 Downing Street

DRAFT LETTER FROM THE PRIME MINISTER

Professor

Dr Anibal Antonio Cavaco Silva
Prime Minister of the Portuguese Republic
LISBON

I am delighted that you will be in the United Kingdom, if only briefly, to receive an honorary degree from the University of York. I send you my warmest congratulations. I was very pleased to hear that the University, where I know you studied with such distinction, had decided to honour you in this way. Am I allowed to think our shared views on economic policy owe something to those years at York?

It was good to see you in Copenhagen, and

I am only sorry that you will be here at a time when I have to be away at the Economic Summit in Tokyo. I hope very much that we shall have an opportunity to see each other again before too long.

With best wishes.

However I believe that the British Ambassador in Lisbon has plans to bring us together again

ADVANCE COPY

CONFIDENTIAL
FM LISBON
TO PRIORITY FCO
TELNO 197
OF 091536Z JUNE 93
INFO ROUTINE UKREP BRUSSELS, PARIS, BONN

FRAME ECONOMIC

CALL ON THE PORTUGUESE PRIME MINISTER

SUMMARY

1. CAVACO SILVA ADMIRES HMG'S HANDLING OF MAASTRICHT BILL. KEEN TO MAINTAIN PROGRESS TO EMU. LOOKING FOR CONCERNED ECONOMIC MEASURES WITHIN THE COMMUNITY. DETERMINED TO MAINTAIN TOUGH POLICIES AT HOME.

DETAIL

2. I CALLED ON PRIME MINISTER CAVACO SILVA YESTERDAY. I GAVE HIM THE PRIME MINISTER'S LETTER AND THE PRIME MINISTER'S BEST WISHES. CAVACO SILVA HAD BEEN WATCHING THE MAASTRICHT DEBATE IN THE HOUSE OF LORDS (OF WHICH QUITE A CHUNK WAS SHOWN ON PORTUGUESE TELEVISION). HE NOTED WRYLY THE FACT THAT MORE OF THEIR LORDSHIPS HAD APPEARED TO BE ASLEEP THAN AWAKE DURING LADY THATCHER'S SPEECH. HE SAID THAT HE READ A NUMBER OF BRITISH NEWSPAPERS AND HAD FOLLOWED THE BILL CLOSELY. HE ADMIRERD THE WAY YOU AND THE PRIME MINISTER HAD HANDLED THE ISSUE AND THE LEADERSHIP WHICH YOU BOTH HAD SHOWN. HE ASKED ABOUT THE TIMETABLE OF RATIFICATION AND SAID THAT, FOR PERSONAL AS WELL AS WIDER POLITICAL REASONS, HE WISHED THE PRIME MINISTER EVERY GOOD FORTUNE.

3. I COMMENTED THAT IT SOMETIME SEEMED TO US THAT WE WERE UNIQUELY BESET BY DIFFICULTIES, INCLUDING A WHOLLY NEGATIVE PRESS BUT IT HAD STRUCK ME THAT HIS GOVERNMENT WAS ALSO UNDER CONSTANT ATTACK BY THE PORTUGUESE MEDIA. CAVACO SILVA SAID THAT HE HAD HAD HIS OWN DIFFICULTIES, EG THE ENFORCED RESIGNATION OF ONE OF HIS CABINET MEMBERS THE PREVIOUS DAY (MY TELNOS 193 AND 194). THE PORTUGUESE PRESS WERE WHOLLY NEGATIVE AND HAD BEEN TALKING ABOUT A DOMESTIC ECONOMIC CRISIS EVEN WHEN PORTUGAL HAD RECORD RATES OF GROWTH. THE PRESSURES WERE NOW INCREASING BUT HE HAD OVER TWO YEARS TO GO TO THE NEXT ELECTION AND WAS DETERMINED TO MAINTAIN TOUGH POLICIES INCLUDING CUTS IN THE CIVIL SERVICE AND THE ARMED FORCES AND REFORM OF HEALTH CARE AND SOCIAL SECURITY (I

HAD HAD A SIMILAR MESSAGE EARLIER IN THE DAY FROM THE GOVERNOR OF THE CENTRAL BANK WHO DESCRIBED CAVACO SILVA AS HIS PRINCIPAL SUPPORT IN THE FIGHT AGAINST INFLATION).

4. CAVACO SILVA SAID HE WAS SERIOUSLY CONCERNED AT THE LEVEL OF REAL INTEREST RATES IN THE EC (NINE PER CENT IN PORTUGAL). THE EC'S COMPETITIVENESS WAS SUFFERING SERIOUSLY COMPARED WITH JAPAN AND THE UNITED STATES BUT THIS WAS A SUBJECT NEVER SERIOUSLY DISCUSSED IN THE COMMUNITY. I SAID THAT HE WAS PREACHING TO THE CONVERTED IN TERMS OF ALL THE EFFORTS THE PRIME MINISTER HAD MADE FOR MONTHS BEFORE BLACK WEDNESDAY: BUT NO AMOUNT OF DISCUSSION WOULD ALONE ALTER THE CENTRAL PROBLEM OF BUNDESBANK POLICY. CAVACO SILVA SAID THAT PART OF THE ANSWER, IN HIS VIEW, WAS TO MOVE TO A SINGLE CURRENCY AND A EUROPEAN CENTRAL BANK WHICH WOULD NOT BE AS INSENSITIVE AS THE BUNDESBANK TO THE NEEDS OF THE EC MEMBER COUNTRIES.

EPC

5. CAVACO SILVA SAID THAT HE HAD PROPOSED TO THE DANISH PRIME MINISTER (MY TELNO 192) THAT THERE SHOULD BE DECLARATIONS FROM THE EUROPEAN COUNCIL ON THE MAHGREB AND ON SOUTHERN AFRICA INCLUDING ANGOLA. THE DECLARATION ON ANGOLA COULD PICK UP THE LANGUAGE OF THE RECENT SECURITY COUNCIL RESOLUTION THOUGH IT MIGHT COVER SOUTH AFRICA AS WELL. HAVING PREVIOUSLY TOUCHED BASE WITH GREENSTOCK I SAID THAT WE WOULD SUPPORT SUCH DECLARATIONS SUBJECT TO A DISCUSSION OF THE WORDING.

CAVACO SILVA'S VISIT TO YORK

6. I SAID THAT THE PRIME MINISTER WAS SORRY THE ECONOMIC SUMMIT WOULD PREVENT HIM SEEING CAVACO SILVA DURING HIS VISIT TO BRITAIN ON 8/9 JULY (HE STUDIED ECONOMICS AT YORK UNIVERSITY AND IS TO RECEIVE AN HONORARY DEGREE THERE). CAVACO SILVA SAID THAT HE NORMALLY HAD NO TIME FOR HONORARY DEGREES (PROBABLY A DIG AT PRESIDENT SOARES WHO COLLECTS THEM LIKE FOOTBALL CARDS) BUT YORK HAD A SPECIAL PLACE IN HIS AFFECTIONS AND WAS AN EXCEPTION.

FOLLOW-UP
THE ECONOMY

7. ALTHOUGH WE DO NOT SEE EYE TO EYE WITH CAVACO SILVA ON EMU HE IS PURSUING DOMESTIC POLICIES CLOSE TO OUR OWN AND UNDERSTANDS THE LANGUAGE OF ECONOMICS. IT WILL BE WORTH TRYING TO INFLUENCE HIS THINKING ON THE EUROPEAN ECONOMY BEFORE COPENHAGEN. IF WE HAVE ANYTHING IN WRITING ON OUR VIEWS AND ON WHAT SHOULD COME OUT OF COPENHAGEN IT WOULD BE HELPFUL IF I COULD SEND IT TO HIM IN

THE NEAR FUTURE. THE MORE DETAILED AND TECHNICAL THE BETTER FOR HIS LIKING.

YORK

8. IT WOULD BE A NICE GESTURE IF THE PRIME MINISTER COULD SEND A MESSAGE TO CAVACO SILVA ON HIS HONORARY DEGREE WHICH I COULD DELIVER TO HIM BEFORE HE LEAVES FOR YORK. SUGGESTED TEXT TO FOLLOW. I REALISE THAT MINISTERS WILL BE TOO BUSY TO GO TO YORK BUT MIGHT IT BE POSSIBLE FOR MR GAREL-JONES TO BE ASKED TO GO THERE ON THE PRIME MINISTER'S BEHALF TO ATTEND THE CEREMONY (ON 9 JULY) AND TO HEAR CAVACO SILVA'S SPEECH?

WALL

YYYY

DISTRIBUTION

4

ADVANCE

4

NO 10 DOWNING ST

NNNN

CONFIDENTIAL
FM LISBON
TO PRIORITY FCO
TELNO 188
OF 031741Z JUNE 93
INFO PRIORITY SOFIA, UKREP BRUSSELS, WARSAW, PRAGUE, BUDAPEST
SOFIA FOR SECRETARY OF STATE'S PARTY

PORTUGUESE ATTITUDES TO EAST EUROPEAN MEMBERSHIP OF THE COMMUNITY

SUMMARY

1. INDICATION THAT PORTUGAL WILL COME INTO LINE AT COPENHAGEN.

DETAIL

2. THE PORTUGUESE PRIME MINISTER'S DIPLOMATIC ADVISER TOLD ME TODAY THAT THE FIRST ITEM ON THIS WEEK'S CABINET AGENDA HAD BEEN CEE RELATIONS WITH THE EUROPEAN COMMUNITY. CAVACO SILVA, AFTER THINKING THROUGH THE ISSUES FOR SOME TIME, HAD TOLD CABINET THAT PORTUGAL COULD NOT JUSTIFY OPPOSITION TO THE COUNTRIES OF CENTRAL AND EASTERN EUROPE BECOMING MEMBERS OF THE EUROPEAN COMMUNITY. THE PORTUGUESE TEXTILE INDUSTRY WOULD LOSE 50 PER CENT OF ITS MARKET AS A RESULT OF A GATT DEAL AND THE GOVERNMENT COULD NOT PREACH MARKET ECONOMICS OUT OF ONE CORNER OF ITS MOUTH AND PROTECTIONISM OUT OF THE OTHER. CAVACO SILVA'S DIPLOMATIC ADVISER SAID THAT THERE WOULD BE NO BLOCK BY PORTUGAL AND THAT WE COULD EXPECT TO SEE A CHANGE IN PORTUGAL'S POSITION IN THE DETAILED DISCUSSIONS NOW TAKING PLACE IN THE COMMUNITY.

COMMENT

3. PROOF OF THE PUDDING ETC. SECTORAL INTERESTS HERE ARE POWERFUL (TEXTILES AND FOOTWEAR ACCOUNT FOR ABOUT 30 PER CENT OF EXPORTS BY VALUE), SO THE GOVERNMENT'S DECISION WILL BE PAINFUL. THEY WILL NO DOUBT BE LOOKING TO PARTNERS TO SOFTEN THE BLOW.

WALL

YYYY

CONFIDENTIAL

12767
MDLIAN 6941

DISTRIBUTION 227

MAIN 226

FRAME ENLARGEMENT
ECD(E)

MR LOGAN
MR GREENSTOCK

ADDITIONAL 1

FRAME

NNNN

PAGE 2
CONFIDENTIAL

**SUBJECT
MASTER**



file AS
cfo

Filed on:

**10 DOWNING STREET
LONDON SW1A 2AA**

THE PRIME MINISTER

10 May 1993

Dear Anibal,

I am asking Stephen Wall to deliver this letter to you on his arrival in Lisbon.

First, I wanted to say that it is a sign of how much importance we attach to our relationship with Portugal than we have sent Stephen Wall as our Ambassador. He has been my private secretary both as Foreign Secretary and as Prime Minister and I have got to know him very well. It is a great loss to me that he is moving to a new post, but I am delighted that it is to Lisbon. I know you will find him a man of great insight and sound judgement.

I look forward to seeing you again before very long. I believe that during our two recent Presidencies of the Community - though there were inevitably differences on some issues - we did succeed in establishing good cooperation at every level. The State Visit of your President has been a good reminder to us that our relationship needs to be a modern as well as a historical one. I hope you and I can keep in close touch on our thinking on Community issues. Stephen Wall will know my views and I hope you will not hesitate to talk to him if there are things you want to say to me which cannot be said directly over an open telephone.

I also hope that we can do more to build the economic and commercial relationship between Britain and Portugal. I realise that you have not been immune from the economic problems facing all Community countries but yours has been a substantial story of economic success and I hope that British companies will continue to play a full part in Portugal's economic and industrial development.

Yours truly
Anibal Cavaco Silva

Professor Anibal Cavaco Silva

UNCLASSIFIED
FM LISBON
TO PRIORITY FCO
TELNO 706
OF 221000Z DECEMBER 1992
INFO SAVING EC POSTS

FRAME GENERAL

CAVACO'S LINE POST-EDINBURGH

SUMMARY

1. CAVACO SURPRISES PORTUGAL WITH HARSH REALISM AND NO POST-EDINBURGH EUPHORIA

DETAIL

2. CAVACO HAS MADE THREE PUBLIC STATEMENTS SINCE THE EUROPEAN COUNCIL, IN PARLIAMENT, TO PARTY MEMBERS AND, IN A TELEVISION BROADCAST ON 18 DECEMBER, TO THE PUBLIC. HE HAS SURPRISED EVERYONE WITH THE SOBER TONE ADOPTED: EDINBURGH WAS A GOOD RESULT FOR EUROPE BUT A TRIUMPH FOR NO-ONE AND THE DUPLICATION OF COHESION SPENDING FOR THE POOR FOUR DID NOT MEAN AN EASY TIME FOR PORTUGAL BUT AN INCREASE IN SELF-DISCIPLINE. HE SAID THAT THE MONEY WOULD NOT COME AS A FREE GIFT - PORTUGAL HAD TO DESERVE IT BY PRESENTING WORTHY PROJECTS AND CONDUCTING SOUND ECONOMIC POLICIES AND PUBLIC SECTOR MUST NOT THINK THAT THERE WOULD BE MONEY IN ABUNDANCE TO PAY FOR THEIR 'EXPENDITURIST ATTITUDE' (A NEOLOGISM IN PORTUGUESE TOO). THE DIARIO DE NOTICIAS HEADLINE 'NEW BRAKE ON EDINBURGH EUPHORIA' AFTER THE TV BROADCAST SUMS UP THE GENERAL REACTION.

COMMENT

3. IMMEDIATELY AFTER EDINBURGH THERE WAS SOME EVIDENCE THAT PRO-GOVERNMENT ELEMENTS WERE GOING TO GO OVER THE TOP ON PRAISING CAVACO'S ACHIEVEMENT (AS IT IS SEEN HERE). AN ATMOSPHERE OF OVERCONFIDENCE WOULD HAVE UNWELCOME EFFECTS ON THE NATIONAL MOOD AT A TIME WHEN THE GOVERNMENT HAS PROPOSED FOR 1993 A TOUGH BUDGET WHICH CONTAINS GOVERNMENT EXPENDITURE AND RELIES ON PUBLIC-SECTOR WAGE RESTRAINT. A PRINCIPAL OBJECT OF ATTACK BY CAVACO IN RECENT WEEKS HAS BEEN LOCAL AUTHORITIES, WHO ARE UP IN ARMS ABOUT GOVERNMENT PROPOSALS TO CUT THEIR SHARE OF PUBLIC EXPENDITURE. CAVACO'S STATEMENTS SHOULD BE SEEN IN THIS LIGHT.

4. A NEW SLOGAN IS GOING THE ROUNDS: 'DELORS II CAVACO III', MEANING THAT EDINBURGH HAS GUARANTEED A THIRD ELECTION VICTORY FOR CAVACO IN 1995. THE SLOGAN WAS COINED BY THE OPPOSITION AS IRONIC, BUT PRO-CAVACO ELEMENTS SEEM DISPOSED TO TAKE IT UP AS A RALLYING CRY. CAVACO NO DOUBT REALISES HOW EASILY SUCH NAIVE SUPPORT COULD BE USED AGAINST HIM.

ARBUTHNOTT

YYYY

DISTRIBUTION 419MAIN 406

FRAME GENERAL .ECD(I)

ADDITIONAL 1

FRAME

SAVING 12

EC POSTS

NNNN

RESTRICTED

FM LISBON

TO DESKBY 060900Z FCO

TELNO 629

OF 061000Z NOVEMBER 1992

INFO IMMEDIATE EC POSTS, UKDEL STRASBOURG

UKDEL STRASBOURG TELNO 104: PORTUGUESE FOREIGN MINISTER

SUMMARY

1. PINHEIRO'S TRANSFER TO BRUSSELS ANNOUNCED. DURAO BARROSO APPOINTED FOREIGN MINISTER.

DETAIL

2. AT 7 PM ON 5 NOVEMBER, THE PRIME MINISTER'S OFFICE ANNOUNCED THAT PINHEIRO HAD BEEN NOMINATED TO SERVE AS PORTUGUESE COMMISSIONER IN BRUSSELS. DURAO BARROSO WOULD SUCCEED HIM AS FOREIGN MINISTER.

3. THE PRESS HAVE EVIDENTLY BEEN GIVEN NO FURTHER INFORMATION ABOUT PINHEIRO'S FUTURE JOB, AND TODAY'S PAPERS MOSTLY SPECULATE THAT HE WILL SUCCEED ANDRIESEN IN THE FOREIGN AFFAIRS PORTFOLIO.

4. MIFTS (NOT TO ALL) GIVE CV OF DURAO BARROSO, SUGGESTED MESSAGES TO HIM AND PINHEIRO FROM YOU, AND SUGGESTED POINTS TO MAKE AT FAC ON 9 NOVEMBER.

5. THE DATE OF BARROSO'S INAUGURATION IS NOT YET CONFIRMED, BUT HIS OFFICE SAY IT IS LIKELY TO BE NEXT WEEK.

6. IT SEEMS LIKELY THAT BARROSO WILL CHANGE ALL THE OTHER JUNIOR MINISTERS (MARTINS, JESUS AND IVO CRUZ), THOUGH GIVEN BARROSO'S COMPARATIVE INEXPERIENCE IN EC AFFAIRS, MARTINS' EXPERIENCE WOULD BE MISSED. MORE GENERALLY, CAVACO MAY DECIDE TO CARRY OUT A FULL RESHUFFLE OF HIS GOVERNMENT BEFORE THE PSD PARTY CONGRESS ON 13-15 NOVEMBER.

7. GRATEFUL FOR GUIDANCE ON WHETHER BARROSO INHERITS THE INVITATION MADE TO PINHEIRO TO LUNCH WITH YOU ON 19 NOVEMBER. SEEN FROM HERE IT WOULD PROVIDE A VALUABLE OPPORTUNITY TO SOUND OUT THE NEW MINISTER ON EC ISSUES.

