

PREM 19/4354

Visit of the Portuguese Prime Minister,
Dr. Balsemas.

PORTUGAL

Visits of the President of Portugal,
President Soares.

NOVEMBER 1981

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
10.11.81							
9.12.81							
14.12.81							
20.12.81							
31.12.81							
12.4.86							
17.4.86							
19.5.86							
7.10.86							
12.10.86							
20.10.86							
21.10.86							
11.10.87							
30.12.87							
8.3.88							
11.3.88							
15.3.88							
15.1.92							
5.3.92							
4.6.92							
18.1.93							
<u>DJM</u>							

PREM 19/4354

PART 1 ends:-

SP to LCO 28/1/93

PART 2 begins:-

Draft PS/No 10 letter from FCO 24/3/93



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

file L
Mal/ross. H
cc TCS

28 January 1993

The Prime Minister was most grateful for your letter of 26 January conveying Her Majesty The Queen's wish that he attend the arrival at Victoria Station of the President of the Portuguese Republic and Senhora Soares on Tuesday 27 April. Mr. Major will be honoured to comply with Her Majesty's wishes, and will depart from Downing Street in time to arrive at Victoria Station no later than 1210 pm.

MISS SANDRA PHILLIPS

Lieutenant Colonel Malcolm Ross, O.B.E.,
Comptroller,
Lord Chamberlain's Office.

WA

ROJ



BUCKINGHAM PALACE

26th January, 1993

Dear Prime Minister.

STATE VISIT OF

THE PRESIDENT OF THE PORTUGUESE REPUBLIC AND SENHORA SOARES

Arrival - Tuesday, 27th April, 1993

I have the honour to inform you that The Queen and The Duke of Edinburgh will meet The President of the Portuguese Republic and Senhora Soares upon Their Excellencies' Arrival at Victoria Station at 12.30 p.m. on Tuesday, 27th April, next.

The Queen wishes you, as Prime Minister, to be present on this occasion and to arrive at Victoria Station, Hudson's Place by not later than 12.10 p.m.

Morning Dress will be worn.

I shall be grateful if I may please be provided with the address from which you will start your journey to Victoria Station in order that a route and windscreen label may be provided to facilitate your arrival.

Yours sincerely,
Malcolm Hoar

Comptroller,
Lord Chamberlain's Office

The Right Honourable John Major, MP.,
10, Downing Street,
London.
SW1A 2AA.



071-606 3030.

CORPORATION OF LONDON
P.O.Box 270,
GUILDHALL,
LONDON, EC2P 2EJ.

R 18/6

Direct Line: 071-260 1200
Fax No.: 071-260 1895

Our Ref: AFPB/CK

18 June 1992

~~Don Alex,~~

~~Stephen~~
[ridiculous timing & I didn't
know you were to meeting]
MS

You will find enclosed a letter from Michael Cassidy to the Prime Minister concerning the City's campaign to attract the European Central Bank to London, which he may find useful for his meeting at 5.30 p.m. this evening with the Portuguese Prime Minister.

A copy of the letter is also enclosed.

~~Woms,~~
~~Adrian~~
Remembrancer

A.C.S. Allan, Esq.,
Principal Private Secretary to the Prime Minister,
10 Downing Street,
London,
SW1A 1AA

Encs.



Members' Room,
PO Box 270, Guildhall,
London EC2P 2EJ

Tel: 071-260 1419 Fax: 071-796 2621

Michael Cassidy, BA, MBA,
Chairman of the Policy and
Resources Committee

The Rt Hon John Major, MP
Prime Minister and
First Lord of the Treasury
10 Downing Street
LONDON SW1

18 June 1992

Dear Prime Minister

I am writing to you because we understand that a meeting is to take place later today with the Prime Minister of Portugal and we felt that you would wish to be aware of the latest position with regard to our campaign to attract the ECB to London.

The campaign is gathering momentum most satisfactorily and the Lord Mayor has recently completed visits to Greece and Spain. Only yesterday we completed a successful visit to Brussels in order to place on record in the heart of Europe London's bid to be the site of the ECB.

I enclose for your information our pack which contains a detailed case together with a more glossy summary. This is being distributed widely although the Questions and Answers are only for home team consumption.

I apologise for supplying this information at this late hour but we have just be informed that the site of the ECB might be discussed at Lisbon on 26 June.

Michael Cassidy

Michael Cassidy

CONFIDENTIAL



me SE

cc Sir John
Braithwaite

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

18 June 1992

~~SUBJECT
MASTER~~

~~Filed on:~~

Dea Christoph,

CALL ON THE PRIME MINISTER BY THE PRIME MINISTER OF PORTUGAL
THURSDAY 18 JUNE

The Prime Minister of Portugal, accompanied by two of his advisers, called on the Prime Minister this evening. The Foreign Secretary and the Chancellor of the Exchequer were also present. I am grateful to you and others who provided briefing.

Danish Referendum

Mr. Cavaco Silva said that the outcome of the Danish referendum would not be on the agenda at Lisbon. That was the way the Danes and others wanted things. The Prime Minister questioned whether this was feasible. The press would all regard the outcome of the Danish referendum as the key issue. If there had been no discussion, they would think we had ducked it. Moreover, we needed to know what the Danes planned to do. Our Parliamentary situation meant that we could not start the Committee Stage of the Maastricht Bill with any hope of securing support for it while there was uncertainty about whether the Danes would ratify. We could only implement changes to the Treaty of Rome by unanimity. It was hard to see how the Danes could ratify without another referendum.

The Portuguese Prime Minister said that Mr. Schluter (who had, after all, been Prime Minister of six successive minority governments) had assured him that he was confident he could handle things in the seven months to the end of the year. If necessary there could be a discussion of the Danish referendum result over dinner on the first evening of the Council and heads of government could repeat the statement which Foreign Ministers had made at Oslo.

The Prime Minister suggested that there were issues such as subsidiarity and control over the Commission which could be worked up in greater practical detail without reopening the Maastricht Treaty. Mr. Cavaco Silva made it clear that he was not proposing any such discussion and was indeed opposed to it. Nor would the Commission bring forward any proposals. The Prime Minister and the Foreign Secretary made clear that they did not

P

CONFIDENTIAL

- 2 - *Temporarily retained*

THIS IS A COPY. THE ORIGINAL IS
RETAINED UNDER SECTION 3 (4)
OF THE PUBLIC RECORDS ACT

think that simply repeating the Oslo statement of Foreign Ministers would do.