RESTRICTED

025757

MDHIAN 6

ARBUTHNOTT

YYYY

DISTRIBUTION 264

MAIN 264

EUROPEAN POLITICAL

ECD(1)

NNNN

RESTRICTED

FM LISBON

TO DESKBY 061000Z NOVEMBER 1992

TELNO 630

OF 061022Z NOVEMBER 1992

INFO IMMEDIATE EC POSTS, UKDEL STRASBOURG

MIPT: NEW PORTUGUESE FOREIGN MINISTER

1. DR JOSE DURAO BARROSO WAS BORN IN 1956. AT 36 HE IS THE YOUNGEST MINISTER IN AN ALREADY YOUNG GOVERNMENT. STARTED HIS POLITICAL CAREER AT UNIVERSITY WHERE, IN THE VERY CONFUSED POLITICAL ATMOSPHERE SURROUNDING THE 1974 REVOLUTION, HE JOINED THE MRPP, A REVOLUTIONARY COMMUNIST PARTY EVEN MORE RADICAL THAN THE PRO-SOVIET PORTUGUESE COMMUNIST PARTY, BUT QUICKLY REVISED THESE VIEWS AND JOINED THE PSD. HE IS STILL OCCASIONALLY SATIRISED FOR THIS EARLY HISTORY ON THE REVOLUTIONARY LEFT.

2. STUDIED LAW AT UNIVERSITY AND SEEMED SET FOR AN ACADEMIC CAREER WHEN, IN 1985 AT THE AGE OF 29, CAVACO SILVA INVITED HIM TO BE JUNIOR MINISTER OF INTERNAL ADMINISTRATION IN HIS FIRST GOVERNMENT. HE BECAME JUNIOR MINISTER OF FOREIGN AFFAIRS, WITH SPECIAL RESPONSIBILITY FOR AFRICA AND DEVELOPMENT, IN 1987, A POST WHICH HE HAS HELD EVER SINCE.

3. BARROSO HAS ALWAYS BEEN SAID TO HAVE MORE WEIGHT IN THE PSD THAN PINHEIRO HIMSELF, WITH A DIRECT LINE TO CAVACO, AND HIS PROMOTION COMES AS NO SURPRISE. IT WILL FINALLY PUT AN END TO THE RIVALRY BETWEEN THE NUMBERS ONE AND TWO AT THE FOREIGN MINISTRY. BARROSO'S GREATEST FOREIGN POLICY TRIUMPH IN HIS PREVIOUS JOB WAS THE SIGNING OF ANGOLAN PEACE ACCORD AT BICESSE/ESTORIL IN 1991. EVEN THOUGH RECENT EXPERIENCE WITH ANGOLA HAS BEEN UNHAPPY, THE ACCORDS THEMSELVES ARE STILL PERCEIVED IN PORTUGAL AS AN ACHIEVEMENT BEYOND CRITICISM.

4. BARROSO'S DIRECT EXPERIENCE OF EC AFFAIRS IS LIMITED TO THE DEVELOPMENT COUNCIL AND POLITICAL COOPERATION. HE HAS NEVER TO OUR KNOWLEDGE MADE PUBLIC HIS VIEWS ON THE WIDER EC ISSUES AND EVEN PRIVATELY HAS SAID VERY LITTLE ABOUT THEM, EXCEPT RECENTLY TO THE PUS, TO SHOW HIMSELF UNSURPRISINGLY IN FAVOUR OF MAASTRICHT WHILE DISCLAIMING ANY EXPERT KNOWLEDGE. I WOULD EXPECT HIM HOWEVER TO PRODUCE NO POLICY SURPRISES AND TO STAY CLOSE TO THE PRIME MINISTER ON EUROPEAN ISSUES.

5. BARROSO IS MARRIED WITH THREE CHILDREN. HIS WIFE'S FAMILY IS FROM OPORTO AND HAS STRONG ENGLISH CONNECTIONS THERE. BARROSO HIMSELF LIVED IN LONDON AND GENEVA WHEN A STUDENT AND SPEAKS FLUENT ENGLISH AND FRENCH. HE MAY BE REFERRED TO AS BARROSO OR DURAO BARROSO BUT NOT DURAO. JOSE IS HIS CHRISTIAN NAME.

ARBUTHNOTT

YYYY

DISTRIBUTION

264

MAIN

264

EUROPEAN POLITICAL

ECD(I)

NNNN

CONFIDENTIAL

FILE

**SUBJECT
MASTER**

Filed on:

10 DOWNING STREET

LONDON SW1A 2AA

7 November 1991

From the Private Secretary

*Dear Richard,***MEETING BETWEEN THE PRIME MINISTER AND
THE PRIME MINISTER OF PORTUGAL**

The Prime Minister and the Foreign Secretary had a meeting with the Prime Minister of Portugal in the margins of the NATO summit this afternoon. The following were the main points.

Portuguese politics

The Prime Minister congratulated Mr. Cavaco Silva on his election success. Cavaco Silva had managed to get elected without once mentioning his party. The Portuguese Prime Minister confirmed that this was true. He had also managed to talk to the people over the heads of the press. The press did not much like majority rule since it did not make for exciting journalism but the people liked stability. He had refused offers to debate the Opposition leader. He had been criticised for doing so but had made the right decision. During the course of the campaign he had made a point of visiting as much of the electorate as possible. He had been to 130 places and had had contact with 20 per cent of the voters i.e. nearly one and a half million people.

European Community issues

Mr. Cavaco Silva said, nervously, that Portugal wanted a success at Maastricht: they had the presidency next. The Prime Minister described the problems for us over EMU and EPU going into some detail on our position on defence and security. Cavaco Silva said that Portugal supported the Anglo-Italian declaration. Today's NATO's declaration was closer to the Anglo-Italian position than to Kohl and Mitterrand and he was pleased at that. He did not want to see the WEU subordinated to the European Union or any duplication of structures. Several heads of government at this NATO meeting had declared themselves in a similar sense. We had to make what happened at Maastricht consistent with the NATO declaration. It should be possible to find a compromise between the Anglo-Italian text and the Franco-German text.

Majority Voting

The Prime Minister and the Foreign Secretary set out our objections to majority voting in CFSP. Mr. Cavaco Silva said that Portugal preferred unanimity but could live with majority voting provided it was one country, one vote and not weighted

CONFIDENTIAL

W8

CONFIDENTIAL

voting. He thought that Portugal's extensive overseas interests would give her some leverage to secure that outcome. The Prime Minister said that we had looked carefully at EMU but the more we looked the more we disliked it so had been driven back to insist on unanimity in foreign policy decisions. Mr. Cavaco Silva said that the Prime Minister's position was a reasonable one. He himself was against listing in the treaty the areas of common action but provided the issues were chosen by unanimity could we not accept majority voting for implementation?

Competence/Co-decision

Mr. Cavaco Silva said that Portugal's government was very open to extensions of Community competence. They were very opposed to co-decision but in favour of increased use of the cooperation procedure. They knew the Germans held strong views. Britain, Portugal and Denmark were the only countries holding out. MEPs were not particularly popular figures in Portugal not least because they spent most of their time living well in Brussels. But it would be impossible to give nothing in this area and perhaps the areas of co-decision could be limited.

Interior/Justice

The Prime Minister explained that while we were willing to go in for extensive cooperation in the field of interior and justice matters, we wanted to maintain the pillared structure i.e. intergovernmental cooperation in this area.

Mr. Cavaco Silva said, even more nervously than at the beginning of the conversation, that if there was no agreement at Maastricht the Community would be in crisis. This was Portugal's first presidency and they would have their work cut out tackling the implementation of an agreement at Maastricht. It would be too much to have to face the outcome of a disagreement. Everyone was looking to Britain as one of the important and big countries of the Community which was at the opposite end of the spectrum to the Franco-German coalition. He hoped compromise would be possible, in particular, on CFSP, where it could be a matter of words.

The Prime Minister said that he was not in the business of seeking delay. We would try hard for an agreement but if other Member States pushed us too far, then there would be a point beyond which we simply could not go for the sake of an agreement.

I am copying this letter to the Private Secretaries to members of OPD(E) and to Sonia Phippard (Cabinet Office).

Jws.
Stephen
J.S. WALL

Richard Gozney, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

RESTRICTED
FM LISBON
TO PRIORITY FCO
TELNO 394
OF 110757Z OCTOBER 91
INFO ROUTINE UKREP BRUSSELS, OTHER EC POSTS

MY TELNO 380 : PORTUGUESE ELECTIONS 6 OCTOBER

SUMMARY

1. ANALYSIS OF RESULTS SHOWS PSD VICTORY EVEN MORE REMARKABLE THAN IN 1987. PS, DESPITE 7 POINT RISE, FACE DIFFICULT PROBLEMS. PCP AND CDS MAY BE IN TERMINAL DECLINE. PORTUGAL CLOSE TO A TWO PARTY SYSTEM, ALTHOUGH SOME COMMENTATORS FEAR THAT THE PSD WILL BECOME THE INSTITUTIONALISED PARTY OF GOVERNMENT.

DETAIL

2. THE INTERIM TALLY OF PARLIAMENTARY SEATS IS :

SOCIAL DEMOCRATS (PSD)	- 130
SOCIALISTS (PS)	- 69
COMMUNISTS (PCP) AND ALLIES	- 17
CENTRE (CHRISTIAN) DEMOCRATS (CDS)	- 5
NATIONAL SOLIDARITY PARTY (PSN)	- 1

3. EIGHT OF THE 230 PARLIAMENTARY SEATS HAVE YET TO BE ALLOCATED. FOUR ARE IN ELECTORAL DISTRICTS WHERE SOME PARISHES BOYCOTTED THE ELECTIONS TO REGISTER LOCAL GRIEVANCES. THESE POLLS WILL BE RE-RUN ON 13 OCTOBER. THE OTHER 4 UNALLOCATED SEATS ARE DEDICATED TO EMIGRANTS (2 REPRESENTING EMIGRANTS IN EUROPE, 2 THOSE IN THE REST OF THE WORLD) WHOSE VOTES WILL BE COUNTED ON 16 OCTOBER.

4. CAVACO HAS NOW GONE INTO PURDAH UNTIL THE WEEKEND, AND IT IS EVIDENT THAT A NEW GOVERNMENT WILL NOT BE FORMALLY IN PLACE UNTIL LATER THAN WE THOUGHT, PROBABLY NOT UNTIL THE END OF THIS MONTH WHEN ALL THE RESULTS HAVE BEEN FORMALLY PUBLISHED. MOST COMMENTATORS BELIEVE THAT CAVACO WILL MAKE ONLY MINOR CHANGES, RESERVING A MAJOR RESHUFFLE UNTIL AFTER THE PORTUGUESE PRESIDENCY OF THE EC. ONCE THE NEW GOVERNMENT IS IN PLACE, IT MUST QUICKLY PRESENT ITS LEGISLATIVE PROGRAMME TO THE ASSEMBLY. IN THE

MEANTIME, THE PRE-ELECTION GOVERNMENT CARRIES ON.

5. THE SCALE OF THE PSD VICTORY HAS NOW BECOME CLEAR. THEY WON 50.4 PERCENT OF THE VOTE (A SLIGHT ADJUSTMENT SINCE MY TUR), WHICH IS AN IMPROVEMENT, IF SMALL, ON THEIR UNPRECEDENTED 1987 SUCCESS (50.2 PERCENT THEN). THEY CAME TOP IN 19 OF PORTUGAL'S 20 ELECTORAL DISTRICTS, HAVING BEATEN THE COMMUNISTS IN THEIR FORMER STRONGHOLDS OF EVORA AND SETUBAL. THEY CAME OUT AHEAD IN 51 OF LISBON'S 53 ELECTORAL WARDS, A REVERSAL OF THE SUCCESS WHICH THE PS-PCP COALITION ENJOYED IN THE LOCAL ELECTIONS OF DECEMBER 1989. A NARROWER VICTORY MIGHT HAVE LEFT CAVACO SILVA IN HOCK TO THE PSD BARONS IN THE AZORES AND MADEIRA, NEITHER OF WHOM HAS AN EASY RELATIONSHIP WITH THE CENTRAL GOVERNMENT. AS IT TURNED OUT, CAVACO WILL BE BEHOLDEN TO NOBODY. HE WILL IN PARTICULAR HAVE STRENGTHENED HIS POSITION IN RELATION TO PRESIDENT SOARES, WHO WAS HOPING TO EXTEND HIS POWER AT THE EXPENSE OF THE GOVERNMENT'S ON THE BASIS OF HIS OVERWHELMING VICTORY IN JANUARY AND OF A MUCH REDUCED PSD MAJORITY, IF NOT A DEFEAT. THE PSD SEE THE RESULT AS A VINDICATION OF THEIR POLICIES (EVEN IF THE CAMPAIGN WAS ONE OF IMAGES RATHER THAN OF MESSAGES) AND OF CAVACO'S REFUSAL TO CONTEMPLATE LEADING A MINORITY GOVERNMENT.

6. THE PS HAVE SOUGHT TO CONSOLE THEMSELVES WITH THE 7 POINT INCREASE ON THEIR 1987 VOTE, BUT THEIR DISAPPOINTMENT IS EVIDENT. THE NEXT PARTY CONGRESS WILL BE BROUGHT FORWARD FROM 1992 TO LATER THIS YEAR, AND THERE HAVE ALREADY BEEN CALLS FOR SAMPAIO TO RESIGN. HE CERTAINLY LOOKED UNCOMFORTABLE ON THE CAMPAIGN TRAIL AND HIS PERCEIVED LACK OF ACHIEVEMENT AS MAYOR OF LISBON MADE HIS TASK ALL THE HARDER, THROWING DOUBT ON HIS MANAGERIAL ABILITIES. BUT THE PROBLEMS WHICH THE PS NOW FACE GO FAR DEEPER. THEY WERE NOT ABLE TO DEFINE A DISTINCTIVE POLICY PLATFORM, NOR A CREDIBLE ALTERNATIVE GOVERNMENT TEAM. THEY HAVE BEEN UNABLE (PARTLY THROUGH LACK OF MONEY) TO MODERNISE THEIR CAMPAIGN METHODS SUFFICIENTLY TO MATCH THE PSD. THEY ARE ALSO STILL ASSOCIATED IN VOTERS' MINDS WITH THE AUSTERITY MEASURES AND BACKROOM POLITICAL DEALING OF THE 1983-85 PS-LED COALITION GOVERNMENT.

7. THE COMMUNISTS HAVE LOST HALF THEIR SEATS, FALLING FROM 27 IN THE LAST PARLIAMENT TO 13 IN THIS (WITH, IN BOTH PARLIAMENTS, 4 ADDITIONAL SEATS FILLED BY THEIR ALLIES). THE CDS HAVE WON ONE EXTRA SEAT BUT AGAIN POLLED LESS THAN 5 PERCENT OF THE VOTE. BOTH THE COMMUNISTS AND THE CHRISTIAN DEMOCRATS LOOK NOW TO BE IN TERMINAL DECLINE, SINCE NEITHER PARTY IS ATTRACTING YOUNG VOTERS.

8. PORTUGAL IS THEREFORE PRETTY CLOSE TO A TWO-PARTY SYSTEM AFTER THE ELECTION, WITH POWER CONTESTED BETWEEN CENTRE-RIGHT AND CENTRE-LEFT PARTIES. THE CURRENT WEAKNESS OF THE SOCIALISTS MEANS THAT, AT PRESENT, THIS IS AN UNEQUAL CONTEST : ONE OR TWO COMMENTATORS ARE ALREADY TALKING OF THE DANGER OF 'MEXICANISATION', WITH THE PSD BECOMING THE INSTITUTIONALISED PARTY OF GOVERNMENT. THERE MAY BE SOMETHING IN THIS, ALTHOUGH WITH LOWER GROWTH RATES FORECAST AND THE DIFFICULTIES OF ADJUSTMENT TO THE SINGLE MARKET ON THE HORIZON, THE PSD ARE GOING TO HAVE A LESS COMFORTABLE RIDE THROUGH THIS PARLIAMENT.

ARBUTHNOTT

YYYY

DISTRIBUTION 460MAIN 460

FCO/WHITEHALL

SED [-]

NNNN

RESTRICTED

014352
MDADAN 0484

ADVANCE COPY

RESTRICTED
FM LISBON
TO DESKBY 071030Z FCO
TELNO 381
OF 070948Z OCTOBER 91

MIPT: PORTUGUESE ELECTIONS, 6 OCTOBER: DRAFT MESSAGE FROM THE PRIME MINISTER

1. I RECOMMEND THAT THE PRIME MINISTER SEND A DRAFT MESSAGE ALONG THE FOLLOWING LINES TO CAVACO SILVA: ✓

TEXT BEGINS

splendid
'MANY CONGRATULATIONS ON THE RESULTS OF PORTUGAL'S PARLIAMENTARY ELECTIONS. I ~~WISH~~ LOOK FORWARD TO CONTINUING OUR CLOSE COOPERATION, ESPECIALLY IN THE EC DURING THE FORTHCOMING PRESIDENCIES OF PORTUGAL AND THE UK'

TEXT ENDS

ARBUTHNOTT

YYYY

DISTRIBUTION

3

ADVANCE

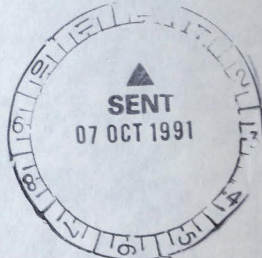
34

HD/SED
HD/PROTOCOL D

PS/NO 10.

NNNN

PAGE 1
RESTRICTED



RESTRICTED

FM LISBON

TO DESKBY 071000Z FCO

TELNO 380

OF 070830Z OCTOBER 91

INFO PRIORITY UKREP BRUSSELS, OTHER EC POSTS, UKDEL NATO, LUANDA,
 INFO PRIORITY MAPUTO, JAKARTA
 INFO ROUTINE WASHINGTON

MY TELNO 378: PORTUGUESE ELECTIONS, 6 OCTOBER.

SUMMARY

1. GOVERNING SOCIAL DEMOCRATIC PARTY RE-ELECTED WITH FURTHER ABSOLUTE PARLIAMENTARY MAJORITY. SOCIALIST VOTE UP ON 1987, COMMUNISTS DOWN. LEADER OF CDS, FREITAS DO AMARAL, ANNOUNCES INTENTION TO RESIGN. RECOMMENDATION THAT THE PRIME MINISTER SEND A CONGRATULATORY MESSAGE TO CAVACO SILVA.

DETAIL

2. THE OUTCOME OF PORTUGAL'S PARLIAMENTARY ELECTIONS, WITH ONLY A FEW RESULTS STILL TO DECLARE, WAS AS FOLLOWS:

SOCIAL DEMOCRATS (PSD)	: 50.3%
SOCIALISTS (PS)	: 29.2%
COMMUNISTS (PCP) AND ALLIES	: 8.8%
CENTRE (CHRISTIAN) DEMOCRATS (CDS)	: 4.4%
SOCIAL SOLIDARITY PARTY (PSN)	: 1.69%

3. PRIME MINISTER CAVACO SILVA'S PSD IS THUS ELECTED FOR A FURTHER FOUR YEAR TERM WITH 130 (AT THE LAST COUNT) OF 230 PARLIAMENTARY SEATS AND WITH AN ABSOLUTE MAJORITY COMPARABLE TO THAT WHICH THEY HAVE ENJOYED FOR THE PAST FOUR YEARS. THE POLLS HAD FOR SOME TIME BEEN SUGGESTING THAT AN ABSOLUTE MAJORITY WAS LIKELY, BUT ALSO THAT IT WAS BY NO MEANS A FOREGONE CONCLUSION. EITHER THEY UNDERESTIMATED THE GAP BETWEEN THE PSD AND THE SOCIALISTS, OR THERE WAS A SIGNIFICANT SWING TOWARDS THE GOVERNING PARTY DURING THE LAST WEEK OF THE ELECTION CAMPAIGN WHEN BY LAW NO POLLS WERE PUBLISHED.