Future Financing

Mr. Cavaco Silva said that he wanted to reach a political compromise at Lisbon having in mind the different sensitivities of member states. He did not spell out precisely what would be involved though he did refer at one stage to the possibility of a seven-year rather than a five-year agreement. In the context of that discussion there was perhaps scope for consolidating the agricultural guideline, and reaching decisions about the structural funds and about the Community's external actions. The European Parliament had just voted for the Delors package.

The Prime Minister said that it was ludicrous for heads of government who, by and large, knew little about finance to discuss these issues without the presence of finance ministers. Mr. Cavaco Silva said that he was not prepared to have finance ministers present. The President of the European Parliament was pressing to be there throughout the two days and was getting some support from Chancellor Kohl. To avoid having to go along with that, Cavaco Silva intended to make no changes to the normal procedures.

The Prime Minister said that he would, at the European Council, formally request the presence of finance ministers. If we were going to have a serious discussion about finance, then that could not take place without papers circulated in advance.

The Chancellor of the Exchequer and the Foreign Secretary described the majority opposition to the Delors package at the recent ECOFIN and foreign affairs councils. We had been surprised that the Presidency had declined to put those conclusions in writing. Mr. Cavaco Silva claimed to be ignorant of what had happened at those meetings. The existing financial perspective agreement with the EC expired at the end of the year. We must have a replacement. He said that if there was not an agreement on future financing then, under the terms of the Maastricht Treaty, negotiations could not start on enlargement. In any case, without a political agreement on future financing, the Spaniards would block enlargement.

He and the Chancellor set out the costs to the UK of the settlement which the Commission were proposing. We could not go to our Parliament in one of the most difficult years for public expenditure and require significant cuts in domestic expenditure while asking Parliament to vote large increases in the Community budget. The Community could, if necessary, live without a new financial perspective.

Mr. Cavaco Silva said that the heads of government in Rio had agreed to spend 0.7 per cent of their GNP on aid. The Community budget represented 0.17 per cent of GNP. The Prime Minister pointed out that the target of 0.7 per cent had no time limit. The Commission proposals were for expenditure in the very near future.

CONFIDENTIAL

Mr. Cavaco Silva said that he was not pursuing a Portuguese line but merely trying to find a way through his Presidency. It was his duty to try to reach an agreement. He acknowledged that the Germans were closer to our thinking than to his. He implied that he would, if he had to, accept that the matter was rolled forward into the British Presidency.

Foreign Policy Issues

Mr. Cavaco Silva said that there would be some discussion of CFSP, the Middle East and the Mahgreb. It was important to give a signal to the Mahgreb countries that we attached importance to their stability. He thought in terms of a declaration about partnership, including political dialogue, cultural cooperation and technological exchange. The Mahgreb was no less important than central Europe.

The Prime Minister said that he was prepared for such a discussion. He was not prepared to make unprepared financial commitments. We had been bounced once before by the French over Algeria. He would not let that happen again. Mr. Cavaco Silva said that the Portuguese Presidency had no intention of behaving in that way.

Enlargement

Mr. Cavaco Silva envisaged a declaration covering in positive terms the applications of the EFTA countries. The difficulty was what to say about Malta, Turkey and Cyprus. Their applications had been on the table longer than the others. They could not be ignored. The Foreign Secretary said that we needed to find language which referred to strengthening our relations with the three countries without committing ourselves to eventual membership. All of them posed different, well-known problems. The Prime Minister thought that we should perhaps look, with the Portuguese, at language which we could both accept. The Portuguese Prime Minister appeared to agree to this.

As regards the Visegrad 3, the Prime Minister said that he had found in his recent visit that all of them were very keen to come into the Community, not least for the military security which it implied. He hoped there could be a general declaration in the Presidency conclusions that the Community would be ready to accept V3 as a member when they were economically ready to join. That would not be for ten years or so. They looked to the EC as a beacon of hope and the prospect of membership would help them over the hard decisions that lay ahead. It would be cruel and demoralising to go less far than that. He had envisaged such a declaration coming from the Edinburgh European Council but if it could be done at Lisbon, that would be a greater achievement. Mr. Cavaco Silva appeared to agree to this.

Fiscal Frontiers

Mr. Cavaco Silva asked whether it would be possible to make progress at the next ECOFIN. The Chancellor of the Exchequer said that he hoped it would be possible to do so and he was planning to talk to the Portuguese finance minister.

President of the Commission

The Portuguese Prime Minister said that the European Parliament had just passed a resolution asking for the names of the entire Commission to be submitted to them for approval, even though none of the Maastricht provisions was yet in force. He hoped there would be a decision at Lisbon on the President of the Commission. A majority of Member States supported the reappointment of M. Delors.

The Prime Minister described the Parliamentary pressures on this issue, saying that he could not commit himself to supporting M. Delors. Mr. Cavaco Silva said that he would deal with the issue over dinner. If reappointed, M. Delors hoped to know to soon who the other members of the Commission would be. Quite a number would change. He thought President Mitterrand was likely to change Madame Scrivener. The Greeks would be changing their Commissioner and the Italians one of theirs. The Prime Minister said that, because of the leadership battle in the Labour Party, we would not be able to determine our Commissioners in time for the Lisbon European Council. Mr. Cavaco Silva said that several other Member States, e.g. Luxembourg were in a similar position.

Sites of the EC Institutions

Mr. Cavaco Silva was very keen to find a solution at Lisbon. It had not originally been his intention to do so, but Mr. Lubbers had devoted a great deal of time to this problem during his Presidency and had written to him at length about it, so he had picked up the baton. He thought he had been able to get the basis of a deal, acceptable to the French, Belgians, Germans and Luxembourgers, whereby the seat of the European Parliament would be in Strasbourg with 12 of its plenary sessions there and other sessions being held in Brussels. He was still awaiting a final decision from Belgium on this. The Prime Minister pointed out that our MEPS, whom he had seen the day before, wanted a single site. They would also want the EP to be consulted.

Mr. Cavaco Silva said that Chancellor Kohl was determined to have the Central Bank in Germany though not in Frankfurt. This whole issue had been a source of considerable friction between Kohl and Lubbers during the Dutch Presidency. Cavaco Silva said that his idea was to agree that the Central Bank should be in Germany and to agree at the same time the name of the first President of the EMI, who should be from the Netherlands.

The Prime Minister said it was indeed time to settle the issue of the European Parliament but it would be very emotive and dangerous to try to solve the site of the ECB. Chancellor Kohl felt very strongly about it. Unless some private deal had been done between him and President Mitterrand, he imagined the French would want the ECB in Paris. Lubbers also had an interest. By any objective test, the bank structure should be in London as Europe's main financial centre. The City felt that very strongly. They also wanted the ECB because they thought it would make it more likely that Britain would join a single currency. The only way to get agreement would be to separate the

CONFIDENTIAL

operational arm of the bank from its shell, rather on the lines of the American Fed. Mr. Cavaco Silva said that his first instinct had been to set the issue aside but a number of countries appeared to agree to the bank going to Germany in order to embed Germany firmly in Europe. This was an issue which could only be decided by a political compromise at the highest level.

The Prime Minister said he had not envisaged this issue coming up at Lisbon. He thought it would be very difficult to get an agreement, particularly with ratifications of the Maastricht Treaty still going on. The Chancellor added that the package outlined by Mr. Cavaco Silva had nothing in it for the UK. The City would be very hostile if there was an agreement on these lines. They would say that we had given up the battle for London without any fight at all. The sceptics in Parliament would be inflamed. The Prime Minister agreed, particularly as the City was the only institution could influence sceptical MPs to vote for the Maastricht Treaty. A decision involving a split Central Bank (with its operating arm in London) might be possible.

GATT

The Prime Minister thought it would be odd, and seen to be odd, to discuss the site of institutions which was a rather esoteric subject, and not to discuss GATT. Mr. Cavaco Silva said he had hopes for an agreement and agreed with the Prime Minister that it was still within our grasp, particularly if the two issues outstanding could be resolved. These were primarily the American wish that the set-aside aspects of the CAP settlement should be guaranteed in GATT and the German wish that their income aids should be put in the green box. He hoped the Prime Minister would do all he could to exert influence towards a settlement. He was prepared to discuss the matter over dinner but thought a formal discussion in the European Council a bad idea. The issue could be settled but only if it was dealt with behind the scenes.

Working Time Directive

The Chancellor set out our substantive difficulties with the Working Time Directive. He described the additional political difficulty caused by the Maastricht debate. We were prepared to carry forward work on the Directive in our Presidency but it would be much better if no vote was taken at the 24 June Council.

The Prime Minister explained the costs involved. Coming on top of the high costs of the Pregnancy Directive, the Working Time Directive was politically very controversial indeed. The Portuguese Prime Minister asked whether our objections were objections of principle or simply to some parts of the Directive. The Prime Minister said we did have objections in principle but we would continue to try to reach agreement. We would prefer to continue to work under the UK Presidency. We would not shelve the Directive altogether. Mr. Cavaco Silva did not specifically undertake to avoid a vote on 24 June but he appeared to be reconciled to our arguments.

CONFIDENTIAL

CONFIDENTIAL

At the end of the meeting, Mr. Cavaco Silva made a plea for British help at Lisbon. The eyes of the world would be on the Community. It was the Community which had shown a lead at Rio de Janeiro. The Americans and the Russians were incapable of doing so. The Prime Minister said the crucial thing was to avoid decisions which would make implementation of the Maastricht Treaty more difficult. We should be indicating as a Community that we were ready to help the Danes in their predicament.

I am copying this letter to the Private Secretaries of members of the Cabinet and of Sir Robin Butler.

Jane,

Stephen

(J. S. WALL)

Christopher Prentice, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

PRIME MINISTER'S MEETING WITH THE PORTUGUESE PRIME MINISTER,
THURSDAY 18 JUNE

SPEAKING NOTES

PORTUGUESE PRESIDENCY SUCCESSES

Congratulate you on the following achievements during the Portuguese Presidency:

- About 60 Single Market measures already adopted. With final Internal Market Council of Presidency on 18 June Portuguese are heading for a record number of agreed measures.
- Portuguese have done particularly well on transport (aviation liberalisation and maritime cabotage); intellectual property and insurance.
- Agreement on CAP Reform.
- Cool handling of outcome of Danish referendum on Maastricht. Oslo FAC Conclusions very helpful.
- Agreement on infrastructure for the two inter-Governmental pillars of Maastricht Treaty and working out implications of single institutional framework.
- Preparation of Community position for UNCED.
- Continuing efforts to resolve UK/Spanish problem over Gibraltar and signature of External Frontiers Convention.
- Successful signature of EEA Agreement in May. A great achievement for the Community and an important contribution to greater prosperity and cooperation across Europe.
- Signature in May of Trade and Cooperation Agreements with Baltic States and Albania.

E. R.

CONFIDENTIAL

- 2 -

- Lisbon Conference on aid to the former Soviet Union.
- Portuguese have grappled heroically with very difficult problems of former Yugoslavia. Impressed in particular by handling of monitoring mission and Ambassador Cutilero's tenacity in working for an end to violence in Bosnia.

CONFIDENTIAL

MAASTRICHT RATIFICATION

- Lisbon discussion should be guided by Oslo conclusions. Hope European Council will endorse them and ask Foreign Ministers to return to the subject in the Autumn. Must avoid crisis atmosphere, and give Danes time to think. Need to show other Community business continuing.

- [If raised] No need to commission particular legal or other work now. Danes not ready to consider options. Even sensible ones risk being rejected at this stage. Quiet contacts with the Danes will be the first step.

- Clear that Community's first priority is to proceed together. Cannot imagine going ahead as Eleven with Maastricht Treaty.

- Useful to commission from Lisbon work on establishing agreed ground rules for the operation in the Commission and the Council of the new subsidiarity provision.

- Hope Delors will produce report to Council on ways to entrench subsidiarity in Commission working practices. Council should examine our own procedures to ensure principle is observed. This would address one of the most neuralgic issues in many member states, particularly after the Danish referendum.

Examples (Germany).

FUTURE FINANCING/ENLARGEMENT

Future Financing

Need Finance Ministers.]

- Recognise progress made under your Presidency on a difficult dossier, but still a lot of ground to cover. Difficult to see what basis there is for a global settlement, given fact that at last ECOFIN a clear majority of member states regarded Commission proposals as unaffordable and unjustified. You know our views.
- Lisbon Conclusions could record progress made so far, reaffirm commitments made at Maastricht and call for work to be intensified, building on considerable achievement of Portuguese Presidency. But to try to do more will simply lead to a divisive European Council.
- [If raised] Do not want to pre-empt Commission report on abatement. But no question of UK agreeing any adverse change. Even after abatement, UK second largest contributor to EC Budget per head of population, well out of line with relative prosperity. Abatement must continue to apply to all expenditure within the Community, as now.