4. THE SOCIALIST VOTE IS SOME 8% UP ON THEIR 1987 RESULT, AND THEY HAVE REINFORCED THEIR POSITION AS THE MAIN OPPOSITION PARTY (AND ONLY REALISTIC ALTERNATIVE TO THE PSD). BUT THEY WILL BE DISAPPOINTED NOT TO HAVE REDUCED THE PSD VOTE, AND NOT TO HAVE EQUALLED THEIR PEAK VOTE (35-36%) OF THE EARLY 1980S.

5. THE UNRECONSTRUCTED COMMUNISTS SEEM TO HAVE LOST MORE THAN A QUARTER OF THEIR 1987 ELECTORATE - A COMBINATION OF EVENTS IN EASTERN EUROPE AND THE SOVIET UNION (CULMINATING IN THE LEADERSHIP'S SUPPORT FOR THE ABORTIVE COUP IN THE SOVIET UNION), RISING LIVING STANDARDS AND DEMOGRAPHIC ATTRITION. THE CHRISTIAN DEMOCRATS HAVE HARDLY IMPROVED AN THEIR 1987 SCORE AND THEIR LEADER, FREITAS DO AMARAL, HAS IN CONFORMITY WITH AN ELECTION PLEDGE ANNOUNCED HIS INTENTION TO RESIGN.

6. THE MINOR SUPRISE HAS BEEN THE ELECTION TO PARLIAMENT OF THE LEADER OF THE NEW SOCIAL SOLIDARITY PARTY (PSN) ON A PLATFORM OF INCREASED SUPPORT FOR THIRD-AGERS. THE RENOVATION PARTY (PRD), FORMED ORIGINALLY AS A VEHICLE FOR EX-PRESIDENT EANES HAVE BY CONTRAST LOST ALL OF THEIR FORMER PARLIAMENTARY SEATS AND POLLED FEWER VOTES THAN THE TROTSKYIST AND MAOIST PARTIES.

7. THE ABSTENTION RATE OF ALMOST 32% MAY CAUSE SOME COMMENT. THE LEVEL OF ABSTENTIONS HAS RISEN STEADILY FROM THE 8% REGISTERED IN PORTUGAL'S FIRST DEMOCRATIC ELECTIONS IN 1975. WHILE THE CURRENT LEVEL IS NOT DISSIMILAR TO THAT IN MANY OTHER EUROPEAN COUNTRIES, PORTUGUESE COMMENTATORS WILL BE TEMPTED TO SEE IT AS SAD EVIDENCE OF HOW QUICKLY THE NOVELTY OF DEMOCRACY CAN WEAR OFF.

8. WHATEVER THE TRUTH OF THAT ANALYSIS THE PORTUGUESE ELECTORATE HAVE EVIDENTLY NOT SIMILARLY TIRED OF THEIR PRIME MINISTER. CAVACO SILVA HAS LED THE GOVERNMENT FOR SIX YEARS, AND BY THE TIME HIS NEW TERM ENDS WILL HAVE BEEN PRIME MINISTER FOR ALMOST HALF PORTUGAL'S POST-REVOLUTIONARY ERA. HE HAS STEADILY OVERCOME AN INITIAL IMAGE OF AUSTERITY AND ARROGANCE AND HIS POPULARITY (AN APPROVAL RATING APPROACHING 70%) OUTSTRIPS THAT OF HIS PARTY. THE PSD PRESIDENTIAL-STYLE ELECTION CAMPAIGN CONCENTRATED ON CAVACO SILVA, HIS STYLE AND HIS RECORD. THE RESULTING VICTORY IS A REMARKABLE PERSONAL ACHIEVEMENT. I RECOMMEND THAT THE PRIME MINISTER SEND A CONGRATULATORY MESSAGE (DRAFT TEXT IN MIFT). I WILL HAVE OTHER RECOMMENDATIONS FOR MESSAGES WHEN THE MEMBERSHIP OF CAVACO'S NEW GOVERNMENT IS ANNOUNCED WHICH, WHILE IT MAY BE TODAY, IS MORE LIKELY TO BE LATER IN THE WEEK. IT MAY WELL NOT BE GREATLY DIFFERENT FROM THE PREELECTION GOVERNMENT, WITH ANY MAJOR RESHUFFLE TAKING PLACE AFTER PORTUGAL'S EC PRESIDENCY.

ARBUTHNOTT

YYYY

DISTRIBUTION

460

PAGE 2
RESTRICTED

MAIN

460

FCO/WHITEHALL
SED [-]

NNNN

RESTRICTED

043655
MDHIAN 0391

RESTRICTED
FM LISBON
TO DESKBY 031030Z FCO
TELNO 154
OF 030910Z APRIL 1991

Prime Minister
of Portugal
OK f
He will not have time for a
separate meeting with him on
13th April

PLEASE PASS THE FOLLOWING MESSAGE FROM SECRETARY OF STATE FOR
DEFENCE TO PRIME MINISTER.

BEGINS:

WHEN I SAW THE PORTUGUESE PM, CAVACO SILVA, ON 3 APRIL HERE IN
LISBON, I WAS STRUCK BY HOW CLOSE HIS POSITION IS TO OURS ON
EUROPEAN DEFENCE AND SECURITY AND PARTICULARLY ON THE IMPORTANCE HE
ATTACHES TO THE TRANSATLANTIC LINK AND KEEPING AMERICAN FORCES IN
EUROPE.

AS YOU KNOW, CAVACO SILVA WILL BE IN LONDON FOR THE OPENING OF THE
EBRD ON 15 APRIL AND HAS ASKED TO HAVE A MEETING WITH YOU. I
UNDERSTAND HE ATTACHES GREAT IMPORTANCE TO THIS AND THAT HIS OFFICE
HAVE MADE CLEAR THAT HE IS READY TO BRING FORWARD HIS ARRIVAL ON 14
APRIL OR DELAY HIS DEPARTURE ON 15 APRIL IF THIS WERE HELPFUL. IN
VIEW OF DOUGLAS' COMMENTS ON THE IMPORTANCE OF ENCOURAGING FURTHER
OUR RELATIONSHIP WITH THE PORTUGUESE, WITH THEIR IMPENDING
PRESIDENCY, IF IT WAS POSSIBLE FOR YOU, WITH ALL YOUR HEAVY
COMMITMENTS, TO MANAGE TO SEE HIM, IT COULD CLEARLY PAY USEFUL
DIVIDENDS IN THE COMING DISCUSSIONS IN THE EC, WEU AND NATO.

TOM

ENDS.

ARBUTHNOTT

YYYY

DISTRIBUTION

52

MAIN

48

LIMITED
NPDD
SED
NEWS D

PS/MR GAREL-JONES
PS/PUS
MR BROOMFIELD
MR P J WESTON

PAGE 1
RESTRICTED

RESTRICTED

04365
MDHIAN 001

INFO D
PS
PS/MR HOGG

MR GOULDEN
MR GREENSTOCK

ADDITIONAL 4

NO 10. D.S.

NNNN

PAGE 2
RESTRICTED

ccp.



Treasury Chambers, Parliament Street, SW1P 3AG
071-270 3000

14 March 1991

Christopher Prentice Esq
Private Secretary to the
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON SW1

CPA/ISA

Dear Christopher,

CHANCELLOR'S LUNCH WITH PORTUGUESE FINANCE MINISTER, MIGUEL BELEZA

The Chancellor gave lunch for Miguel Belezá on 26 February. Dr Belezá was accompanied by Dr Carlos Tavares (Secretary of State for the Treasury) and Professor Vitor Gaspar (Belezá's Special Adviser). The Financial Secretary, Mr H P Evans and Mrs Lomax were also present. The discussion focused almost exclusively on EMU.

Stage II

2. After a short exchange of opening courtesies, the Chancellor said that he sensed there was a fair deal of quite serious interest in the UK's ideas for a hard ecu. He hoped it would be possible to build on something on these lines. Dr Belezá said that he started from a different point: Portugal did not share the UK's reservation about the end point of EMU, though it was not necessarily urgent to resolve the difference. He believed a short transition was most undesirable. A multi-speed approach to Europe would be very unwelcome. He was not sure that the differences between our hard ecu proposals and the "hardened" ecu proposals put forward by others were necessarily very important. We already had, of course, a thirteenth currency in the existing ecu. It would, however, be important to establish an issuing institution for it from an early stage. And there might be a number of technical suggestions he would want to make. The transition should be substantive and, again, not too short. It should therefore be possible to avoid getting bogged down now on Stage 3 issues. Dr Tavares added that it would be helpful if Stage 2 were



long enough for us to acquire some useful practical experience of the workings of the new institution and its ecu operations.

3. Continuing, Beleza said that convergence would take some time. Professor Gaspar added that we ought to allow time to ensure that the parities at which currencies were to be fixed were the right ones. This might require a process of trial and error. The Chancellor indicated sympathy with this argument.

4. The Chancellor asked whether Beleza saw difficulties in the creation of a parallel currency. Beleza pointed out that we had parallel currencies now. He thought the parallel currency debate more relevant to the end-point of the process. The Chancellor said that the Germans saw the issue very differently. They saw the prospect of a more widely traded ecu as having unwelcome domestic implications, not dissimilar to the complicating existence of a large Euro-DM stock. Beleza made his familiar point that there might be asymmetric credit creation in different countries as a result of the EMF's activities, given different national money multipliers.

5. Professor Gaspar commented that the Spanish and UK proposals were very similar. But Spain's commitment to Stage 3 had a presentational advantage with the markets, which were likely to respond more favourably. Mrs Lomax commented that - whatever the truth of this - under either proposal we would still have to come to grips with the institutional issues for Stage 2.

Independence etc

6. Dr Beleza raised the issue of the new institution's status. In his view the bank should be independent. Portugal had just changed the statutory position of its own Central Bank. The Chancellor said it was one thing to grant independence to an established Central Bank. It was quite another to give a brand new institution total autonomy. Beleza said the problem was deciding who it should answer to. A small country like Portugal had relatively little monetary autonomy. If one accepted that an independent Central Bank provided the best guarantee of price stability, that pointed to an independent bank at a European level. We were now moving in that direction.

7. The Chancellor referred to the French wish to subordinate a EuroFed to the European Council. Beleza agreed that finding a way to reconcile independence with adequate accountability was proving difficult. He did not think that any of the proposals under discussion had dealt satisfactorily with this yet. The Financial Secretary said there was probably no wholly satisfactory answer. In practice, the day to day workings of the institution would be as important as what the Treaty, or the Bank's statutes, said. Existing Central Banks were often rather more similar in practice than the formal position on their legal status might suggest. Beleza agreed. But the EC was without a central banking history.



And he did not think that anything much short of full independence would be acceptable to Germany. The Chancellor noted that, with the exception of Germany and Portugal, most other countries were against full independence. He wondered whether Beregovoy's readiness to accept different arrangements for interest rate and exchange rate regimes was realistic. It was arguable that, in practice, interest rate decisions would determine exchange rates, whatever the Treaties said.

No bail-out rule

8. The Chancellor asked Beleza about "cohesion". He supported a no bail-out rule, yet favoured a "cohesion fund". Beleza said that he supported the Commission's proposals here. He accepted that structural funds might not, in reality, differ much from balance of payments support, and that the Community's procedures for providing support (he mentioned Greece) could on occasion leave a good deal to be desired. But transfers were necessary. He referred to the IMF's Compensatory and Contingency Financing Facility. Once exchange rates were fixed there would be few adjustment mechanisms available and a stabilisation mechanism which allowed the costs of adjustment to be spread would be appropriate. Asymmetric shocks would still occur. For example, a hike in the oil price hit Portugal far harder than the UK.

Cohesion and the Structural Funds

9. Beleza repeated the arguments he put to the Chancellor's predecessor for the delegation of greater flexibility in recipients' use of structural funds, and in co-financing arrangements. There were considerable regional differences for which the present arrangements did not adequately allow. It would be perfectly possible to increase flexibility while retaining adequate accountability. An increase in the efficiency with which funds were deployed would benefit Portugal without additional cost to others. Portugal's priorities were education, health and infra-structure. Mr Evans asked whether this was an issue for the Review of Structural Funds or for the IGC. Professor Gaspar said that it would be necessary to change Articles 126-128 of the Treaty, which inhibited flexibility, and to return some decisions from the centre to national Governments. The Chancellor invited Beleza to provide a note setting out these ideas more fully. The Financial Secretary added that we saw no theoretical obstacle.

Co-ordinating budgetary policies

10. Professor Gaspar said that Portugal might float the idea of combining discussion of the proposed multi-annual guidelines on budget deficits with the procedures for discussion of the financial perspectives. Beleza said that we had some way to go before achieving "budgetary convergence". He wished to make two other points: first, he did not want convergence on any Community average. Second, he did not favour a golden rule. He didn't mind



one. But it was intellectually indefensible and, in practice, useless. When Portugal had had such a rule it had never been respected. In principle, an inter-temporal solvency rule would be better. It would be complex, but workable. Another important relationship was between the primary surplus and the debt stock. The Chancellor agreed that this was a key indicator. He too was wary of averages. But was it necessary to make such indicators the subject of rules? Surely a genuine no bail-out rule should be sufficient? Beleza said he agreed, in principle. In practice, however, Germany could run an annual deficit of up to, say, 8 per cent without the slightest need for a bail-out, despite the fact that this would be far more damaging to the EC generally than a 20 per cent deficit in Greece. His conclusion was that we did need a mechanism of some kind to trigger alarm bells. Mrs Lomax said that there was self-evidently room for debate about the scale of the deficit Germany could sensibly run; whatever the mechanism, it should surely trigger consultation and surveillance procedures? Beleza agreed. Of course there were circumstances in which Germany could properly run a deficit. He was advocating binding procedures, not binding rules. What he had in mind was the activation of special procedures outside the normal surveillance arrangements. There would also need to be "symmetric" sanctions (it was not clear what he meant by this, though Professor Gaspar threw in a reference to the French idea of penal risk weighting in Banks' solvency ratios. The Chancellor agreed that the IGC should consider binding procedures, of the sort Beleza was suggesting. Dr Tavares commented that this would be much more effective, in any case, than an actual rule which would, inevitably, have to include a range of escape clauses.

Envoi

11. Concluding the discussion, the Chancellor said that although Portugal preferred the Spanish to the British route we had, nonetheless, a lot in common. Although there were clear differences on Stage 3, there was plenty to work on in the various ideas on the future of the ecu.

12. The Financial Secretary asked whether Beleza intended to contribute a paper to the IGC. Beleza thought not. The chances were that it would add confusion, not clarity.

13. The Chancellor said it was very important not to rush decisions on EMU. It was natural for Luxembourg, as for every Presidency, to want to show some achievement. But it would not necessarily be possible. Beleza said it was not outside the realms of possibility that the UK might conclude the IGC. (A dubious honour.)

14. The conversation gradually drifted off matters worthy of record. There was a very brief discussion of spending pressures in the Community, the Chancellor and Beleza agreeing that the current splurge of loan proposals was appalling. Beleza said he

CONFIDENTIAL



was in two minds whether setting an overall envelope would help: it might simply stimulate further spending proposals on behalf of everyone's proteges.

15. The Financial Secretary said that the UK had a number of ideas for imposing financial discipline in the Community, which we had put to the Conference on Political Union.

16. We ended with the usual assurances that we would stay closely in touch on all these issues.

17. I am copying this letter to Charles Powell (No. 10).

Tarkowski

T TARKOWSKI
Private Secretary



1971 1 - copying this letter to Charles Powell (ref. 10)

CONFIDENTIAL



su
etc.

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

12 March 1991

Dear Richard,

LINKS WITH PORTUGAL

Thank you for your letter of 1 March about the invitation from the Portuguese Prime Minister for the Prime Minister to visit Portugal this year. There is in fact quite a long history to this invitation. Cavaco Silva had been pressing Mrs. Thatcher for some time to make a visit and we had been rather fending him off. I have talked to the Prime Minister who in principle is quite attracted by the idea but thinks it would be difficult to fit into his other engagements. I think all we can do is put it to one side for a couple of months and then see whether the Prime Minister might be prepared to make a brief visit in September after his pilgrimage to Balmoral and before he has to settle down to prepare his Party Conference speech. You might like to consult Stephen Wall towards the end of May.

Yours sincerely,

(CHARLES POWELL) —

Richard Gozney, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

0

010



etc
②

Foreign &
Commonwealth
Office

CONFIDENTIAL

1 March 1991

London SW1A 2AH

Charter. H. refer ✓

Prime Minister

Jean Charles,

A nice idea. But I know you are keen to avoid too much foreign travel (e.g. don't play cricket).

Links with Portugal

On 26 February the Portuguese Prime Minister, Mr Cavaco Silva, said to the Foreign Secretary how very much he would welcome a visit to Portugal by the Prime Minister this year, especially if it could be before October when he has his elections. This request followed on from much warm sentiment and congratulation about the role of Britain in the Gulf. Mr Cavaco Silva said he came to Britain two years ago (as you probably remember) and this year would be a good time for the return match.

CBP
1/3

I recorded this in a telegram from Lisbon but the Foreign Secretary has asked me to make a point of drawing it to your attention. Naturally he is under no illusion about the likelihood of the Prime Minister finding time to go to Lisbon this year, ahead of the Portuguese Presidency in the first half of 1992.

Yours ever,

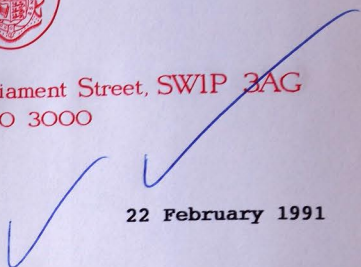
Richard Gozney
(R H T Gozney)
Private Secretary

Sir Charles Powell
10 Downing Street

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG
071-270 3000



22 February 1991

Sir Charles Powell KCMG
Private Secretary to
the Prime Minister
10 Downing Street
LONDON
SW1

Prime Minister

More briefing than you
will want or need. The
main objective is to try
to smoke him out to
give some explicit
support

Dear Charles,

VISIT OF PORTUGUESE FINANCE MINISTER, PROFESSOR BELEZA

... I attach a brief for Professor Beleza's visit, together with
details of his programme.

for our hard-
copy.