[If seven year deal floated].

- Postponing increases in the own resources ceiling conceals the generosity of the package in terms of absolute amounts. If Community GNP grows by 2.5 per cent a year, 1.29 per cent in 1999 represents the same amount as 1.355 per cent in 1997.
- A provisional estimate of the financial effect of the package is that it might increase the UK's annual net contribution in 1997 by some £700 million as against its 1992 level, and by some £900 million in 1999 (all figures in 1992 prices). This is not very different from the cost of the Commission's original proposals, whose effect would be to add £900 million to the UK net contribution in 1997, an

increase which Ministers have already agreed is quite unacceptable.

Enlargement

- Support your plans for substantive discussion of enlargement at Lisbon. Case for enlargement unchanged by Danish vote. Paul Schluter believes preparing for EFTAn accession will help bring Danes back into fold. Delors agrees, and is now convinced that next institutional debate should be left until 1996.
- Aim must be clear conclusions text calling for acceleration of work on enlargement for EFTAns, and rejecting the idea - which did so much damage in the Danish referendum - that their admission could require major institutional change.
- [If necessary] Maastricht accession negotiations could start as soon as future financing settled, so need to prepare now.
- EFTAn net contributors.

INTERNAL FRONTIERS, GIBRALTAR/EFC

Internal Frontiers

- Immigration a difficult and sensitive problem for us all. Noted Delors' sensitive handling of Commission's Article 8a Communication at May Foreign Affairs Council.
- In the light of Communication, accept that there may be pressure for some discussion of frontier controls on people at Lisbon. But should avoid sterile legal debate, and encourage Interior Ministers to concentrate on practical measures of co-operation on immigration/asylum issues.

Gibraltar/EFC

- Greatly appreciate Portuguese efforts to broker a solution. Have done very well to bring a settlement within reach. Must get a breakthrough as all twelve want to proceed with EFC as soon as possible.
- Problems have not been of our making. We were able to accept EFC text last June when Spain first raised the Gibraltar issue. We have since co-operated closely with Dutch Presidency and yourselves to find a solution.

**THIS IS A COPY. THE ORIGINAL IS
RETAINED UNDER SECTION 3 (4)
OF THE PUBLIC RECORDS ACT**

Temporarily retained

CONFIDENTIAL

- 7 -

- Hope you will keep up pressure on Spain to be flexible. Delors told the Foreign Secretary on 14 June that he would speak to Gonzalez. Our willingness to compromise to get agreement on the EFC for the sake of the Community needs to be matched by Spain.

- Any further news of the Spanish position? What are your plans now?

CONFIDENTIAL

SITES OF EC INSTITUTIONS

- Interested to know whether you intend to promote a sites discussion. Views of other member states? Clear that, given uncertainties following Danish referendum, a decision on the EMI/ECB site should not be taken at Lisbon. Better kept off the agenda until ratification outlook clearer.

- [If Cavaco says decision necessary on EMI/ECB to emphasise momentum of Maastricht] No. As agreed at Oslo, key is to press on with ratification and keep door open to Danes. Having a row about sites, in anticipation of the Treaty, can only prejudice wider Community objectives. Doubt whether others want a decision now. Many hats still in ring - Amsterdam, Luxembourg, Barcelona, London, Paris. Merits should be debated.

[If Cavaco Silva floats the idea of a mini package]

- Would look at your ideas but reluctant to settle these issues piecemeal.

SINGLE MARKET/SOCIAL AFFAIRS

Single Market

- Congratulate Portuguese Presidency on Single Market progress. Helpful if Lisbon conclusions could outline priorities for the next six months and look ahead to making the Single Market work post-1992.
- [If raised] welcome your idea of a declaration on implementation and enforcement.

Social Affairs

Working Time Directive:

- As you know, UK does not want the working time directive, and never has. It would be highly damaging to UK industry in its present form. It would hit the pay packets of 2.5 million people who regularly work more than 48 hours. Employers and public opinion have been outraged at the imposition of such a proposal on the British people.
- Despite all this, at the Social Affairs Council on 30 April, Mrs. Shephard made clear UK's wish and determination to explore every sensible way of finding solution. Have continued to look for ways forward Appreciate (Portuguese Labour Minister) Dr Peneda's hard work to same end.
- But the situation has now been changed dramatically by the Danish referendum. Public and Parliamentary opinion on Maastricht is inflamed; for the UK to be isolated on an issue such as working time would make the ratification of the Maastricht Treaty in the UK immeasurably more difficult.
- In the light of this I must ask you not to force the directive to a vote on 24 June. Would risk isolating the UK. Have made good progress under the Portuguese

Presidency; would be able to build on this during the UK Presidency.

- Of the main outstanding problems, the new Presidency text is helpful in allowing employees to work more than 48 hours a week where they do so voluntarily. But problems remain. For example, scope for unions to use that provision as a pay bargaining lever. Do not know if we can accept. Certainly not in the present form in which it would be an exemption for 10 years only. Must be unlimited.
- On Sunday, working directive fails to reflect agreement reached at April Council. It must be clear in text itself that members states are free to decide whether Sunday should be standard day of rest.
- And needs to make clear as agreed at last Council by all except France and Belgium that derogations (ie different arrangements) can be agreed by collective bargaining "at the appropriate level" ie plant and factory level and not just at regional and national level.
- But to repeat the key point. For the Council to adopt any working time directive on 24 June - even an improved one - could well kill off the Maastricht agreement in the UK. As simple as that.

EC Draft Directive on Protection of Pregnant Women at Work
[for use as necessary]

Aspects with which the UK is unhappy but which it has accepted in the interests of securing agreement.

1. Treaty Base

The Government is strongly opposed to the use of Article 118A (health and safety - qualified majority voting) of the Treaty of Rome for a directive which covers social security matters such as maternity pay and employment rights such as

dismissal. This sets a dangerous precedent which we know the Commission is keen to exploit, particularly in the area of social security, where the potential costs to Member States are very high. For that reason, the UK abstained at the common position stage. Our strong reservations about the Treaty base remain.

2. Removal of all Qualifying Conditions for Employment Rights

The directive will require the abolition of all existing eligibility rules for rights to maternity leave, to return to work with the same employer and protection against unfair dismissal. The UK Government fears that the removal of all these eligibility conditions - principally the condition that a woman must work for two years with the same employer - will be a major disincentive for employers to recruit women of child-bearing age.

3. Removal of Small Firms Exemptions for Certain Employment Rights

The directive will remove the exemption which permits small firms in certain circumstances to suspend a pregnant worker who is unfit to perform her job when there is no alternative job available.