CBP
22/2

Tarred Tarkowski

T TARKOWSKI
Private Secretary

EMU

Monetary union and UK proposals

- UK proposals intended to be positive contribution to work of IGC. Evolutionary approach, including high degree of convergence in Stage 2, and development and hardening of the ecu, essential. UK proposals designed to achieve just that.
- would be interested to know Portuguese views on UK hard ecu proposals. Also interested to know views on Spanish and Tietmeyer proposals to harden the ecu, which have some common elements with UK ideas. Increasing consensus that some provisions along these lines needs to be implemented in Stage 2.
- Understand Portugal appreciates necessity of convergence in Stage 2, like UK. How can this best be achieved ? What mechanisms and institution will be developed? UK sees great danger that empty Stage 2 will not promote convergence, leading to strong political pressure to move quickly to Stage 3. Hence we need a substantive Stage 2, on UK or Spanish lines.
- Important to ensure arrangements for transition to Stage 3 enable all Member States to move together in a common framework. Have made clear UK cannot accept imposition of single monetary policy and single currency, but recognise UK proposals would enable the development of single monetary policy if peoples and Governments choose. It would be unacceptable for an individual Member State to be forced to move to a single currency, if or at a time when it did not wish to do so - whether for economic or political reasons.
- UK sees continuing advantages to further economic and monetary integration. Should be evolutionary, as in past. But great dangers in forcing the pace: a premature EMU would carry great risks in terms of employment etc.

- Would emphasise three main planks to UK position

All Member States should move forward in a common framework;

UK convinced of need to reach agreement on practical measures in Stage 2 - hence our proposals;

UK does not seek to confine IGC discussions to Stage 2;

But UK cannot agree Treaty provisions which would bind a future UK Government to move to Stage 3.

- So UK proposals are basis for discussion, not blueprint. If others wish to suggest ways to build on them so as to meet their objectives, then UK will actively participate in such discussions, subject to our reserve.

Economic union

UK and Portuguese positions have much in common:

- agree that much greater degree of economic convergence is required;
- agree that subsidiarity applies to economic policy; no need for a Community economic policy; what is needed is increased coordination of Member States economic policies, reinforced by multilateral surveillance;
- agree that legally binding rules on budget deficits are not necessary; a no bail-out rule is sufficient. Important for other Member States to realise difficulty binding rules could cause some Member States, notably the UK; would make ratifying an EMU Treaty impossible.
- what view does Portugal take of eg French proposals for sanctions on Member States with excessive deficits? (which might operate through withdrawal of some Structural Fund payments) Is there a case for making structural fund receipts conditional on appropriate macroeconomic policies?

Economic and social cohesion

- Appreciate importance of economic and social cohesion to Portugal and indeed all Member States. Prepared to recognise this in Treaty. But would oppose any commitment in Treaty to any new instrument or expansion of existing Community instruments. Such a reference would be unnecessary - and would probably give rise to disagreement in the IGC.
- Sound monetary and fiscal conditions, combined with flexible markets, create climate necessary for sustained and steady growth, high employment, and economic and social cohesion. Sure Portuguese understand this and government has made impressive progress. UK's hard ecu proposals would add further pressure for convergence on the appropriate economic policies.
- UK not hostile to structural funds. Prepared to consider some growth after 1993, but should not exaggerate effectiveness of such aid in solving regional problems. Experience (in UK, Italy, France etc) suggests that even very substantial grants cannot combat regional disadvantages effectively. Indeed, in some cases, such ill-judged action can hinder growth. And massive increases in assistance would be politically impossible for UK and probably other Member States.

Exchange rate mechanism

[Portuguese have said they would like to join ERM when possible, meaning when inflation is clearly falling to EC levels (it is currently at 13 per cent). They may be planning on entry towards the end of this year, and in any case before the Greeks]

- would be interested in Portugal's plans on timing of adherence to the ERM. What degree of inflation convergence is required?

Background - Portuguese views on EMU

Beleza and his main advisor Gaspar, both more technicians than politicians, have given some thought to the UK's hard ecu ideas. They have welcomed the publication of the EMF/hard ecu proposals as signalling a constructive approach. However they have said little in public beyond this, probably for fear of offending other major players.

2. The Portuguese have emphasised the importance of convergence during Stage 2. But they attach overriding importance to 'cohesion' and the need to avoid a two-speed Europe. In practise that means that they are looking for a substantial expansion of the structural funds of the role of Community expenditure in general. The Portuguese are extremely dependent on the funds, with expenditure amounting to about 3 per cent of GDP over the 1989-93 period. They give the impression that they will support any EMU proposals which are accompanied by big increases in the funds.

3. The Portuguese have tabled two sets of draft Treaty amendments (attached) - amendments to Articles 2 and 3 in the introductory chapter, and a proposal for Articles 102a to 105, the economic section. Their draft Article 2 refers to "a high level of employment, economic and social cohesion, the conservation of the environment" and of course the basing of EMU on a single currency. The generalised references to cohesion probably have little legal significance. Their proposed additions to Article 3 constitute a shopping list of new Community "activities" - structural funds, a common research policy, a common environmental policy, and a bail-out fund. We will wish to resist such proposals, and they do not appear to have a great deal of support outside the Southern states.

4. The Portuguese draft texts for the economic section of the Treaty are not unhelpful from our point of view. The main differences from the Commission texts are:

- (i) references to a Community economic policy are deleted, and replaced by reference to coordinated economic policies. This is very much in line with our approach;

(ii) the provisions for dealing with excessive budget deficits. Here the Portuguese position is closer to our own than to any other Member State; they do not see the need for sanctions against Member States running excessive deficits, and think a no bail-out rule would suffice.

So on economic union the Portuguese may prove to be useful allies. It may therefore be helpful to avoid spending too much time on cohesion, where our positions are diametrically opposed.

5. It is not yet clear what stance the Portuguese will take on Stage 2 and the transition to stage 3. They have made sympathetic noises about the hard ecu proposals in the past, without contributing much in the way of public support. They may well look with favour on the Spanish proposals for hardening the ecu in Stage 2. On the transition, they are firm on the importance of a much greater degree of economic convergence; and they will want to ensure that the Community moves to Stage 3 as twelve, so that they are not left behind; like the Greeks, they are thus likely to oppose that part of the Commission proposal which would allow a Member State to be derogated from the monetary provisions of Stage 3 without its agreement.

UNCLASSIFIED

PORTUGUESE ECONOMY

Portugal is the third smallest economy in the EC (only Ireland and Luxembourg are smaller). It has a population of 10 million and a GDP per head slightly over half that of the UK. Agriculture accounts for around 17 per cent of civilian employment, compared with 2 per cent for the UK.

PORTUGAL: ECONOMIC INDICATORS - per cent change on year earlier

			Est	Forecasts	
	1988	1989	1990	1991	1992
GDP	4.2	5.4	3.9	3.3	3.5
Domestic Demand	8.4	4.0	5.3	4.0	4.4
Consumer expenditure deflator	10.1	12.7	13.3	12.0	10.5
Current balance (per cent of GDP)	-2.6	-1.2	-2.0	-2.6	-3.1
Unemployment (per cent)	5.7	5.1	5.1	5.4	5.2
General government financial balance (per cent of GDP)	-5.4	-3.8	-6.0	-5.5	-4.8

source: OECD *Economic Outlook* (December 1990), except GGFD - from EC *Annual Economic Report 1990-91*.

2. Since accession to the EC in 1986 the Portuguese economy has grown strongly, with growth led by investment and exports. Since 1986 only Spain of the EC countries has grown faster. Although growth of GDP and domestic demand moderated during 1990, it is still expected to continue relatively strongly.

3. Rapid demand growth led to tightening goods and labour markets and an increase in inflation. This is particularly disappointing in view of the significant achievement of the mid 1980s: inflation was reduced from 29 per cent in 1984 to below 10 per cent in 1987.

UNCLASSIFIED

UNCLASSIFIED

4. A further effect of rapid demand growth was a significant deterioration in the current account balance, which had been in surplus between 1985 and 1987. Despite strong export growth, the current account deficit is likely to deteriorate further in 1991 and 1992 because of buoyant domestic demand. However strong capital inflows, exploiting Portugal's cost and productivity advantages, have meant that financing the deficit has not been a problem.

5. Monetary policy has been tightened since March 1989 in an attempt to curtail domestic demand growth. But in an unwelcome shift away from market-based instruments, the Portuguese authorities have imposed restrictions on consumer credit, credit ceilings on bank lending and reserve requirements.

6. In September 1990 the authorities announced a change in exchange rate policy: the previous system of preannounced and managed depreciation was replaced with a more flexible system. The exchange rate is now allowed to fluctuate more freely, although the government appears to have a broad target of a 3 per cent effective annual devaluation against a basket comprising DM, French Franc, peseta and lira.

7. Fiscal policy was loosened in 1990, most inappropriately, but the 1991 budget aimed to set the budget deficit back on a downwards direction. The debt to GDP ratio peaked in 1988 and has been declining since, although it still stands at a relatively high level (likely to remain over 60 per cent of GDP in 1991).

8. Portugal must make rapid progress in reducing inflation to a level where ERM entry is feasible. Convergence with other EC countries has been disappointing since 1987 when inflation was below 10 per cent and the current account surplus stood at 2 per cent of GDP.

IF2 Division
February 1991

UNCLASSIFIED

Financial Management and Accountability - UK proposals

- Financial Secretary has written recently to Mrs Ferreira-Leite (Portuguese State Secretary) about UK proposals on financial management and accountability for Political Union IGC.
- In recent years Community's main budgetary preoccupation has been with levels of expenditure. But we think it equally important to show the same commitment to proper management of resources. EC citizens and European Parliament are showing increasing interest in this issue. Failure to respond risks undermining Community's credibility and long-term development.
- So we are proposing a series of amendments designed to improve financial management, to maximise value for money, to ensure proper accountability and to secure consistency between legislative decisions and financial resources. A number of our amendments go in the same direction as ideas put forward by the European Parliament; and many replicate arrangements in place at national level across the Community.
- UK ideas aim to make practical contribution to efficiency and effectiveness in use of Community resources. Hope that we can look to Portugal for support.

Belgian proposals: qualified majority voting for fiscal matters

[The Belgians proposed amendments to Articles 99 and 100A which would enable the Council to take decisions on most fiscal matters by QMV. The Portuguese have supported the Belgian proposals in the Political Union IGC]

- UK opposed to extension of QMV to fiscal matters - both on sovereignty and economic grounds;
- Do not see harmonisation as the answer to "fiscal dumping". Centrally-imposed harmonisation, which would be made easier by QMV, unnecessary and undesirable. Harmonised systems and rates impose rigidity in the face of external economic or fiscal changes;
- In general, continue to believe that these matters are best left to the working of market forces - and see nothing harmful if Governments feel a market discipline on tax rates generally.

Common Agricultural Policy

Line to take

- proposals to assist Madeira/Azores will be examined on their merits: need for budgetary discipline to be maintained;
- UK will continue to press for CAP reform: need to increase exposure to market forces, make budgetary savings, benefit consumers.

Background

The CAP only applied to Portugal from the beginning of the second stage of its Accession to the EC, ie the start of this year. Extra costs to Community funds were identified (in a package of measures approved by the Agriculture Council in November last) as 97 mecu in 1991 and 149 mecu in a full year. Additionally, this year and next there will be 16 mecu of extraordinary revenues which Portugal will be allowed to retain rather than surrender to EC funds; this was the issue which you wrote and told Snhr Beleza the UK would support, following a direct request from him to you.

Currently, there are proposals in the pipeline to assist Madeira and the Azores, of which the agricultural component will cost 23 mecu a year for each of three years. These are being examined by officials (together with measures to assist the Canaries). There is a possibility of your being asked specifically to support these further measures.

Portugal was among the minority of EC member states which strongly supported the Commission's recent CAP reform plan, involving cuts in price support, offset by direct hectareage and headage payments. UK opposition to the plan (lack of budgetary discipline, bias towards small farms) was voiced by Mr Gummer, although he welcomed the Commission's intention to reform the CAP.

All CAP finance issues are overshadowed by the expected budgetary overspend this year; unless substantial economies are made, there is a high risk of the legally-binding "guideline" limit on agricultural support spending being breached, this year and next. Portugal may not be as concerned about this as we are.

BELEZA, DR MIGUEL

Minister for Finance

Born 1952 in Oporto. Brother of the ex-Minister for Health, Leonor Beleza.

Graduate in Economics. Worked under Cavaco Silva (q.v.) in the Research Department of the Bank of Portugal (1979-1985). Then went to IMF where he worked on Spain. Cavaco invited him back personally in 1987 to be an Administrator at the Bank of Portugal and he was subsequently promoted one of the five Vice-Governors. Long tipped as a future Minister of Finance and succeeded Cadilhe as such in the January 1990 reshuffle.

Has been visiting Professor to Brown University, Rhode Island USA; INSEAD, Fontainebleau, France; and the University of the Azores in Ponta Delgada. He is also Assistant Professor of Economics at the New University of Lisbon and closely linked with the brilliant Dr Jorge Braga de Macedo, the Professor of Economics at that University.

Rather academic and hitherto scornful of the incompetent economists at the Ministry of Finance. But a mild-mannered man on the surface. Made main speech at BIEC-sponsored "City of London" Seminar in Lisbon in April 1989. Speaks excellent English.

cc Mr Tarkowski

Opinion FCO program now revised

Department of Foreign and Commonwealth Affairs,
Foreign and Commonwealth Office

Professor Luis Miguel BELEZA
Minister of Finance

Lisbon

PORTUGAL

25-26 February 1991

Accompanied by Mrs Pauline Butler of the
Foreign and Commonwealth Office

Programme Organiser:

Mr Moray Angus
Overseas Visitors Section
Information Department
Foreign and Commonwealth Office
London SW1A 2AH

Direct Line: 071-217
Facsimile: 071-928 8611

Accompanied by:

Dr Carlos TAVARES
Secretary of State for the Treasury

Dr Antonio BARROS
Chef de Cabinet

Professor Vitor GASPAR
Special Adviser to the Minister

Dr Horacio PIRIQUITO
Press Adviser

Monday 25 February**ARRIVAL**

2140

Arrive at London Heathrow Airport on Portuguese Air Force Falcon 50 jet from Brussels.

Welcomed in the Hounslow suite by:

Dr Jose Caldeira Guimaraes, Economic Counsellor, Portuguese Embassy.

Mr Moray Angus, Overseas Visitors Section, Foreign and Commonwealth Office

Mrs Pauline Butler, Overseas Visitors Section, Foreign and Commonwealth Office.

Continue in cars to the Antheneum Hotel, 116 Piccadilly, London W1 (Tel: 071-499 3464) where accommodation has been reserved.

Tuesday 26 February

**BANK OF ENGLAND
PRIME MINISTER
LONDON INTERNATIONAL FINANCIAL
FUTURES EXCHANGE
CHANCELLOR OF THE EXCHEQUER
OFFICIAL LUNCH
DEPARTURE**

0840

Met at the hotel by Mrs Pauline Butler.

0845

Leave the hotel in cars.

0930

Arrive at the Bank of England, Threadneedle Street, EC3.

Met by The Rt Hon Robin Leigh-Pemberton, Governor.

1025

Leave Threadneedle Street.

PROFESSOR BELEZA

1100

Arrive at 10 Downing Street, SW1.

Met by the Rt Hon John Major MP, Prime Minister.

Tuesday 26 February contd

1130 Leave Downing Street.

ALL
1150 Arrive at the London International Financial Futures Exchange (LIFFE), The Royal Exchange, EC3.
Met by Mr David Burton, Chairman, and Mr Michael Jenkins, Chief Executive.

1230 Leave The Royal Exchange.

1300 Arrive at Lancaster House, Stable Yard, St James's, SW1.
for
1315 Lunch as guests of Her Majesty's Government.
Host: The Rt Hon Norman Lamont MP
Chancellor of the Exchequer.

1430 approx Leave Lancaster House for return to the hotel.
Available for further appointments.

1815 Leave the hotel in cars.

1915 Arrive at the Hounslow Suite, London Heathrow Airport.

2000 Depart London Heathrow on Portuguese Air Force Falcon 50 jet to Lisbon.



MT
c: Tarkowski

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

21 February 1991

Thank you for your letter of 20 February asking whether the Prime Minister would agree to see the Portuguese Finance Minister during his visit to London on 26 February. The Prime Minister could see Dr. Beleza at 1100 that day. That may require some adjustment to Dr. Beleza's existing programme.

Charles Powell

Tancred Tarkowski, Esq.

R



Treasury Chambers, Parliament Street, SW1P 3AG
071-270 3000

I would like to see
him - old friend,
useful ally.

(1)

4.20.2

20 February 1991

Sir Charles Powell KCMG
Private Secretary to
the Prime Minister
10 Downing Street
LONDON
SW1

Prime Minister

This is very
short notice. We
could appreciate it in,
you wish. But it may
open the floodgates.

Dear Charles

I am writing to recommend that the Portuguese Finance Minister, Dr Luis Miguel Bezeza, should call on the Prime Minister while he is in London on 26 February.

Wanted to see? CAP

As Chancellor, Mr Major was on good terms with Dr Bezeza and issued the original invitation which has resulted in this visit. In his letter to Dr Bezeza of 29 December (a copy of which I attach for convenience) the Prime Minister invited him to "come and see me if/when you are in London".

The Prime Minister may well wish to see Dr Bezeza if that is possible at this notice and this would certainly offer an opportunity to put across our views on European monetary cooperation at the highest level. Maintaining excellent relations with the Portuguese will also be useful for us in that their Presidency of the EC Council of Ministers will immediately precede our own in 1992 and there will be many issues in which we will want to seek their cooperation.

There are currently gaps in Dr Bezeza's programme between 11.30 am and 1.00 pm and then after lunch with the Chancellor from 3.30 pm. The Chancellor would be most grateful if the Prime Minister could spare half an hour at either of those times.

Tomasz Tarkowski

T TARKOWSKI
Private Secretary



10 DOWNING STREET
LONDON SW1A 2AA

Set for onward transmission

4ps
P3 / Mr Gareth Jones
Mr Greenstock

(42)

Amhs
3 1/2

THE PRIME MINISTER

29 December, 1990.

R - for action pps.

done
done
37/tii

Dear Luis,

Thank you so much for your wonderfully generous gift, which I have just received. It was characteristically kind of you and very much appreciated.

I already look back with nostalgia on my ECOFIN days, and hope very much that we can continue to keep in touch. Meanwhile I send you warmest good wishes for the New Year.

WSP 020/13

6 JAN 1991

Yours Ever,
John

Do come - see me if/when you come to London
and I shall look forward to seeing you again
on European occasions.

Dr. Luis Miguel Beleza

10/10/1950



(5)

Miss
Miss

22 November, 1950

Dear Mr. ...
I am ...
Yours ...

I have just received ...
and very much appreciated.

I already had ...
hope very much that ...
I send you ...

Yours ...
Mr. ...

I am ...
I shall ...
Yours ...

Dr. ...



10 DOWNING STREET
LONDON SW1A 2AA

*File CM
pa ufsw*

THE PRIME MINISTER

17 December 1990

Dear Miguel,

Thank you for your kind words on my recent appointment. It has been a great pleasure to work with you, especially in ECOFIN. I can assure you that I shall continue to work for the fullest co-operation and even stronger links between our two countries.

I look forward to seeing you again soon.

*Yours faithfully,
John H.*

Dr Miguel Beleza

SKW



Foreign and Commonwealth Office

London SW1A 2AH

12 December 1990

Dear Charles,

Message to the Prime Minister From
Portugese Finance Minister

// You may have seen the message of congratulations
for the Prime Minister from Dr Bezeza in Lisbon Telno 591
(copy attached). I enclose a draft reply.