4. Increased Cost to Statutory Maternity Pay

The directive's provisions on maternity pay will cost the UK an additional £85 million per annum by requiring statutory maternity pay to be brought into line with statutory sick pay.

5. Prohibition of any Reduction in Existing Rights and Benefits

The UK has one of the longest periods of paid maternity leave (18 weeks) and the longest lasting right to return (40 weeks in total) in the whole Community. However, the

E. R.

CONFIDENTIAL

- 12 -

prohibition on reducing any rights or benefits means that we cannot make any change in the existing range of benefits in case a single woman would be worse off - however marginally. This sort of inflexibility is a classic example of unnecessary interference in matters which should be left to Member States.

CONFIDENTIAL

INDIRECT TAX/URUGUAY ROUND

Indirect Tax

- Indirect tax a difficult technical subject. Not suitable for European Council. Will anyway be discussed again in ECOFIN on 29 June.

Uruguay Round

- Finest prize for your Presidency and the Commission would be a breakthrough in the GATT Round before Lisbon. Believe agriculture deal close and requiring only final political effort by community and US. Hope you can work on Commission to take final steps.
- European Council must, of course, repeat its commitment to an early conclusion of the Round. But would be best if it could welcome an EC/US agreement on agriculture and call on all parties to finish work on other areas in the following weeks.

CENTRAL AND EASTERN EUROPE AND FORMER SOVIET UNION/CFSP

Central and Eastern Europe and Former Soviet Union

- Lisbon conclusions should look forward to rapid progress in 1992 on negotiation of enhanced Trade and Co-operation Agreements with Russia, Ukraine, Belarus and Kazakhstan, to include new trade liberalisation, political dialogue and approximation of laws.
- Likewise, should look forward to successful negotiation in 1992 of Association Agreements with Bulgaria and Romania.
- Following my visit to Central Europe, convinced Lisbon should also call for early and effective implementation of Association Agreements with Poland, Hungary and Czechoslovakia.

CFSP

- European Council will need to agree some declarations on EPC issues at Lisbon, particularly on Yugoslavia.
- But must be careful not to devalue the currency by reiterating platitudes or known positions. Any declarations should be operational and have substance.
- European Council should endorse Foreign Ministers' report on CFSP joint action. But see no need for a discussion at Lisbon itself. Could give rise to misleading impression we intended to launch joint actions at once. Joint Action "pilot projects" may be feasible later in the year, but will need to judge this in the autumn.

18 June 1992

A:\FOREIGN\PORTUGUE (DAS)



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

file

17 June 1992

Stephen Wall Esq CMG LVO
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear Stephen,

**PRIME MINISTER'S MEETING WITH THE PORTUGUESE PRIME MINISTER,
18 JUNE**

The Chancellor has seen Christopher Prentice's letter to you of 16 June and has some reservations about the suggested line-to-take on the draft Working Time Directive.

In his minute of 12 June to the Foreign Secretary the Chancellor underlined the need for a collective discussion of the UK's options before the Social Affairs Council. He was, and remains, concerned about the possible effect of a directive on the public sector and the economy more generally, even if it embodied a "voluntarist" approach.

The Chancellor believes that until colleagues have addressed such concerns, we should continue to make UK reservations clear to the Presidency and say nothing which might prejudice our position at the Council.

The suggested line-to-take in Christopher's letter gives the impression that the UK would accept a directive which imposed no time-limit on a voluntarist derogation and contained satisfactory language on Sunday working. The Chancellor does not believe it is either wise and necessary to go so far at this stage. He would therefore propose that the fifth tiret of the line-to-take, and

POLICY IN CONFIDENCE



the corresponding section of the speaking notes, should be revised as follows:

"Even a directive which met our concerns on these points would be costly and difficult. Despite strong reservations, UK has gone to great lengths to see whether a way forward might be found. Will need to look very carefully at precise implications of any new text before we come to a conclusion".

The line-to-take should also make clear that the unresolved issue of the collective bargaining derogation is, like Sunday working, a key concern for the UK.

I am copying this to Private Secretaries of members of OPD(E) and to Sonia Phippard

Yours,

Jeremy

JEREMY HEYWOOD
Principal Private Secretary

SITES OF INSTITUTIONS

Our primary objective at Lisbon will be to block any decision on the EMI/ECB site, whether it is put forward on its own or as part of a wider package of a number of sites. But we need to consider our approach to a possible sites package which does not include the EMI/ECB, even though such a package does not look very likely.

It has been our policy for some time to secure early agreement on the sites of the Environment Agency (EA), the Trade Marks Office (CTMO), and the Training Foundation - ie all institutions whose establishment has been agreed by the Community. To this list, we can now add the Drugs Monitoring Centre (EDMC). We have UK bids in for the EA and the CTMO but these are not being seriously pursued. We would not want any package to include additional sites to these four since we are likely to have UK bids to put forward later (eg Plant Breeders Agency and Medicines Evaluation).

A minimum package on these lines, including possibly a settlement to the EP site, might be difficult to resist at Lisbon. It is not clear that our interests would be harmed should such a package succeed. We would not in fact lose much leverage over the German bid for the ECB by letting the Training Foundation go to Berlin (the only candidate). We want the EA, CTMO and EDMC up and running as there is important work for them to do. The EP dispute is one we have kept out of; we would not be well placed to challenge a deal agreed by the three main protagonists.

If Cavaco floats the idea of a mini-package, the Prime Minister might therefore want to express interest, without commitment at this stage. But we should make clear that it is premature to consider the EMI/ECB site.

[I should be pretty non-committed at this stage]

DCHI0617contL1



Department of Employment
Caxton House, Tothill Street, London SW1H 9NF

Telephone 071-273 5803
Telex 915564 Fax 071-273 5821

Secretary of State

Stephen Wall Esq CMG LVO
Private Secretary
10 Downing Street
London SW1A 2AA

17th June 1992

Dear Stephen,

**WORKING TIME DIRECTIVE: MEETING WITH THE PORTUGUESE PRIME
MINISTER, THURSDAY 18 JUNE**

We spoke earlier this afternoon about the Prime Minister's meeting with the Portuguese Prime Minister tomorrow. I now attach an updated speaking note on the working time directive which the Prime Minister may wish to draw upon. The reflects the discussion which the Prime Minister had with the Foreign Secretary and my Secretary of State this afternoon.

I also attach a short note on the pregnant workers directive, which summarises the points which we particularly dislike about this proposal. You thought that the Prime Minister might wish to draw on this material to give Cavaco a clearer idea of the extent to which we have already been very flexible on social affairs, and to emphasise that final adoption of the directive would be a substantial achievement for the Portuguese presidency.

Finally, I attach an updated copy of the "bull points" sheet which summarises our line on the directive; your press office have seen an earlier version of this, and have discussed it with officials here.

I am copying this letter to Christopher Prentice (FCO) and Sonia Phippard (Cabinet Office)

Yours,

Steve

STEVE TURNER
Private Secretary



Employment Service
Health and Safety Executive · ACAS



100%
RECYCLED PAPER

SPEAKING NOTE FOR PRIME MINISTER'S MEETING WITH THE PORTUGUESE PRIME MINISTER

WORKING TIME DIRECTIVE

- As you know, UK does not want the working time directive, and never has. It would be highly damaging to UK industry in its present form. It would hit the pay packets of 2.5 million people who regularly work more than 48 hours. Employers and public opinion have been outraged at the imposition of such proposal on the British people.
- Despite all this, at the Social Affairs Council on 30 April, Mrs Shephard made clear UK's wish and determination to explore every sensible way of finding solution. Have continued to look for ways forward. Appreciate (Portuguese Labour Minister) Dr Peneda's hard work to same end.
- But the situation has now been changed dramatically by the Danish referendum. Public and Parliamentary opinion on Maastricht is inflamed; for the UK to be isolated on an issue such as working time would make the ratification of the Maastricht Treaty in the UK immeasurably more difficult.
- In the light of this I must ask you not to force the directive to a vote on 24 June. Would risk isolating the UK. Have made good progress under the Portuguese presidency; would be able to build on this during the UK Presidency.

Of the main outstanding problems, the new Presidency text is helpful in allowing employees to work more than 48 hours a week where they do so voluntarily ~~can accept that~~ ~~and~~ not in the present form in which it would be an exemption for 10 years only. Must be unlimited.

On Sunday working directive also ^{falls} needs to reflect agreement reached at April Council, ~~ie. it~~ must be clear in text itself that member states are free to decide whether Sunday should be standard day of rest.

And needs to make clear as agreed at last Council by all except France and Belgium that derogations (ie. different arrangements) can be agreed by collective bargaining "at the appropriate level" ie. plant and factory level and not just at regional and national level.

But to repeat the key point. For the Council to adopt any working time directive on 24 June - even a much improved one - could well kill off the Maastricht agreement in the UK. As simple as that.

But nothing remain as scope for unions using position as pay bargaining level. Do not have five can accept.

EC DRAFT DIRECTIVE ON PROTECTION OF PREGNANT WOMEN AT WORK

Aspects with which the UK is unhappy but which it has accepted in the interests of securing agreement

1. Treaty base

The Government is strongly opposed to the use of Article 118A (health and safety - qualified majority voting) of the Treaty of Rome for a directive which covers social security matters such as maternity pay and employment rights such as dismissal. This sets a dangerous precedent which we know the Commission is keen to exploit, particularly in the area of social security, where the potential costs to Member States are very high. For that reason, the UK abstained at the common position stage. Our strong reservations about the Treaty base remain.

2. Removal of all Qualifying Conditions for Employment Rights

The directive will require the abolition of all existing eligibility rules for rights to maternity leave, to return to work with the same employer and protection against unfair dismissal. The UK Government fears that the removal of all these eligibility conditions - principally the condition that a woman must work for two years with the same employer - will be a major disincentive for employers to recruit women of child-bearing age.

3. Removal of Small Firms Exemptions for Certain Employment Rights

The directive will remove the exemption which permits small firms in certain circumstances to suspend a pregnant worker who is unfit to perform her job when there is no alternative job available.

4. Increased Cost to Statutory Maternity Pay

The directive's provisions on maternity pay will cost the UK an additional £85 million per annum by requiring statutory maternity pay to be brought into line with statutory sick pay.

5. Prohibition of any reduction in existing rights and benefits

The UK has one of the longest periods of paid maternity leave (18 weeks) and the longest lasting right to return (40 weeks in total) in the whole Community. However, the prohibition on reducing any rights or benefits means that we cannot make any change in the existing range of benefits in case a single woman would be worse off - however marginally. This sort of inflexibility is a classic example of unnecessary interference in matters which should be left to Member States.

1c

POLICY IN CONFIDENCE

WORKING TIME DIRECTIVE

BULL POINTS TO USE IN RUN UP TO THE 24 JUNE SOCIAL AFFAIRS COUNCIL

1. The UK has never wanted this Directive and we do not want it now. It is highly damaging to UK industry in its present form. It would hit the pay packets of 2.5 million British employees.
2. It is just the sort of example of centralised and standardised Community legislation which the British public does not want.
3. By far and away the best solution would be for the Community simply to drop - immediately - this misguided and damaging piece of legislation.
4. At a minimum, the Community must recognise the enormous current political concern there is in the UK about the EC, following the Danish Referendum on Maastricht. An adverse decision on working time on 24 June would greatly worsen the situation.
5. We have to recognise however that it is not possible for the UK - on its own - to block the proposal. The Government therefore has to continue to work to secure the best possible provisions in the text.
6. The Secretary of State for Employment is continuing her contact with her EC counterparts.
7. The directive gives rise to a wide range of concerns. The UK's key concerns are:
 - ensuring that employees who wish to do so are able to work more than 48 hours per week (provided of course that this does not put at risk the health and safety of themselves or others);
 - the directive must make clear that member states are free to decide whether to designate Sunday as a standard day of rest;
 - it must be possible to derogate from the directive through collective agreements at local level;

There are in addition a number of other important points to resolve, including the extent of derogations.

8. In any case the proposal has a highly dubious legal base (Article 118A - Health and Safety) and UK will need to consider very carefully whether to go to the European Court of Justice for a ruling in due course.

POLICY IN CONFIDENCE

Supplementaries (for use if raised)

9. The UK cannot support an outcome concerning the 48 hour week which would mean that the "voluntary approach" would come to an end after a time period laid down in the directive.
10. Speculation as to the UK's position on 24 June is highly hypothetical at this stage. The scene is fast moving. However, there are at present major difficulties and a long way to go in the negotiations.