Yours ever,
Christopher Prentice

(C N R Prentice)
Private Secretary

C D Powell Esq
10 Downing Street

DRAFT LETTER FROM THE PRIME MINISTER TO:

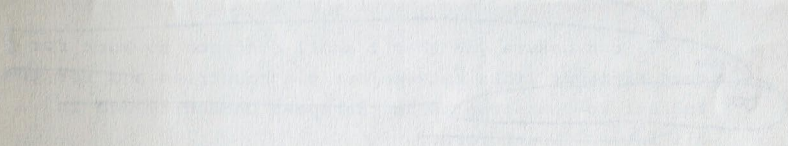
Dr Miguel Belezá

Thank you for your kind words on my recent appointment.
It has been a great pleasure to work with you, especially
in ECOFIN.

I can assure you that I shall continue to work for
even stronger links between our two countries and for the
fullest co-operation in the European Community and in
all international fora.

I look forward to seeing you again soon.

2



UNCLASSIFIED

173434
MDLIAN 3158

UNCLASSIFIED
FM LISBON
TO PRIORITY FCO
TELNO 591
OF 071400Z DECEMBER 90

PORTUGUAL: PERSONAL MESSAGE FOR PRIME MINISTER FROM MINISTER OF
FINANCE

1. I HAVE JUST RECEIVED, FOR FORWARDING TO THE PRIME MINISTER, A
PERSONAL LETTER FROM THE MINISTER OF FINANCE MIGUEL BELEZA, DATED 28
NOVEMBER. TO SEND IT ONLY BY BAG WOULD FURTHER DELAY IT SO I GIVE
THE TEXT BELOW. SIGNED ORIGINAL WILL FOLLOW.

QUOTE DEAR JOHN,
PLEASE ACCEPT MY WARMEST PERSONAL CONGRATULATIONS
FOR YOUR APPOINTMENT. I WOULD SAY IT WAS A PARETO
MOVE - THE ECOFIN TEAM WILL CERTAINLY LOSE - BUT I
AM SURE THAT BRITAIN'S AND EUROPE'S GAINS WILL
OUTWEIGHT THAT LOSS. I WISH YOU ALL THE BEST IN YOUR
POLITICAL AND ABOVE ALL PERSONAL LIFE.

WITH MY WARMEST REGARDS. UNQUOTE

2. FCO PLEASE PASS TO NO 10.

ARBUTHNOTT

YYYY

DISTRIBUTION 35

MAIN 34

LIMITED
SED
NEWS D
PS

PS/MR GAREL-JONES
PS/PUS
MR WESTON
MR GREENSTOCK

ADDITIONAL 1

PS/NO.10

NNNN

PAGE 1
UNCLASSIFIED



file in
not asked

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

5 December 1990

I attach a copy of a letter the Prime Minister has received from the Chargé d'Affaires at the Portuguese Embassy.

I should be grateful if you could provide a draft reply for the Prime Minister's signature. It would be helpful if this could reach as soon as possible.

BY N

RGPW SGNT 13/12

C. D. POWELL

Richard Gozney, Esq.,
Foreign and Commonwealth Office.

Men

Portuguese Embassy.
11. Belgrave Square.
London. SW1X 8PP

5th December, 1990

Dear Mr Powell

Further to the Portuguese Ambassador's letter of 28th November, enclosing a free translation of a message from the Portuguese Prime Minister, Prof. Aníbal Cavaco Silva, to The Prime Minister, The Rt. Hon. John Major, MP, I have the pleasure of enclosing the original letter just received from Portugal.

Yours sincerely
Francisco Seixas da Costa

(Francisco Seixas da Costa)
Chargé d'Affaires a.i.

Charles Powell, Esq.,
Private Secretary
(Overseas Affairs) to
The Prime Minister,
10 Downing Street,
London, SW1A 2AA



O Primeiro Ministro

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T111190

SUBJECT CC MASTER
OPS

MENSAGEM DE SUA EXCELÊNCIA O PRIMEIRO MINISTRO A SUA EXCELÊNCIA O PRIMEIRO MINISTRO DA GRÃ-BRETANHA E IRLANDA DO NORTE, SENHOR JOHN MAJOR

Gostaria de, em meu nome pessoal e em nome do meu Governo, endereçar calorosos votos de felicitações ao novo Primeiro Ministro da Grã-Bretanha e da Irlanda do Norte.

Estou certo de que juntos poderemos continuar a trabalhar na construção de uma nova Europa, aprofundando a integração comunitária e preservando os laços estabelecidos no quadro da Aliança Atlântica.

Portugal e a Grã-Bretanha estão ligados pela mais antiga aliança do mundo. Estou certo que, como no passado, saberemos honrar esse significativo legado, avançando na construção de relações bilaterais cada vez mais estreitas e frutuosas.

Lisboa, 28 de Novembro de 1990

Aníbal A. Cavaco Silva
Primeiro Ministro de Portugal



1830
1831

Portuguese Embassy.
11, Belgrave Square.
London, SW1X 8PP

clp
CDP
26/K.

26th October, 1989

Dear Mr. Powell

I would be most grateful if you would be kind enough to convey to the Prime Minister, The Rt. Hon. Margaret Thatcher, MP, the enclosed message, together with its free translation, from the President of the Republic of Portugal, Mr. Mário Soares.

*Yours sincerely
António Vaz-Pereira*

(António Vaz-Pereira)
Ambassador of Portugal

Charles D. Powell, Esq.,
Private Secretary
(Overseas Affairs) to
The Prime Minister,
Prime Minister's Office,
10 Downing Street,
London, SW1A 2AA

PRIME MINISTER'S
PERSONAL MESSAGE

SERIAL No. T187a/89

FREE TRANSLATION

SUBJECT a MASTER
OPS.

"Lisbon, 25th October 1989

Please accept Mrs. Prime Minister my sincere thanks for your message wishing the quick recovery of my son after the air accident he suffered.

Mário Soares"



Presidência da República

SUA EXCELENCIA
MARGARET THATCHER
PRIMEIRO MINISTRO BRITÂNICO
LONDRES

ACEITE, SENHORA PRIMEIRO MINISTRO, OS MEUS SINCEROS
AGRADECIMENTOS PELA MENSAGEM DE PRONTA RECUPERAÇÃO
QUE ENVIOU POR OCASIÃO DO ACIDENTE AÉREO SOFRIDO
PELO MEU FILHO.

MÁRIO SOARES

Root: Reb

COMMENT

RESTRICTED

FM LISBON

TO DESKBY 271800Z FOO

TELNO 299

OF 271705Z SEPTEMBER 89

AND TO DESKBY 272000Z PRETORIA, CAPETOWN

AND TO DESKBY 280900Z BUDAPEST

AND TO PRIORITY WASHINGTON, LUANDA

CM

PORTUGUESE PRESIDENT'S SON

1. JOAO SOARES, THE ONLY SON OF PRESIDENT SOARES, HAS BEEN SEVERELY INJURED IN A PLANE CRASH WHICH TOOK PLACE NEAR JAMBA IN SOUTHERN ANGOLA AT ABOUT 2000 LOCAL TIME ON 26 SEPTEMBER.

2. WE UNDERSTAND FROM GOOD SOURCES THAT SOARES JUNIOR, TOGETHER WITH SEVERAL OTHER PORTUGUESE POLITICIANS WHO HAD BEEN ATTENDING THE UNITA SPECIAL CONGRESS, WAS IN A TWO-ENGINE CESSNA PLANE TAKING OFF FROM JAMBA FOR NAMIBIA EN ROUTE TO A MEETING SCHEDULED WITH THE SWAPO LEADERSHIP IN NAMIBIA. THE LEFT ENGINE OF THE AEROPLANE CAUGHT FIRE ON TAKE-OFF AND THE PLANE CRASHED. SOARES JUNIOR, WHO WAS SITTING IN THE FORWARD PART OF THE PLANE, WAS THE MOST SEVERELY INJURED AND WAS FLOWN TO SOUTH AFRICA, WHERE HE IS NOW IN THE VERWOED HOSPITAL, PRETORIA. ACCORDING TO THE SOARES FAMILY DOCTOR (BARROSO) HE IS SUFFERING FROM CRANIAL TRAUMA, LIMB FRACTURES AND PELVIC AND JAW FRACTURES. WE HAVE ALSO HEARD REPORTS THAT HE WAS BADLY BURNED AND THAT AN OPERATION IS LIKELY TO TAKE PLACE IN THE HOSPITAL TODAY. THE DOCTOR, TOGETHER WITH MRS SOARES, ARE ON THEIR WAY TO PRETORIA. MEANWHILE THE PRESIDENT HAS WE BELIEVE LEFT AS SCHEDULED FOR BUDAPEST TO START A STATE VISIT TO HUNGARY.

3. THE AMERICAN EMBASSY HERE ARE OFFERING THE SERVICES OF A SPECIALISED MEDICAL TEAM. THEY UNDERSTAND THAT SOARES' JUNIOR'S CONDITION IS 'STABLE, BUT SERIOUS.'

4. WE WOULD STRONGLY RECOMMEND THAT GIVEN PRESIDENT SOARES' CHARACTER AND OUR TRADITIONAL LINKS WITH PORTUGAL OUR AMBASSADOR (WHO IS NOW IN LONDON) SEND A PERSONAL REPEAT PERSONAL MESSAGE OF SYMPATHY TO PRESIDENT SOARES VIA OUR EMBASSY IN BUDAPEST AS SOON AS POSSIBLE. ANY OFFICIAL MESSAGES CAN WAIT FOR FURTHER NEWS ABOUT JOAO SOARES' CONDITION.

5. PRETORIA/CAPETOWN: IF YOU HAVE ANY FURTHER INFORMATION, PLEASE LET US KNOW.

DRAKE-FRANCIS

VVVV

ADVANCE

4

HD/SED

1

HD/HOMS

1

HD/SAFD

1

RC

1

MAIN	54	
LIMITED		6
SED		7
SAFD		8
POD		3
NEWS		9
INFO		11
PS		7
PS/MR MAUDE		1
PS/PUS		1
MR RATFORD		1

[BRADLEY]

original of
message in
box.



men

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

15 August 1989

I am writing in Mr. Powell's absence to acknowledge the safe receipt of your letter of 14 August.

I will ensure that the Prime Minister sees the enclosed message as soon as she returns from holiday.

CAROLINE SLOCOCK

Senhora Graca Andresen Guimaraes

2

R 15/8

Portuguese Embassy,
11, Belgrave Square,
London, SW1X 8PP

Proc. 2,212

Nº 61

14th August, 1989

Dear Mr. Powell,

I would be most grateful if you would be kind enough to convey to the Prime Minister, The Rt. Hon. Margaret Thatcher, MP, the enclosed message, together with its free translation, from the Portuguese Prime Minister, Professor Aníbal Cavaco Silva.

Yours sincerely,

Grça Andressen Guimarães

(Grça Andressen Guimarães)
Chargé d'Affaires, a.i.,

Charles D. Powell, Esq.,
Private Secretary
(Overseas Affairs) to
The Prime Minister,
Prime Minister's Office,
10, Downing Street,
London, SW1A 2AA

Portuguese Embassy,
11, Belgrave Square,
London, SW1X 8PP

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T140 III A/89

SUBJECT cc MASTER
CPs

Box 4

FREE TRANSLATION

"Message from His Excellency the Prime Minister to Her
Excellency the Prime Minister of Great Britain, Mrs.
Margaret Thatcher

Sincerely thanking Your Excellency for the wishes sent
on the occasion of my birthday, I would like to reiterate
the wish of my Government in strengthening the relations
between our two countries, both bilaterally and in the
international organisations, so as to continue the path
of friendship and cooperation that has linked for centuries
Great Britain and Portugal.

Lisbon, 31st July, 1989

Aníbal A. Cavaco Silva
Prime Minister of Portugal"

mt



PRESIDÊNCIA DO CONSELHO DE MINISTROS

Gabinete do Primeiro Ministro

MENSAGEM DE SUA EXCELÊNCIA O PRIMEIRO-MINISTRO A SUA EXCELÊNCIA A
PRIMEIRA-MINISTRA DA GRÃ-BRETANHA, SENHORA MARGARET TATCHER

Agradecendo reconhecido a Vossa Excelência os votos formulados por ocasião do meu aniversário, quero reiterar o interesse do meu Governo em que o aprofundamento das relações entre os nossos dois países, no âmbito bilateral e no das Organizações Internacionais, prossiga o caminho de amizade e cooperação que une, desde há séculos, a Grã-Bretanha e Portugal.

Lisboa, 31 de Julho de 1989

Anibal A. Cavaco Silva
Primeiro-Ministro de Portugal

RESTRICTED

166365
MDLIAN 9903

SUBJECT cc MASTER
OPS

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. 114011A189

RESTRICTED
FM LISBON
TO PRIORITY FCO
TELNO 226
OF 311527Z JULY 89

MESSAGE TO PORTUGUESE PRIME MINISTER

1. FOLLOWING TELEPHONE CONVERSATION BETWEEN EMBASSY DUTY OFFICER AND MEMBER OF MRS THATCHERS STAFF IN PARIS ON 15 JULY, THE FOLLOWING MESSAGE WAS DELIVERED TO PROF CAVACO SILVA ON THE SAME DAY:

BEGINS I SEND YOU MY WARMEST CONGRATULATIONS ON YOUR 50TH BIRTHDAY. YOUR ACHIEVEMENTS HAVE ALREADY BEEN REMARKABLE, BUT I AM SURE THAT MANY MORE LIE AHEAD. WITH EVERY GOOD WISH FOR THE FUTURE, MARGARET THATCHER. ENDS.

DRACE-FRANCIS

YYYY

DISTRIBUTION

5

MAIN 5

NO DISTRIBUTION
PS TO PM

SED

NNNN

PAGE 1
RESTRICTED

FILE KK



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

14 July 1989

**PORTUGUESE PRIME MINISTER:
FIFTIETH BIRTHDAY**

I am afraid that we missed your letter of 13 July proposing a fiftieth birthday message from the Prime Minister to Professor Cavaco Silva until today.

You may like to send the following message:

"I send you my warmest congratulations on your fiftieth birthday. Your achievements have already been remarkable, but I am sure that many more lie ahead. With every good wish for the future."

Bk for T

(C. D. POWELL)

J. S. Wall, Esq.,
Foreign and Commonwealth Office.



Foreign and Commonwealth Office

London SW1A 2AH

13 July 1989

Paxen
to Paris 13/7.

Dear Charles,

Fiftieth Birthday of Portuguese Prime Minister

Professor Cavaco Silva celebrates his fiftieth birthday on 15 July. The Foreign Secretary considers that, exceptionally, the Prime Minister should send the Portuguese Prime Minister a birthday message. The Prime Minister knows Professor Cavaco Silva, who is a great friend of Britain and studied at Birmingham University. Portugal has been helpful to us, in particular, over the Falklands and in the EC. In Southern European countries, fiftieth birthdays are seen as important events and publicly treated as such. A warm message from the Prime Minister would cost nothing, but would be greatly appreciated by the Prime Minister of our oldest ally. We understand that he has already received messages from President Bush, Chancellor Kohl and the Soviet Prime Minister, Mr Ryzkhov.

I enclose a draft message which Mr Drace-Francis, Charge d'Affaires in Lisbon, could deliver on 14 July when he meets Professor Cavaco Silva's diplomatic adviser on other business.

Jams,
Steph

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

DSR (Revised Sept 85)

CONFIDENTIAL

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM:

Reference

DEPARTMENT: Prime Minister

TEL. NO:

CHASE
Your Reference

BUILDING:

ROOM NO:

SECURITY CLASSIFICATION

TO:

Copies to:

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Portuguese Prime Minister

SUBJECT:

PRIVACY MARKING

..... In Confidence

May I offer you my very best wishes and congratulations on your fiftieth birthday? I can assure you that these, and the years to come, are the very best moments of your life. You have already achieved so much, but I wish you well as you continue to lead the people of Portugal.

CAVEAT

Enclosures flag(s)

00
Portuguese Embassy,
1, Belgrave Square,
London, SW1X 8PP

CCP ②

Ria Amster

19/9.

**PRIME MINISTER'S
PERSONAL MESSAGE**

SERIAL No. 1143/88

19th September, 1988

*SUBJECT CC MASTER
CDS*

Dear Mr. Powell,

I would be most grateful if you were kind enough to transmit to the Prime Minister, The Rt. Hon. Margaret Thatcher, MP, the following message from the Portuguese Prime Minister, Mr. Aníbal Cavaco Silva.

"I would like to thank Your Excellency for the message of sympathy that you sent me on the occasion of the fire which destroyed part of the historical centre of Lisbon. I take this opportunity to inform of my Government's determination to quickly rebuild the affected area, which is part of the Portuguese cultural heritage.

Aníbal Cavaco Silva
Prime Minister of Portugal"

Yours sincerely

João Hall Themido

(João Hall Themido)
Ambassador of Portugal

C.D. Powell, Esq.,
Private Secretary
to the Prime Minister,
(Overseas Affairs),
Prime Minister's Office,
10 Downing Street,
London, SW1A 2AA

Handwritten notes at the top right of the page, including a date and possibly a name.



Handwritten notes at the top left of the page, including a name and possibly a date.



PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL NO 7042/82

2000-11-15

001

For to - 10/11/82

I would be most grateful if you would like to forward
to the Prime Minister, The Rt. Hon. Margaret Thatcher, MP, the following
message from the Institute of Physics, 4th, White Court, Bristol.

I would like to thank you for your letter for the message
of support that you sent in the occasion of the
the 10th anniversary of the theoretical centre of
physics. I have this opportunity to inform you of



FILE

PM

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

26 August 1988

PORTUGAL: FIRE IN LISBON

Thank you for your letter of 25 August about the disastrous fire in Lisbon. The Prime Minister has signed the enclosed message to Portugal's Prime Minister. I should be grateful if the text could be telegraphed to the Embassy in Lisbon for delivery as soon as possible.

(C. D. POWELL)

R. N. Peirce, Esq.,
Foreign and Commonwealth Office.

KK



PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T129/88

*Subject cc OS
msb*

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

26 August 1988

Dear Prime Minister,

I was horrified to hear of the fire which has destroyed a part of Lisbon's historic centre which I remember so well from my visit in 1984. I should like to convey the Government's deepest sympathy to you and your colleagues and to the people of Lisbon, and my condolences to those who may have lost relatives and homes.

Yours sincerely

Rajiv Gandhi

Professor A. Cavaco e Silva



Foreign and Commonwealth Office

London SW1A 2AH

25 August 1988

Dear Charles

Portugal: Serious Fire in Historic Lisbon

The Embassy have reported that a serious fire broke out in Lisbon this morning and devastated a large part of the historic centre. So far, two deaths and nineteen serious injuries have been reported. The Prime Minister will recall that she toured the area during her visit to Lisbon in 1984.

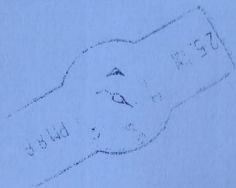
In view of the close friendship between Portugal and Britain, and the serious nature of this fire, I am sure that a message from the Prime Minister to Professor Cavaco Silva, as recommended by the Ambassador, would be very much appreciated, and I attach a draft. If the Prime Minister agrees, Mr Simpson-Orlebar could deliver the message.