CONFIDENTIAL

u/b
b-up

FROM: N J KROLL (EC2)
DATE: 17 JUNE 1992
x4710

cc Mr H P Evans
Mr Bostock
Mr Dodds

file

EC FUTURE FINANCING: PRIME MINISTER'S MEETING WITH CAVACO SILVA:
18 JUNE 1992

We now have from the Foreign Office their summary of possible components of a deal on future financing which the Portuguese Presidency may float at or before Lisbon.

2. I am submitting separately a draft letter to Number 10 which underlines our reservations about this package or about any proposal for a partial deal which may be raised at Lisbon.

3. I understand that you would like in advance to let Stephen Wall separately have a note of these reservations, so that they can be reflected in the Prime Minister's brief for his meeting tomorrow with Cavaco Silva. This is attached.

Styler

NJK:om

I [unclear] you [unclear]

N J KROLL

Q.h
7:40pm

CONFIDENTIAL

POINTS TO INCLUDE IN BRIEF FOR PRIME MINISTER'S MEETING WITH CAVACO SILVA

- Accept that a package along these lines would be an improvement on the Commission's proposals: an own resources ceiling set at 1.26 per cent of Community GNP in 1997 and 1.29 per cent in 1999 is less generous than 1.37 per cent in 1997 and no less two years later.
- But no prospect that it can form the basis of a deal acceptable to the UK:
 - * a seven year package would keep cohesion expenditure rising for another two years. The "Poor Four" would obtain everything they want, over a slightly longer period than the Commission have proposed, and more cumulatively;
 - * postponing increases in the own resources ceiling conceals the generosity of the package in terms of absolute amounts. If Community GNP grows by 2.5 per cent a year, 1.29 per cent in 1999 represents the same amount as 1.355 per cent in 1997;
 - * its financial effect on the UK taxpayer would not be very different from the Commission's original proposal, which was quite unacceptable;
- Nor any obvious attractions in a partial deal, eg agreement now to Cohesion Fund in exchange for rollover of own resources ceiling for next two years. No guarantee that such a deal now would moderate demands for spending (including cohesion spending) later. Nor is a two year rollover of own resources ceiling any more than recognition of current reality, given present levels of budget spending.

RESTRICTED

MDADAN 5622

*clb
back-up
123471*

RESTRICTED

FM LISBON

TO DESKBY 171300Z FCO
TELNO 397
OF 171210Z JUNE 92
INFO PRIORITY OTHER EC POSTS

ADVANCE COPY

*cc HS/Nº 10,
Nº wad*

X back

*R
17/12*

CAVACO'S VISIT TO LONDON, 18 JUNE : SCENE-SETTER

SUMMARY

1. CAVACO POLITICALLY SECURE, BUT RELATIONS WITH PRESIDENT SOARES ARE STICKY AND MAASTRICHT RATIFICATION MAY NOT BE QUITE AS STRAIGHTFORWARD AS ORIGINALLY EXPECTED. CAVACO WARY OF SEEMING PUBLICLY TOO CLOSE TO UK BUT FUNDAMENTALLY WELL-DISPOSED. IMPORTANCE OF NOT TAKING PORTUGAL FOR GRANTED.

2. CAVACO IS UNDERTAKING HIS TOUR OF EC CAPITALS WITH AN OPEN MIND, AND WILL PROBABLY DECIDE ONLY AFTERWARDS WHAT IS POSSIBLE AT LISBON ON FUTURE FINANCING. CAVACO WILL NOT WANT TO BLOCK WORK ON ENLARGEMENT BUT WILL HAVE TO FIND A SOLUTION THAT PRESERVES LINKAGE WITH FUTURE FINANCING.

DETAIL

3. CAVACO'S MAJORITY GOVERNMENT HAS HAD AN EASY RIDE SINCE LAST OCTOBER'S ELECTIONS, LARGELY BECAUSE OF POST-ELECTORAL DISARRAY IN THE OPPOSITION PARTIES. BUT BOTH THE MAIN OPPOSITION SOCIALISTS (PS) AND THE SMALL CHRISTIAN DEMOCRATS (CDS) NOW HAVE NEW LEADERS, WHILE EXPELLED COMMUNIST DISSIDENTS HAVE FORMED THEMSELVES INTO AN ARTICULATE 'LEFT PLATFORM'. OPPOSITION FORCES HAVE AS A RESULT BECOME MORE FOCUSSED IN RECENT WEEKS. MORE IMPORTANT, PRESIDENT SOARES (SOCIALIST) SEEMS DETERMINED TO MAKE LIFE DIFFICULT FOR CAVACO ON A NUMBER OF FRONTS. HE HAS VETOED A GOVERNMENT PLAN TO PENSION OFF EXCESS COLONELS, HAS MADE IT CLEAR THAT HE OPPOSES GOVERNMENT PROPOSALS TO GIVE PORTUGUESE EMIGRANTS THE RIGHT TO VOTE IN PRESIDENTIAL ELECTIONS (WHICH WOULD MOST CERTAINLY BOOST THE CHANCES OF ANY RIGHT-WING CANDIDATE - PERHAPS CAVACO HIMSELF - IN 1996), AND HAS COME OUT IN SUPPORT OF A REFERENDUM ON MAASTRICHT (THE SOCIALISTS THEMSELVES HAVE LINED UP WITH THE GOVERNMENT AGAINST). CAVACO COULD HARDLY BE DESCRIBED AS EMBATTLED, BUT THE RISING TEMPERATURE OF THE DOMESTIC POLITICAL SCENE CAN ONLY INCREASE HIS DESIRE FOR A DEMONSTRABLY SATISFACTORY OUTCOME TO THE

LISBON EUROPEAN COUNCIL, PARTICULARLY ON FUTURE FINANCING.

MAASTRICHT

4. THE SUPPORT OF THE OPPOSITION SOCIALISTS MEANS THAT THE GOVERNMENT IS SURE OF A PARLIAMENTARY MAJORITY FOR RATIFICATION OF THE MAASTRICHT TREATY. THIS ALLIANCE HOWEVER GIVES THE SOCIALISTS A HOLD ON THE PROCESS WHICH MAY HAVE TO BE PAID FOR, SINCE CAVACO HAS HAD TO CONCEDE THAT CONSTITUTIONAL REVISION WILL BE NECESSARY BEFORE RATIFICATION AND IT WILL BE DIFFICULT TO LIMIT THE DEBATE TO ITEMS NECESSARY FOR MAASTRICHT. MOREOVER PROSPECTS HAVE BEEN COMPLICATED BY EVENTS IN DENMARK, WHICH HAVE FUELLED MINORITY DEMANDS BY THE CDS AND THE LEFT FOR A REFERENDUM. MORE DETAIL IN MY TELNO 394.