We are in touch with Buckingham Palace about a message from The Queen.

Yours ever

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street



DSR 1 (revised Sept 85)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM: Prime Minister
DEPARTMENT:

TEL. NO:

Reference

PRLABX

Your Reference

BUILDING:

ROOM NO:

SECURITY CLASSIFICATION

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

TO:

Copies to:

Prime Minister of Portugal

PRIVACY MARKING

..... In Confidence

SUBJECT:

CAVEAT

I was shocked to hear of the fire which has destroyed a part of Lisbon's historic centre which I remember so well from my visit in 1984. I should like to convey the Government's deepest sympathy to you and your colleagues and to the people of Lisbon, and my condolences to those who may have lost relatives and homes.

Enclosures flag(s)

RESTRICTED

2 A 6 J
014236
MDADAN 7379

ADVANCE COPY

RESTRICTED
FM LISBON
TO DESKBY 251630Z AUGUST 88
TELNO 193
OF 251530Z AUGUST 88

MIPT: LISBON FIRE

1. SUGGESTED MESSAGE FROM HM THE QUEEN TO PRESIDENT MARIO SOARES:

I LEARNED WITH GREAT SADDNESS OF THE TERRIBLE FIRE WHICH HAS BADLY DAMAGED THE HISTORIC CENTRE OF LISBON. I SHOULD LIKE TO CONVEY MY CONDOLENCES TO YOU AND TO ALL THOSE AFFECTED BY THE TRAGEDY, PARTICULARLY THOSE FAMILIES WHO MAY HAVE LOST RELATIVES AND HOMES.

2. SUGGESTED MESSAGE FROM PM TO PRIME MINISTER CAVACO SILVA:

horrid
I WAS SHOCKED TO HEAR OF THE FIRE WHICH HAS DESTROYED A PART OF LISBON'S HISTORIC CENTRE WHICH I REMEMBER SO WELL FROM MY VISIT IN 1984. I SHOULD LIKE TO CONVEY THE GOVERNMENT'S DEEPEST SYMPATHY TO YOU AND YOUR COLLEAGUES AND TO THE PEOPLE OF LISBON, AND MY CONDOLENCES TO THOSE WHO MAY HAVE LOST RELATIVES AND HOMES.

SIMPSON-ORLEBAR

YYYY

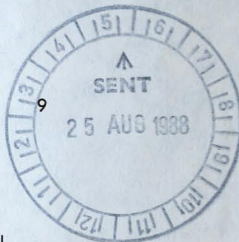
DISTRIBUTION

ADVANCE 9

PS/THE QUEEN
PS/PM
PS/MRS CHALKER
SIR J FRETWELL
MR RATFORD

HD/SED
HD/PROTOCOL
HD/CONSULAR
HD/NEWS

NNNN



PAGE 1
RESTRICTED

RESTRICTED

014231
MDADAN 7378

RESTRICTED
FM LISBON
TO DESKBY 251600Z FCO
TELNO 192
OF 251505Z AUGUST 88
INFO ROUTINE MADRID, UKREP BRUSSELS

ADVANCE COPY

ms

Message ready
for signature
cap

LISBON FIRE

SUMMARY

1. SERIOUS FIRE IN HISTORIC CENTRE OF LISBON. EXTENSIVE DAMAGE, BUT FIRE SEEMS TO HAVE BEEN BROUGHT UNDER CONTROL. TWO DEATHS AND 19 INJURIES REPORTED. NO BRITISH CASUALTIES. RECOMMEND MESSAGES OF SYMPATHY FROM HM QUEEN AND PRIME MINISTER.

DETAIL

2. THE FIRE IS REPORTED TO HAVE BROKEN OUT AT 0400 THIS MORNING IN A DEPARTMENT STORE IN THE 'CHIADO', A HISTORIC SHOPPING AREA. IT SPREAD VERY QUICKLY AND A NUMBER OF STREETS (INCLUDING PART OF LISBON'S PRIME SHOPPING STREET, THE RUA GARRETT) AND OTHER STREETS REBUILT AFTER THE GREAT EARTHQUAKE OF 1755 HAVE BEEN DESTROYED. HOMES AS WELL AS COMMERCIAL PREMISES HAVE BEEN LOST, THOUGH AS YET THERE IS NO ESTIMATE OF THE NUMBER OF PEOPLE AFFECTED AND RENDÉD HOMELESS. A 60-YEAR OLD MAN AND AN 8-YEAR OLD CHILD WERE REPORTED KILLED AND THERE ARE REPORTS OF 19 OTHER CASUALTIES, THOUGH THIS NUMBER MAY WELL RISE. THE CAUSE OF THE FIRE IS UNKNOWN BUT THE LOCAL MEDIA ARE SPECULATING ABOUT ARSON, AND POLICE ARE INVESTIGATING DEBRIS IN THE AREA.

3. AS REPORTED TO CONSULAR DEPARTMENT, WE KNOW OF ONLY TWO BRITONS AFFECTED BY THE FIRE, DAVID RODWAY COLEY, BORN 14.5.64, AND CAROL ROSEMARY JENKINS, BORN 6.9.65. BOTH ESCAPED UNHARMED FROM A HOTEL CLOSE TO THE HEART OF THE FIRE. THEY HAVE TELEPHONED THEIR FAMILIES FROM THE EMBASSY AND RETURN TO UK THIS EVENING.

4. THE FIRE IS BEING TREATED AS A NATIONAL DISASTER. BOTH PRESIDENT SOARES (WHO HAS CALLED IT THE WORST SINCE THE 1755 EARTHQUAKE) AND THE PRIME MINISTER CAVACO SILVA, HAVE INTERRUPTED HOLIDAYS TO VISIT THE SCENE AND AN EMERGENCY MEETING OF THE CABINET IS SCHEDULED FOR THIS AFTERNOON. THE PRESIDENT OF THE EC COMMISSION HAS SENT A MESSAGE OF SYMPATHY, AS HAVE THE SPANISH GOVERNMENT WHO HAVE OFFERED PRACTICAL HELP. IN VIEW OF THE SCALE OF THE DAMAGE TO THE HISTORIC CENTRE OF LISBON, I RECOMMEND MESSAGES FROM THE QUEEN AND THE PRIME MINISTER.

RESTRICTED

014231
MDADAN 7378

TEXTS IN MIFT.
SIMPSON-ORLEBAR

YYYY

DISTRIBUTION 9

ADVANCE 9

PS/THE QUEEN
PS/PM
PS/MRS CHALKER
SIR J FRETWELL
MR RATFORD

HD/SED
HD/PROTOCOL
HD/CONSULAR
HD/NEWS

NNNN





PM2AAX

cek

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

11 July 1988

PORTUGAL: CLAIMS

You wrote to me last week suggesting the Prime Minister should send to the Portuguese Prime Minister a further message about the failure of the Portuguese Government to settle the agricultural compensations which are outstanding. I have suggested this to the Prime Minister, who would prefer not to write herself at this juncture.

I recall that the Portuguese Prime Minister's Diplomatic Adviser mentioned to me in Hanover that an important step forward in solving these claims had just been taken by the Ministry of Finance. I fear that I cannot recall the details. But you may like to instruct our Ambassador in Lisbon to make a further early approach to the Portuguese Government at the appropriate level in which he can cite the Prime Minister's continuing concern at the failure to settle these claims.

C. D. POWELL

Lyn Parker, Esq.,
Foreign and Commonwealth Office.



10 DOWNING STREET

CF

Can 1 see

~~the papers please~~

COB

Dear Rina Rinzler

With warm regards

I do not think it wise
to send this letter but

Dear Ricc Pinotes
With warm regards
I do not think it wise
to send this letter now



10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

You will recall that when we met in London in March we discussed the outstanding British claims for agricultural compensation and the need to get them resolved quickly.

Since then, I understand that all the British claimants have been in contact with your Foreign Ministry but that there is still no sign of the direct talks designed to reach agreement on compensation terms.

Geoffrey Howe explained to you at Hanover how seriously we regard this matter. It is most unfortunate that these outstanding claims continue to bedevil us. I urge you to see to it that the whole unfortunate business is settled quickly. Not least, it would avoid the need for the subject to be raised every time we and our Ministers meet!

Professor A. Cavaco e Silva



10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

You will recall that when we met in London in March we discussed the outstanding British claims for agricultural compensation and the need to get them resolved quickly.

Since then, I understand that all the British claimants have been in contact with your Foreign Ministry but that there is still no sign of the direct talks designed to reach agreement on compensation terms.

Geoffrey Howe explained to you at Hanover how seriously we regard this matter. It is most unfortunate that these outstanding claims continue to bedevil us. I urge you to see to it that the whole unfortunate business is settled quickly. Not least, it would avoid the need for the subject to be raised every time we and our Ministers meet!

Professor A. Cavaco e Silva



Foreign and Commonwealth Office

London SW1A 2AH

7 July 1988

1872
ccpc
Dear Charles,

Portugal: Agriculture Compensation

We are still making little progress in obtaining compensation from the Portuguese Government for those British subjects who suffered losses after the expropriation of their properties in the 1974 uprising. You will recall that the Prime Minister raised this issue with the Portuguese Prime Minister on his visit to London in March. Cavaco Silva said that the claimants should contact the Portuguese Foreign Ministry. Although they have done this, the Portuguese have made no attempt to open direct talks and on 8 June even asked the Embassy for names of the representatives of the claimants despite having already received the information in March.

The Foreign Secretary has raised the matter with the Portuguese on a number of occasions in the margins of EC meetings. Most recently he spoke to Cavaco Silva at the Hanover Council and was told that, once the information on the claimants had been checked out, "the matter should proceed expeditiously". Unfortunately, we have heard that before.

The Foreign Secretary believes that a further message from the Prime Minister to Cavaco Silva would be helpful at this stage. I enclose a draft. Cavaco Silva is the only person who can settle this matter and the message would keep up the pressure on him to do so. The message would also be very useful presentationally in the House, where there is still interest in these claims, as was demonstrated by the recent Adjournment debate.

If the Prime Minister agrees to send a message, we will ask the Ambassador in Lisbon to deliver it personally to Cavaco Silva.

Yours ever,
L. Parker

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street

SK (Revised Sept 85)

DRAFT: minute/letter/teleletter/despach/note

TYPE: Draft/Final 1 +

FROM:

Prime Minister
DEPARTMENT:

TEL. NO:

BUILDING:

ROOM NO:

Reference

PR6ABC

Your Reference

SECURITY CLASSIFICATION

Top Secret

Secret

Confidential

Restricted

Unclassified

TO:

Copies to:

Professor Cavaco Silva

Prime Minister of Portugal

B min

SUBJECT:

DSS ABH

PRIVACY MARKING

..... In Confidence

CAVEAT

You will recall that when we met in London in March we discussed the outstanding British claims for agricultural compensation and the need to get them resolved quickly.

Since then, I understand that all the British claimants have been in contact with your Foreign Ministry but that there is still no sign of the direct talks designed to reach agreement on compensation terms.

Geoffrey Howe ^{explained to} you at Hanover how seriously we regard this matter. It is most unfortunate that these outstanding claims continue to bedevil us. I urge you to see to it that the whole unfortunate business is settled quickly. ^{Since NOT best, it would} It would make life considerably easier for your Foreign Minister if it could all be sorted out before he

(comes from this)

~~has~~ talks with Geoffrey Howe on 31 October!

avoid the need for the subject to be raised any time we see our Ministers meet!

Enclosures flag(s)



Portuguese Embassy,
11, Belgrave Square,
London, SW1X 8PP

cc PC

3rd November, 1987

AM

Dear Mr. Powell,

I would be most grateful if you would be kind enough to deliver the enclosed letter from the Portuguese Prime Minister, Mr. Aníbal Cavaco Silva, to the Prime Minister The Rt. Hon. Margaret Thatcher, MP.

Yours sincerely

João Hall Themido

Ambassador of Portugal

C.D. Powell, Esq.,
Private Secretary,
Prime Minister's Office,
10 Downing Street,
London, SW1A 2AA

4



PRESIDÊNCIA DO CONSELHO DE MINISTROS

Gabinete do Primeiro Ministro

SUBJECT CC MASTER
OPS.

PRIME MINISTER'S

PERSONAL MESSAGE

Lisbon, September 26th, 1987

SERIAL No. T772AA/87

Dear Prime Minister,

I would like to thank you for your meaningful message of congratulations on the result achieved in the last elections.

I am confident that the traditionally excellent relations between our two countries will still be further strengthened and I share your pleasure in working closely together in the European Community and in NATO, which I am sure, will bring about fruitful results.

Sincerely,

Anibal A. Cavaco Silva
Prime-Minister of Portugal

Her Excellency
The Rt. Hon. Margaret Thatcher PM

Bill [unclear]

[Faint, illegible text]



[Faint, illegible text]

SUBJECT
CC MASTER
OPS

CONFIDENTIAL

67425 - 1

OCMIAN 7425
CONFIDENTIAL
DD 201600Z LISBO
FM FCOLN TO LISBO
201330Z JUL
GRS 110
[COLLAR]
CONFIDENTIAL
FM FCO
TO DESKBY 201600Z LISBON
TELNO 117
OF 201330Z JULY 87

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T11418

PORTUGUESE ELECTIONS: MESSAGE FROM THE PRIME MINISTER

PLEASE HAND OVER THE FOLLOWING MESSAGE AS SOON AS POSSIBLE FROM
THE PRIME MINISTER TO PROFESSOR CAVACO SILVA.

BEGINS:

'I SEND YOU MY WARMEST CONGRATULATIONS ON YOUR MAGNIFICENT
ELECTION VICTORY. IT IS A REMARKABLE ACHIEVEMENT BOTH FOR
YOUR PARTY AND FOR YOU PERSONALLY. I AM PARTICULARLY
PLEASED BECAUSE IT MEANS THAT WE CAN CONTINUE WORKING
CLOSELY TOGETHER, IN THE EUROPEAN COMMUNITY AND IN NATO.

WARM REGARDS.

MARGARET THATCHER

ENDS.

THERE WILL BE NO (NO) SIGNED ORIGINAL.

HOWE

OCMIAN 7425

NNNN

YYYY

MAIN

EUROPEAN POLITICAL
SEC

Confidential



Ali Pinn
(65)

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

20 July 1987

PORTUGUESE ELECTIONS

BA ||

I shall be grateful if you could arrange for the following message from the Prime Minister to Mr. Cavaco Silva to be delivered to our Embassy as soon as possible:

"I send you my warmest congratulations on your magnificent election victory. It is a remarkable achievement both for your party and for you personally. I am particularly pleased because it means that we can continue working closely together, in the European Community and in NATO."

Warm regards,

Margaret Thatcher"

C. D. Powell

Lyn Parker Esq.,
Foreign and Commonwealth Office.

PLEASE PASS THE FOLLOWING MESSAGE FROM THE PRIME MINISTER TO
MR. CAVACO SILVA

"I send you my warmest congratulations on your magnificent election victory. It is a remarkable achievement both for your party and for you personally. I am particularly pleased because it means that we can continue working closely together, in the European Community and in NATO.

Warm regards,

Margaret Thatcher"

20 July 1987

GRS 185

UNCLASSIFIED

FM LISBON

TO PRIORITY FCO

TELNO 81

OF 061010Z APRIL 87

INFO ROUTINE EC POSTS, WASHINGTON, MOSCOW

COLLAR.

MY TELNO 76 : PORTUGUESE POLITICAL CRISIS.

SUMMARY

1. THE PORTUGUESE GOVERNMENT FELL ON 4 APRIL AFTER BEING DEFEATED IN A VOTE OF CENSURE.

DETAIL

2. AS EXPECTED, THE MINORITY SOCIAL DEMOCRATIC PARTY (PSD) GOVERNMENT OF CAVACO SILVA WAS DEFEATED ON THE CENSURE MOTION AND WAS ACCORDINGLY REQUIRED TO RESIGN. FINAL VOTING FIGURES WERE 134 FOR THE MOTION (SOCIALIST PARTY, DEMOCRATIC RENEWAL PARTY AND COMMUNIST PARTY), 108 AGAINST (PSD AND CENTRE DEMOCRATIC PARTY), WITH ONE INDEPENDENT ABSTAINING.

3. PRESIDENT SOARES RETURNED FROM BRAZIL ON 6 APRIL. AS EXPLAINED IN MY T U R, HE CAN EITHER CALL EARLY ELECTIONS OR LOOK FOR A NEW GOVERNMENT FROM THE EXISTING ASSEMBLY. SINCE CAVACO SILVA HAS REITERATED HIS REFUSAL TO FORM A NEW ADMINISTRATION AND HIS DESIRE FOR ELECTIONS, A NEW GOVERNMENT WOULD PROBABLY NEED TO BE HEADED BY THE SOCIALIST PARTY LEADER, CONSTANCIO, WHO HAS INDICATED THAT HE MIGHT CONSIDER TRYING TO FORM ONE.

4. IF SOARES DOES DECIDE ON ELECTIONS, THESE CANNOT BE BEFORE EARLY TO MID JULY SINCE THE ELECTORAL LAW REQUIRES A MINIMUM PERIOD OF 80 DAYS FOR THE CAMPAIGN. SOARES WILL WISH TO MAKE ANY SUCH DECISION SOON, SINCE ELECTIONS LATER THAN MID-JULY WOULD RUN INTO THE LENGTHY SUMMER BREAK AND BE EVEN MORE UNPOPULAR.

SIMPSON-ORLEBAR

YYYY

LPLNAN 4263

EUROPEAN POLITICAL

SEC.

mt

GRS 380

Restricted

RESTRICTED
FM LISBON
TO IMMEDIATE F C O
TELNO 367
OF 281438Z NOVEMBER 86
NFO IMMEDIATE UKREP BRUSSELS
FRAME GENERAL

YOUR TELNO 181 : CALL ON PORTUGUESE PRIME MINISTER

1. AT MY MEETING WITH PROFESSOR CAVACO SILVA THIS MORNING, I HANDED HIM THE PRIME MINISTER'S MESSAGES ABOUT THE PORTUGUESE INDUSTRIAL PROGRAMME (PEDIP) AND THE EUROPEAN COUNCIL (YOUR TELNO 430 TO ATHENS), WITH THE TWO ASSOCIATED REPORTS. COPIES GOT TO THE MFA.

2. CAVACO SILVA WAS PLEASED AT THE LATEST DEVELOPMENTS ON PEDIP AND GRATEFUL TO THE PRIME MINISTER AND DELORS FOR THEIR HELP. PROVIDED THE COMMISSION MADE ITS ANNOUNCEMENT TODAY IN THE TERMS WHICH HE UNDERSTOOD WERE INTENDED, HE SHOULD NOT NEED TO RAISE THIS ISSUE IN THE EUROPEAN COUNCIL.

3. HE WAS HAPPY WITH THE PRIME MINISTER'S IDEAS FOR THE HANDLING OF THE COUNCIL DISCUSSIONS. PORTUGAL BELIEVED THAT PROGRESS ON COHESION NEEDED TO GO HAND IN HAND WITH THAT ON THE INTERNAL MARKET, OTHERWISE EXISTING IMBALANCES COULD BE MADE WORSE. BUT IT WAS NOT PORTUGAL'S WAY TO APPLY EXCESSIVE PRESSURE IN SUPPORT OF ITS OWN INTERESTS OR TO BLOCK POSSIBLE ADVANCES. HE HAD CAREFULLY STUDIED THE PRIME MINISTER'S EARLIER MESSAGE ABOUT THE INTERNAL MARKET COUNCIL AND INDICATED WE SHOULD HAVE PORTUGUESE SUPPORT ON 1 DECEMBER.

4. CAVACO SILVA TOOK NOTE THAT THE PRIME MINISTER HAD ASKED DELORS TO SPEAK ABOUT THE COMMISSIONS'S TIMETABLE FOR THE REVIEW OF COMMUNITY FINANCES. HE SHOWED NO DESIRE FOR A DISCUSSION THAT ANTICIPATED THE COMMISSION'S REPORTS. THE CAP WAS "UNSUSTAINABLE" AND HEADS OF GOVERNMENT MUST PLAN TO THE END OF THE CENTURY. HE LOOKED FORWARD TO DISCUSSING THE OTHER THEMES PROPOSED BY THE PRIME MINISTER, INCLUDING EAST/WEST RELATION, AND HAD NO FURTHER FOREIGN POLICY SUBJECTS IN VIEW.

SIMPSON ORLEBAR

YYYY
LPLNAN 3138

FRAME GENERAL
ECU(1)

Restricted

010

MR 2/72

CCPC

CDP
27/11



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

26 November 1986

Ms C Bradley
PS/Secretary of State for Trade and Industry

Dear Catherine

LETTER FROM SENHOR MIGUEL CADILHE

Senhor Miguel Cadilhe wrote to the Chancellor of the Exchequer on 17 November about the difficulties facing Portuguese industry now that Portugal is a member of the European Community. I enclose that letter and the Chancellor's reply which undertakes to draw this issue to the attention of the President of the Industry Council.

I am copying this letter to Charles Powell (No.10), Colin Budd (FCO) and Trevor Wooley (Cabinet Office).

Yours ever,

Tony

A W KUCZYS
Private Secretary



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

26 November 1986

Senhor Dr Miguel Jose Ribeiro Cadilhe
Minister of Finance
Portugal

A handwritten signature in dark ink, appearing to read 'Miguel Jose Ribeiro Cadilhe'.

Thank you for your letter of 17 November about the integration of Portugal into the European Community and the special difficulties facing Portuguese industry.

It is the firm view of the United Kingdom that the Community must stand by the commitments given to Portugal during the accession negotiations.

I understand that the Commission intends to send a team of officials to Portugal to explore ways in which your industrial needs might be best met. I also understand that these issues will shortly be brought before the Industry Council. I would not want to prejudge the decisions which that Council might take but I can assure you that the UK will look as sympathetically as possible on any Commission proposals.

I am drawing your letter to the attention of the Presidents of the Budget Council (Peter Brooke) and the Industry Council (Paul Channon).

A large, stylized handwritten signature in dark ink, appearing to read 'Nigel Lawson'.

NIGEL LAWSON

TRANSLATION

To Minister Nigel Lawson

Your Excellency

The integration of Portugal in the European Community is linked to a project of country which is an important priority of my Government.

In this context the Portuguese industry should play a decisive rôle , taking into account its importance in the economic and social environment, as well as the fact that it gives the main contribution to development in Portugal. During the transitional period after accession the Portuguese industrial sector has to face a set of problems: adjustment to new conditions resulting from European integration, fast adaptation to recent technological innovation and also pressures emerging from competition of the new industrialized countries.

In the process of negotiations for accession the Community acknowledged the dimension of such problems and committed itself to support Portugal in its effort for modernizing the industrial sector, a commitment which was laid down in Protocol 21 and in a statement included in the Act of Accession.

Such an assistance cannot be neglected mainly because of its importance for an area of economic activity which is a decisive one for recovering and developing the Portuguese economy.

This matter is being reviewed by the Commission, which has prepared already its first report with proposals and suggestions, and is dealt with by The Industry Council. However, having in mind the implications of these problems both in the implementation of economic and financial policies, and in the Community budget, we think there

are surely good reasons for bringing such matter to the attention of the ECOFIN Council and as well of the Budget Council.

In fact it is our understanding that the Community budget for 1987 should include a specific budgetary item for the modernization of the Portuguese industry in order to implement the guidelines and commitments stated in the documents above mentioned which are a part of the Act of Accession.

I would like therefore to stress the importance given by Portugal to this matter and ask you also to transmit to the President of the Budget Council our concern and expectations.

I am confident that this Portuguese request will be considered by Your Excellency with great attention.

Best regards,

221
1911
1815



(NON-OFFICIAL TRANSLATION)

Lisbon, 14th November 1986

Dear Prime Minister,

As you are aware Portugal's adhesion to the European Economic Communities constitutes a landmark in the history of my country.

With our full and active presence it is not only Community Europe that is reinforced in its political, economic and cultural expression. For the Portuguese too, the adhesion to the European Communities reflects a clear political will and is closely linked to a development project, which my Government deems as a priority objective.

Besides, during the conversation we had in London the 12th May last, I had the occasion to refer to you the importance that I attribute to this question.

We would seriously be eluding the expectations, so frank and diligent from most Portuguese, should it not be possible to ensure, in the short term and in the context of the European Community, the paths to economic and social development of my country.

The Portuguese economy faces a difficult challenge, since it must simultaneously promote its recovery and adapt to new conditions emerging from European integration.

Being the motor of economic development, Portuguese industry reveals the need for a deep and systematic effort of modernization - without which it will be impossible to insure a sustained progress of the Portuguese economy.

Acknowledging this reality, the Community assumed, in the context of the negotiations for the adhesion, the engagement of supporting Portugal in the development of its industry. That engagement results evident and unequivocal from Protocol 21 and from a Declaration of the Community inserted in the Acts of adhesion.

The end of the first year after the adhesion approaches and it is clear that the Community has not yet taken the necessary initiatives to the fulfilment of that engagement. This situation causes profound concern to my Government, hurts the legitimate expectations of our industrial sector and has political implications of serious consequences, namely about the credibility of our european option itself.

We believe, naturally, that the technical and financial support to the modernization of Portuguese industry may assume several forms and different modalities. We are willing to search, with the Governments of other Member States and the Commission for the more adequate framework to the fulfilment of this supplementary effort directed to the industrial development of my country.

I would not like to elude the budgetary crises that the Community is confronted with and before which Portugal has assumed a position of balance and defense of the economic interests at stake. However, my Government can not renounce to a support foreseen on the occasion of Portugal's adhesion to the Communities, nor accept solutions differed in time or with imponderable results.

It will not be reasonable to ask Portugal to participate and follow the efforts to the realization of the internal market, which, for us, should be parallel to the strengthening of economic and social cohesion, if the essential support to update its industrial sector is denied.

I feel it is urgent to give a decisive impulse to this communitary engagement, so important to the strategy of recovery of the Portuguese economy.

I believe that you are aware of the political importance this question has for Portugal. I would like to inform you that in the absence of any positive development from the communitary instances it is my intention to raise this question in the next European Council, in the belief that the Community wishes to fulfil in its integrity the engagements derived from the adhesion of my country.

I avail myself of this opportunity, Prime Minister, to renew to you the assurances of my highest consideration.

CONFIDENTIAL

MA

TOP COPY

7

786 - 1

OCMIAN 0786
CONFIDENTIAL
PP ROMEE
PP ATHEN
FM PCOLN TO LISBO
241230Z NOV
GRS 150

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T ²²¹⁷ ~~229~~ / 86

MAD 221/3

CONFIDENTIAL
FM FCO
TO IMMEDIATE LISBON
TELNO 182
OF 241230Z NOVEMBER 86
INFO PRIORITY UKREP BRUSSELS, OTHER EC POSTS

SUSPECT
CC MASTER
OPS

MIPT: CALL ON PORTUGUESE PRIME MINISTER

1. FOLLOWING IS TEXT OF THE PRIME MINISTER'S MESSAGE TO
PROFESSOR CAVACO SILVA.
BEGINS

THANK YOU FOR YOUR LETTER OF 14 NOVEMBER ABOUT DIFFICULTIES
FACING PORTUGUESE INDUSTRY.

I UNDERSTAND THAT YOU HAVE ALSO WRITTEN TO M DELORS. I WAS
VERY PLEASED TO LEARN THAT HE HAS OFFERED TO SEND A COMMISSION
TEAM TO PORTUGAL IN THE NEAR FUTURE TO ASSESS YOUR NEEDS.

IT GOES WITHOUT SAYING THAT THE UK STANDS BY THE COMMITMENTS
MADE TO PORTUGAL DURING THE ACCESSION NEGOTIATIONS.

I SHALL BE WRITING SHORTLY ABOUT OUR PLANS FOR THE EUROPEAN
COUNCIL. I AM LOOKING FORWARD TO WELCOMING YOU TO LONDON THEN.
WITH BEST WISHES

YOURS SINCERELY

MARGARET THATCHER

ENDS

2. PORTUGUESE MESSAGE TO THE PRIME MINISTER AND OTHER EC HEADS
OF GOVERNMENT HAS BEEN SENT TO YOU BY BAG.

HOME
OCMIAN 0786
FRAME GENERAL
ECOG

1

CONFIDENTIAL

CONFIDENTIAL

FILE CAJ



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

23 November 1986

Dear Colin,

MESSAGE FROM THE PRIME MINISTER OF PORTUGAL

Thank you for your letter of 21 November, enclosing a draft reply from the Prime Minister to the message from the Prime Minister of Portugal. This may issue.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer and the Secretary of State for Trade and Industry and to Sir Robert Armstrong.

Yours sincerely
Chris Powell

C. D. POWELL

C. R. Budd, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL

CAJ



CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

21 November 1986

Prime Minister
This reply seems fine. The Portuguese are not beneficiaries. Agree?
Dear Charles, CDP 24/11

Yes not

Message from the Prime Minister of Portugal

I enclose a message from the Prime Minister of Portugal delivered by the Portuguese Ambassador on 17 November, together with a draft reply. The translation of Professor Cavaco Silva's letter was made by the Portuguese Embassy.

The Portuguese are disappointed by the Commission's reaction to the "Programme for the Development of Portuguese Industry" which they submitted in February this year. The Commission, who responded in October with a Communication to the Council:

- a) accepted that a coordinated programme of action was required to restructure Portuguese industry in the period up to 1992 (when Portugal's transitional regime with the Community ends) but
- b) noted that existing or proposed EC measures should be sufficient to provide the Community contribution to the plan that has been requested. (Portugal is seeking Community financing of some 1 billion ecu (about £700 million) for a 1.5 becu programme.

The Portuguese do not consider that these proposals fulfil the commitments made by member states in the accession, negotiations, notably Protocol 21 and a Declaration by the EEC on the modernisation of the Portuguese economy. Protocol 21 notes Portugal's industrialization plans and recognises the common interest in seeing those plans realised.

The Portuguese Prime Minister has written in similar terms to M. Delors, who has replied announcing that the Commission will shortly send an evaluation mission to Portugal.

Portugal is already benefitting from the Regional and Social Funds and must continue to look to these programmes and to normal Community loan instruments for assistance. Most member states will take a similar view. Our main immediate aim is to keep the issue off the European Council agenda where it would lead to an unwelcome discussion of 'cohesion.' The Foreign Secretary therefore recommends a

CONFIDENTIAL

CONFIDENTIAL



short, friendly reply referring to the impending visit by the Commission. The Prime Minister's reply could be delivered by our Ambassador in Lisbon who will anyway be calling on the Portuguese Prime Minister next week. We should aim to send the reply no later than Monday morning, 24 November if possible.

I am copying this letter to PS/Chancellor of the Exchequer, PS/Secretary of State for Trade and Industry, PS/Sir Robert Armstrong.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

OUT TELEGRAM

	Classification CONFIDENTIAL	Caveat	Precedence IMMEDIATE
--	---------------------------------------	--------	--------------------------------

ZCZC
TC
CAVEAT
FM
TO
TELNO
OF
AND TO

1	ZCZC
2	CONFIDENTIAL
3	
4	FM FCO
5	TO IMMEDIATE LISBON
6	TELNO
7	OF 201730Z NOVEMBER 86
8	INFO PRIORITY UKREP BRUSSELS, OTHER EC POSTS
9	
10	YOUR TELNO 345 (NOT REPEATED): CALL ON PORTUGUESE PRIME MINISTER
11	
12	1. When you call on Professor Cavaco Silva grateful if you
13	would deliver to him the message from the Prime Minister in MIFT.
14	2. Please also draw on the following points:
15	(i) The Prime Minister looks forward to welcoming Professor
16	Cavaco Silva to London for the European Council. She hopes that
17	the early despatch of a Commission team to Portugal is a
18	demonstration that the Community stands by the commitments made
19	during the Accession negotiations.
20	(ii) The Prime Minister will be writing round shortly to
21	describe how she plans to handle the European Council and we
22	shall be circulating short background papers. We envisage the
23	discussion in the opening plenary session on the afternoon of
24	Friday 5 December as concentrating on:
25	a) Employment Growth ie the ideas under discussion by Employment
26	Ministers to help both young people and adults into employment,
27	help the long-term unemployed into jobs, promote the creation of
28	self-employment and small and medium-sized firms, and improve
29	workings of the labour market. We are grateful for Portugal's

///
//
/



YYYY
MAIN
ADDITIONAL
NNNN

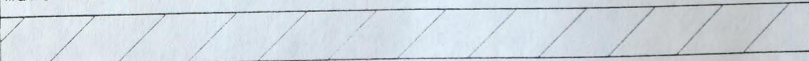
		Catchword: /support	
File number S18AAM	Dept ECD(I)	Drafted by (Block capitals) J S Wall	Telephone no 233 5612
Authorised for Initials Date/time despatch by:			
For COD use only	Comcen reference	Telegram number	Processed by

OUT TELEGRAM (CONT)

	Classification CONFIDENTIAL	Caveat	Precedence IMMEDIATE
--	---------------------------------------	--------	--------------------------------

<<<<

1 <<<<
 2 support for our initiative.
 3 b) measures to help small businesses on the lines proposed by the
 4 Commission and to reduce unnecesary burdens on business.
 5 c) progress on the internal market. We hope that the Portuguese
 6 Prime Minister will support our initiative (the Prime
 7 Minister's Letter in my telno 414 to Athens).
 8 (iii). We envisage discussion over dinner focussing on the
 9 problems of terrorism, immigration, drugs and frontier controls
 10 as in the political declaration annexed to the SEA. We shall be
 11 circulating a paper which will highlight areas in which
 12 cooperation needs to be intensified as progress is made towards
 13 freedom of movement in the Community.
 14 (iv). Heads of Government will also wish to discuss over dinner
 15 important developments in East/West relations. The Prime
 16 Minister will be ready to give her own impressions after her
 17 recent meetings with President Reagan.
 18 3. If the Portuguese Prime Minister raises Community finance
 19 and agriculture you should say that the Prime Minister ^{may ask} ~~hopes that~~
 20 the President of the Commission ~~will be able~~ to give Heads of
 21 Government an account over dinner of the Commission's plans and
 22 timetable for bringing forward their review ~~of Community finance.~~
 23 It would not be appropriate for the European Council to
 24 anticipate that or to seek to undertake the work of Agriculture
 25 Ministers. But Heads of Government will wish to underline the
 26 need for the Agriculture Council to take decisions in the milk
 27 and beef sectors.
 28 4. If Professor Cavaco Silva says that he may wish to raise
 29 Portuguese industrial problems at the European Council you should
 30 say that, while any issue can be raised, the important thing for
 31 Portugal is the commitment already given by the
 32 Commission to send a team to assess Portuguese needs. The next
 33 substantive step must be for that team to visit Portugal and to
 34 make recommendations.



For distribution order see Page Catchword: /HOWE

OUT TELEGRAM (CONT)

	Classification CONFIDENTIAL	Caveat	Precedence IMMEDIATE
--	---------------------------------------	--------	--------------------------------

<<<<	1	<<<<	
	2		
	3	HOWE	
	4		
	5	YYYY	
	6	MAIN	
	7	ECD(I)	
	8	FRAME GENERAL	
	9		
	10	NNNN	
	11		
	12		
	13		
	14		
	15		
	16		
	17		
	18		
	19		
	20		
	21		
	22		
	23		
	24		
	25		
	26		
	27		
	28		
	29		
	30		
///	31		
//	32		
/	33		
	34		

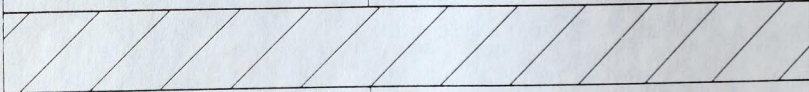
For distribution order see Page	Catchword:
---------------------------------	------------

OUT TELEGRAM

	Classification CONFIDENTIAL	Caveat	Precedence IMMEDIATE
--	---------------------------------------	--------	--------------------------------

ZCZC TC CAVEAT FM TO TELNO OF AND TO	1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29	ZCZC CONFIDENTIAL FM FCO TO IMMEDIATE LISBON TELNO OF 201800Z NOVEMBER 86 AND TO INFO PRIORITY UKREP BRUSSELS, OTHER EC POSTS MIPT: CALL ON PORTUGUESE PRIME MINISTER 1. Following is text of the Prime Minister's message to Professor Cavaco Silva. BEGINS Thank you for your letter of 14 November about difficulties facing Portuguese industry. I understand that you have also written to M Delors. I was very pleased to learn that he has offered to send a Commission team to Portugal in the near future to assess your needs. It goes without saying that the UK stands by the commitments made to Portugal during the accession negotiations. I shall be writing shortly about our plans for the European Council. I am looking forward to welcoming you to London then. With best wishes Yours sincerely Margaret Thatcher ENDS 2. Portuguese message to the Prime Minister and other EC Heads	
-----------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--

///
//
/



YYYY
MAIN
ADDITIONAL
NNNN

		Catchword: /of	
File number S18AAN	Dept ECD(I)	Drafted by (Block capitals) J S Wall	Telephone no 233 5612
Authorised for despatch by:		Initials	Date/time
For COD use only	Comcen reference	Telegram number	Processed by

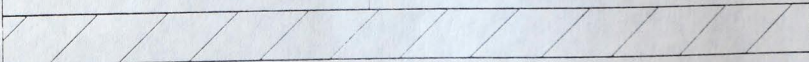
OUT TELEGRAM (CONT)

	Classification CONFIDENTIAL	Caveat	Precedence IMMEDIATE
--	---------------------------------------	--------	--------------------------------

<<<<

1	<<<<
2	of Government has been sent to you by bag.
3	
4	HOWE
5	
6	YYYY
7	MAIN
8	ECD(I)
9	FRAME GENERAL
10	
11	NNNN
12	
13	
14	
15	
16	
17	
18	
19	
20	
21	
22	
23	
24	
25	
26	
27	
28	
29	
30	
31	
32	
33	
34	

/// 31
// 32
/ 33



for distribution order see Page	Catchword:
---------------------------------	------------

SUBJECT cc MASTER
OPS

RESTRICTED

78251 - 1

OCMIAN 8251
RESTRICTED
DD 211700Z LISBO
FM FCOLN TO LISBO
191900Z NOV
GRS 204

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T215/86

RESTRICTED
FM FCO
TO DESKBY 211700Z LISBON
TELNO 179
OF 191900Z NOVEMBER 86

PORTUGAL: SETTLEMENT OF OUTSTANDING COMPENSATION CLAIMS

1. WE AGREE THAT YOU SHOULD TAKE ADVANTAGE OF YOUR CALL ON THE PORTUGUESE PRIME MINISTER TO HAND OVER A MESSAGE FROM THE PRIME MINISTER ON THIS ISSUE.

2. PLEASE PASS ON THE FOLLOWING:

QUOTE: WE HAD A WORD ON 12 MAY, DURING YOUR VISIT TO LONDON, ABOUT THE LONG-RUNNING COMPENSATION ISSUE INVOLVING CLAIMS BY BRITISH CITIZENS IN RESPECT OF PROPERTY OCCUPIED IN PORTUGAL DURING THE PERIOD 1975 TO 1985.

I WAS VERY HAPPY WHEN YOU INDICATED THAT THE PROBLEM HAD BEEN SOLVED AND ALL THAT REMAINED WAS TO FIX THE PRECISE AMOUNTS OF COMPENSATION DUE. BUT I UNDERSTAND THAT THIS PROBLEM HAS STILL NOT BEEN OVERCOME. I AM CONCERNED ABOUT THIS, AS IT REMAINS THE ONLY IRRITANT IN OUR OTHERWISE EXCELLENT RELATIONS.

I DO HOPE YOU WILL BE ABLE TO REASSURE ME, WHEN WE MEET AT THE EUROPEAN COUNCIL NEXT MONTH, THAT A FINAL SETTLEMENT OF THESE CLAIMS IS NOW VERY NEAR. THE CLAIMANTS ARE INCREASING THEIR

1

RESTRICTED

RESTRICTED

78251 - 1

PRESSURE ON US, AND I HAVE TO SAY I HAVE EVERY SYMPATHY WITH
THEM IN THE DIFFICULTIES THEY FACE AS A RESULT OF THE VERY
LONG DELAY IN MEETING THEIR CLAIMS.
UNQUOTE.

HOWE

OCMIAN 8251

NNNN

YYYY

MAIN

LIMITED

SED

CLAIMS

PS

PS/LADY YOUNG

MR DEREK THOMAS

MR RATFORD

COPIES TO -
No. 10 Downing St.

RESTRICTED

sfw

apc

19 November 1986

Thank you for your letter of 19 November proposing a message from the Prime Minister to the Portuguese Prime Minister about the Portuguese Government's continuing failure to agree on compensation for a number of British owned properties expropriated by the Portuguese following the 1974 Revolution.

BF // The Prime Minister is content to send a message in the terms suggested. The draft enclosed with your letter may therefore issue.

(C. D. POWELL)

Colin Budd, Esq.,
Foreign and Commonwealth Office.

RESTRICTED

sfw

RESTRICTED

Foreign and Commonwealth Office

London SW1A 2AH

19 November 1986



Dear Charles,

As you know, there is considerable pressure on HMG to accelerate settlement of compensation for a number of British owned properties expropriated by the Portuguese following the 1974 Revolution. The Prime Minister raised the issue with the Portuguese Prime Minister in May. (I attach for ease of reference the relevant extract from your letter of 12 May 1986).

Despite Sr Cavaco Silva's assurances, progress remains very slow. The Inter-Ministerial Committee shows no signs of making an early settlement. The claimants are now considering recourse to the European Court of Human Rights. In the circumstances, the Ambassador in Lisbon believes that he should take the opportunity of a call on the Portuguese Prime Minister (which he hopes to make in the week beginning 24 November) to hand over a message from the Prime Minister. He believes that this could produce a directive from Sr Cavaco Silva to the Committee to speed up their work.

I enclose a draft telegram of instructions for this purpose and would be most grateful if you could seek approval for the Ambassador to pass on such a message. He would need instructions by 21 November.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
PS/10 Downing Street

RESTRICTED

CONFIDENTIAL

Mr Neilson SED

90

MR. ALEXANDER



CC PS

PS/Lady Young

Mr Derek Thomas

Mr Ratford

12 May 1986

+ Hds of ECD (I), SAFF, ECD (E), FED, Def, NENAD.

see in form liston by telegram about A & discuss B (which NMA correctly predicted) with Def Dept. IVM copy of record by bag Rec. Ran 13/5

10 DOWNING STREET

From the Private Secretary

WSP 22712
RECEIVED IN REGISTRY
10 MAY 1986

Dear Ali

CPBudd

13/5

PRIME MINISTER'S MEETING WITH THE PRIME MINISTER OF PORTUGAL, ON MONDAY 12 MAY 1986 AT 1715 HOURS

The Prime Minister had a talk this afternoon with the Prime Minister of Portugal. Senhor Cavaco Silva was accompanied by his Diplomatic Adviser.

The Prime Minister commented on the historic importance of the Alliance between Britain and Portugal. We were very pleased that Portugal was now also a partner in the European Community.

European Community

Senhor Cavaco Silva said that Portugal would have to rely heavily on the Structural Funds to avoid being a net contributor to the European Community through the transitional stage of Portuguese membership. There was a huge task of modernisation of Portuguese agriculture and industry to be undertaken. A substantial number of projects had been agreed but it now seemed that commitments given by the Community would not be honoured because of the pressure on budgetary resources. This was a matter of real concern to his Government. There was a risk that opinion in Portugal would turn against the Community. He strongly supported budgetary discipline and restraint on agricultural expenditure. Portugal had honoured its commitments by introducing VAT and by re-directing its imports of agricultural products away from the United States. But only some 20 per cent of the commitments made to Portugal under the Structural Funds had so far been paid over. It was essential that any supplementary Community budget this year should share out resources fairly and not allow agriculture to absorb everything.

The Prime Minister expressed sympathy with Portugal's problem. The United Kingdom would suffer considerable losses of the benefits which it had hitherto gained from the Structural Funds, particularly the Social Fund, as a result of enlargement but it was absolutely essential to keep within the 1.4 per cent VAT ceiling.

CONFIDENTIAL

Senhor Cavaco Silva referred to the problems which Portugal was experiencing in its trade with Spain, as a result of Spanish interpretation of the rules of origin. Portuguese industry was not vertically integrated and a number of semi-finished products were imported from elsewhere in the Community. Spain was putting technical and administrative barriers in the way of Portuguese exports. If no solution could be found by the end of the month, Portugal would be forced to retaliate. Lord Cockfield had recently visited Lisbon and appeared to accept the validity of Portugal's case. He hoped that the United Kingdom would equally be sympathetic. Portugal already had an enormous trade deficit with Spain.

The Prime Minister observed that Spain had always been a closed market. It was essential that Portugal should obtain the full support of the Commission in order to compel Spain to change its practice.

Bilateral problems

A The Prime Minister said that she hoped very much that the outstanding claims for compensation for agricultural properties seized after the Revolution could be settled rapidly. Senhor Cavaco Silva said that this issue had been solved the previous week. Only the technical problem of fixing the precise amounts now remained to be dealt with. The Prime Minister said that she very much hoped this really was the end of the story. The issue had been allowed to drag on for far too long.

The Prime Minister also referred to her hope that British companies would be given a full opportunity to win public sector contracts in Portugal. She mentioned in particular the cases of ICL and Plessey. Senhor Cavaco Silva did not respond directly.
Southern Africa

The Prime Minister invited Senhor Cavaco Silva to give his assessment of developments in Mozambique and Angola.

Senhor Cavaco Silva said that the situation in Mozambique was chaotic. But there was no real challenge to President Machel's position. This meant that he could afford to talk to Renamo because he would in any event remain as leader. It might take some time to bring him to the point of opening talks. There were others around Machel who were reluctant to see him take the step. But in the end there was no other solution. The Prime Minister said that the United Kingdom had done what it could to encourage President Machel to move closer to the West.

Senhor Cavaco Silva said that the situation in Angola was rather different. The present Portuguese Government would like to have talks with Savimbi. But the result would be to leave relations with the Angolan Government exclusively in the hands of the Portuguese Communist Party. He believed that President Dos Santos would also like to move towards the West. Indeed, there had been a number of

feelers in that direction. This was a sign of the Government's insecurity. A new offensive against UNITA had been expected during May but now seemed unlikely to materialise. The most likely situation was one of continuing stale-mate. The Prime Minister referred to the growing Soviet role in Angola, particularly in the supply of arms. Senhor Cavaco Silva agreed that this was a matter of concern.

Macao

In response to the Prime Minister's question, Senhor Cavaco Silva said that the Portuguese Government had just appointed a chief negotiator and discussions with the Chinese were likely to open in June or July in Peking.

East Timor

Senhor Cavaco Silva said that the elections due in 1987 in Indonesia would offer an opportunity to put a number of questions to the people of East Timor about their future. His Government were keen to reach a settlement to the problem. It was also to Indonesia's advantage to see a solution which would remove East Timor from the United Nations' list of dependent territories.

NATO

Senhor Cavaco Silva raised the issue of frigates to enable Portugal to carry out various NATO tasks. An agreement for the construction of three frigates in the Federal Republic of Germany would be signed very shortly. A number of countries were contributing to the cost and some years ago the United Kingdom had offered some £5 m. for helicopters. This sum was now inadequate and he hoped very much that the United Kingdom could increase its offer. The Prime Minister undertook to look into this.

Libya

Senhor Cavaco Silva said that his Government understood the reasons for the United States' action against Libya and was ready to impose restrictions on Libyan offices. Half of the members of the Libyan People's Bureau in Lisbon had been expelled. He was particularly concerned at the risk of friction between Europe and the United States on this issue. He strongly welcomed the declaration on terrorism issued by the Tokyo Economic Summit.

Tokyo Economic Summit

Senhor Cavaco Silva enquired whether the Prime Minister was more optimistic about trends in the world economy as a result of the Tokyo Economic Summit. He hoped that the Summit would open up a phase of expansion which would help countries such as Portugal with large external deficits. The Prime Minister gave a brief account of the economic discussions at the Summit.

CONFIDENTIAL

- 4 -

I am copying this letter to Rachel Lomax (H.M. Treasury), John Howe (Ministry of Defence), Mike Gilbertson (Department of Trade and Industry) and Michael Stark (Cabinet Office).

Yours sincerely,
Charles Powell

CHARLES POWELL

Colin Budd, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

OUT TELEGRAM (CONT)

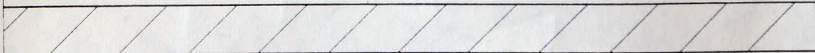
	Classification RESTRICTED	Caveat	Precedence DESKBY 211700
--	-------------------------------------	--------	------------------------------------

<<<<

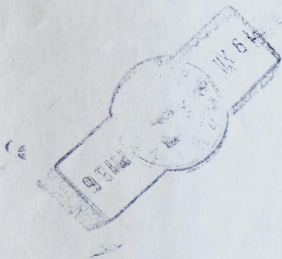
1 <<<<
 2 European Council next month, that a final settlement of these
 3 claims is now very near. The claimants are increasing their
 4 pressure on us, and I have to say I have every sympathy with
 5 them in the difficulties they face as a result of the very
 6 long delay in meeting their claims.
 7 Unquote.
 8
 9 HOWE
 10
 11
 12 YYYY
 13 MAIN
 14 LIMITED
 15 SED
 16 CLAIMS
 17 PS
 18 PS/LADY YOUNG
 19 MR DEREK THOMAS
 20 MR RATFORD
 21
 22 ADDITIONAL
 23 NUMBER 10
 24
 25 NNNN
 26
 27
 28
 29
 30
 31
 32
 33
 34

that a final settlement of these
 claims is now very near. The claimants are increasing their
 pressure on us, and I have to say I have every sympathy with
 them in the difficulties they face as a result of the very
 long delay in meeting their claims.
 Unquote.

///
 //
 /



For distribution order see Page	Catchword:
---------------------------------	------------



subject to mask

OPS

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T209C/86

(NON-OFFICIAL TRANSLATION)

Lisbon, 14th November 1986

Dear Prime Minister,

As you are aware Portugal's adhesion to the European Economic Communities constitutes a landmark in the history of my country.

With our full and active presence it is not only Community Europe that is reinforced in its political, economic and cultural expression. For the Portuguese too, the adhesion to the European Communities reflects a clear political will and is closely linked to a development project, which my Government deems as a priority objective.

Besides, during the conversation we had in London the 12th May last, I had the occasion to refer to you the importance that I attribute to this question.

We would seriously be eluding the expectations, so frank and diligent from most Portuguese, should it not be possible to ensure, in the short term and in the context of the European Community, the paths to economic and social development of my country.

The Portuguese economy faces a difficult challenge, since it must simultaneously promote its recovery and adapt to new conditions emerging from European integration.

Being the motor of economic development, Portuguese industry reveals the need for a deep and systematic effort of modernization - without which it will be impossible to insure a sustained progress of the Portuguese economy.

Acknowledging this reality, the Community assumed, in the context of the negotiations for the adhesion, the engagement of supporting Portugal in the development of its industry. That engagement results evident and unequivocal from Protocol 21 and from a Declaration of the Community inserted in the Acts of adhesion.

The end of the first year after the adhesion approaches and it is clear that the Community has not yet taken the necessary initiatives to the fulfilment of that engagement. This situation causes profound concern to my Government, hurts the legitimate expectations of our industrial sector and has political implications of serious consequences, namely about the credibility of our european option itself.

We believe, naturally, that the technical and financial support to the modernization of Portuguese industry may assume several forms and different modalities. We are willing to search, with the Governments of other Member States and the Commission for the more adequate framework to the fulfilment of this supplementary effort directed to the industrial development of my country.

I would not like to elude the budgetary crises that the Community is confronted with and before which Portugal has assumed a position of balance and defense of the economic interests at stake. However, my Government can not renounce to a support foreseen on the occasion of Portugal's adhesion to the Communities, nor accept solutions differed in time or with imponderable results.

It will not be reasonable to ask Portugal to participate and follow the efforts to the realization of the internal market , which, for us, should be parallel to the strengthening of economic and social cohesion, if the essential support to update its industrial sector is denied.

I feel it is urgent to give a decisive impulse to this communitary engagement, so important to the strategy of recovery of the Portuguese economy.

I believe that you are aware of the political importance this question has for Portugal. I would like to inform you that in the absence of any positive development from the communitary instances it is my intention to raise this question in the next European Council, in the belief that the Community wishes to fulfil in its integrity the engagements derived from the adhesion of my country.

I avail myself of this opportunity, Prime Minister, to renew to you the assurances of my highest consideration.



PRESIDÊNCIA DO CONSELHO DE MINISTROS

Cabule do Primeiro Ministro

Lisboa, 14 de Novembro de 1986

Senhora Primeiro Ministro,

Como é do conhecimento de Vossa Excelência a integração de Portugal nas Comunidades Europeias constitui um marco determinante na história do meu País.

Não é apenas a Europa comunitária que vê reforçada a sua expressão política, económica e cultural com a nossa presença plena e activa. Também para os portugueses a adesão às Comunidades Europeias reflecte uma clara vontade política e está estreitamente associada a um projecto de desenvolvimento, objectivo que o meu Governo considera prioritário. Tive aliás ocasião de referir a Vossa Excelência, na conversa que tivemos em Londres em 12 de Maio último, a importância que atribuo a esta questão.

Iludiríamos severamente as expectativas, tão francas e empenhadas da generalidade dos portugueses, se não for possível assegurar, a curto prazo, e no contexto da Comunidade Europeia, as vias do desenvolvimento económico e social do meu País.

A economia portuguesa está perante um difícil desafio, já que deverá simultaneamente promover o seu relançamento e adaptar-se às novas condições emergentes da integração europeia.

A Sua Excelência
O Primeiro Ministro do Reino Unido
da Grã-Bretanha e Irlanda do Norte
Senhora Margaret Thatcher
Londres



PRESIDÊNCIA DO CONSELHO DE MINISTROS

Gabinete do Primeiro Ministro

2.

Sendo o motor do desenvolvimento económico, a indústria portuguesa evidencia a necessidade de um profundo e sistematizado esforço de modernização - sem o qual será impossível assegurar o progresso sustentado da economia portuguesa.

Foi no reconhecimento desta realidade que a Comunidade assumiu, no contexto das negociações de adesão, o compromisso de apoiar Portugal no desenvolvimento da sua indústria. Esse compromisso resulta evidente e inequívoco no Protocolo 21 e numa Declaração da Comunidade inseridos nos actos de adesão.

Aproxima-se o final do primeiro ano após a adesão e verifica-se que a Comunidade não tomou ainda as iniciativas necessárias à realização desse compromisso. Trata-se de situação que preocupa profundamente o meu Governo, fere legítimas expectativas do nosso meio industrial e envolve implicações políticas de graves consequências, nomeadamente sobre a própria credibilidade da nossa opção europeia.

Entendemos, naturalmente, que o apoio técnico e financeiro à modernização da indústria portuguesa pode revestir diversas formas e assumir diferentes modalidades. Manifestamos a nossa disponibilidade para procurar, com os Governos dos outros Estados membros e com a Comissão, o quadro mais adequado à realização deste esforço suplementar dirigido ao desenvolvimento industrial do meu País.

Não quero iludir a crise orçamental que a Comunidade enfrenta e perante a qual Portugal tem assumido posição de equilíbrio e de defesa dos interesses comuns em jogo. Mas o meu Governo não pode renunciar a um apoio previsto aquando da adesão de Portugal às Comunidades, nem aceitar soluções diferidas no tempo ou de resultados imponderáveis.



PRESIDÊNCIA DO CONSELHO DE MINISTROS

Gabinete do Primeiro Ministro

Não será razoável pedir a Portugal que participe e acompanhe os esforços de realização do mercado interior, que para nós, deve ser paralela ao reforço da coesão económica e social, sendo-lhe negado o apoio essencial para modernizar o sector industrial.

Julgo ser urgente dar impulso decisivo a este compromisso comunitário tão importante na estratégia de recuperação da economia portuguesa.

Creio que Vossa Excelência compreende a importância política de que este assunto se reveste para Portugal. Na ausência de um desenvolvimento construtivo por parte das instâncias comunitárias, gostaria de levar ao seu conhecimento, Senhora Primeiro Ministro, que é minha intenção suscitar este tema no próximo Conselho Europeu, na convicção de que a Comunidade pretende assumir integralmente os compromissos decorrentes da adesão do meu País.

Aproveito esta oportunidade para expressar a Vossa Excelência, Senhora Primeiro Ministro, os protestos da minha elevada consideração.

Aníbal A. Cavaco Silva
Primeiro-Ministro de Portugal

Attached to letter

FCD (Budd) to CDP: message from the
PM of Portugal.

in PM's P box Friday 21/11.



PART 1 ends:-

RTA to NLW (A086/2133) 21.7.86

PART 2 begins:-

Portugese Prime Minister to pm 14.11.86.

~~FEO to COP 19.11.86~~