UK/PORTUGAL

5. MY TELELETTER OF 12 MAY TO JAY REPORTED HOW WARY CAVACO HAD BECOME OF SEEMING TOO CLOSE TO THE UK, OFTEN PERCEIVED AS THE EC OUTSIDER. THIS DOES NOT MEAN THAT HE IS PERSONALLY HOSTILE TO BRITAIN, AND I CONTINUE TO BELIEVE HE WOULD WELCOME A MARK OF BILATERAL FRIENDSHIP. IT COULD THEREFORE HELP CREATE A GOOD ATMOSPHERE, AS I WROTE ON 12 MAY, BOTH DURING CAVACO'S CALL AND FOR THE EUROPEAN COUNCIL, IF THE PRIME MINISTER COULD INDICATE A DESIRE TO VISIT PORTUGAL AFTER THE UK PRESIDENCY.

PRESIDENCY/EUROPEAN COUNCIL

6. THE PRESIDENCY HAS BEEN A HUGE NATIONAL POLITICAL EVENT, AND CONTINUOUS CLOSE PRESS INTEREST HAS ENSURED THAT MINISTERS HAVE BOTH REMAINED SENSITIVE AND BEEN FORCED TO REACT TO ANY CRITICISM. CAVACO HAS REVEALED THAT HIS STAFF KEEP CUTTINGS OF FOREIGN PRESS REPORTS IN PRAISE OR CRITICISM OF THE PRESIDENCY. THE PORTUGUESE GENUINELY CARE WHAT OTHERS THINK, AND HAVE TRIED TO RUN THEIR PRESIDENCY IN A WAY TO EXCITE GENERAL APPROVAL - FROM THE PORTUGUESE POINT OF VIEW THIS MEANS BY CONSENSUS (CAP REFORM POSSIBLY EXCEPTED). THE LOGIC OF THIS APPROACH IS THAT NO-ONE WILL BE SQUEEZED AT LISBON, BUT THIS WILL BE BALANCED BY CAVACO'S NEED TO ACHIEVE RESULTS THAT CAN BE PRESENTED DOMESTICALLY AS A SUCCESS. BELOW I OFFER SNAPSHOTS OF THE MORE CONTENTIOUS AND FAST-MOVING AGENDA ITEMS FOR THE EUROPEAN COUNCIL AS THEY APPEAR FROM LISBON.

FUTURE FINANCING

7. CAVACO HAS ALWAYS INSISTED THAT A GLOBAL AGREEMENT ON THE DELORS PACKAGE WOULD BE THE PRESIDENCY'S AIM AT LISBON. THE REAL BOTTOM LINE HAS REMAINED UNDEFINED, QUITE LIKELY DELIBERATELY SO. HIS TOUR OF EUROPEAN CAPITALS IS AN ATTEMPT TO GAUGE WHAT SORT OF COMPROMISE MIGHT BE POSSIBLE TO MAKE LISBON LOOK A SUCCESS, AND EVERYTHING INDICATES THAT HE IS UNDERTAKING THIS EXERCISE WITH AN OPEN MIND. PORTUGAL'S NATIONAL INTERESTS ARE SIMILAR TO THOSE OF OTHER MEMBERS OF THE 'POOR FOUR', BUT CAVACO TAKES HIS PRESIDENCY ROLE SERIOUSLY AND WILL BE LOOKING FOR ANY REASONABLE AGREEMENT THAT WILL WORK. WHILE HE HAS THE SECURITY OF KNOWING THAT ANY COMPROMISE THAT SATISFIES SPAIN IS LIKELY TO BE ACCEPTABLE TO PORTUGAL TOO, PORTUGUESE OFFICIALS ARE CONCERNED THAT SPANISH INTRANSIGENCE MIGHT BE THE HARDEST OBSTACLE AT LISBON, AND SEE MADRID AS THE TOUGHEST STOP ON CAVACO'S TOUR. HE CANNOT AFFORD HOWEVER TO BE SEEN TO BE GIVING IN TO THE 'RICH EIGHT'. FOR EXAMPLE, SOME NEWSPAPERS CLAIMED THAT AFTER MEETING KOHL ON 31 MAY (AND BEFORE THE DANISH REFERENDUM) CAVACO LOWERED HIS AMBITIONS. THIS BROUGHT A HOSTILE PUBLIC REACTION AND HE HAD EXPLICITLY TO DENY IT.

ENLARGEMENT

8. PORTUGUESE OFFICIALS ACCEPT THE PRINCIPLE OF EARLY ACCESSION BY THE EFTA COUNTRIES AND CAVACO HAS DURING THE PRESIDENCY GIVEN A WARM IF CAUTIOUS WELCOME TO LEADERS OF EFTA COUNTRIES VISITING LISBON. HE HAS ACKNOWLEDGED THAT ENLARGEMENT IS HIGH ON THE AGENDA FOR LISBON AND SO WILL WANT TO BE ABLE TO POINT TO PROGRESS. BUT THE MAASTRICHT LINK WITH FUTURE FINANCING IS A POLITICAL FIXTURE HERE AND WILL NEED TO BE RESPECTED. ASSUMING THAT AN ACCEPTABLE BUT NOT FINAL AGREEMENT ON FUTURE FINANCING AT LISBON IS REACHED THE PRESIDENCY WILL PROBABLY HOPE TO FIND SOME LANGUAGE THAT ALLOWS WORK TO PROCEED ON PRE-ENLARGEMENT UNDER THE UK PRESIDENCY IN TIME FOR NEGOTIATIONS TO START WITH APPLICANTS IN 1993, BUT EXPLICITLY SUBJECT TO FINAL AGREEMENT ON FINANCING AT EDINBURGH.

FRONTIERS

9. THE PRIME MINISTER'S LETTER TO CAVACO, WITH ITS WARM PRAISE OF PRESIDENCY EFFORTS TO BROKER A SOLUTION BETWEEN UK AND SPAIN ON GIBRALTAR AND SO COMPLETE THE EXTERNAL FRONTIERS CONVENTION, WILL HAVE GONE DOWN WELL WITH CAVACO. THE PRIME MINISTER MIGHT USEFULLY REPEAT THIS MESSAGE, AS AN AREA IN WHICH WE CAN GENUINELY ADMIRE THE ROLE OF THE PRESIDENCY, ESPECIALLY AS WE HAVE BEEN ABLE TO ACCEPT THE LATEST COMPROMISE AND ARE NOW WAITING FOR SPAIN.

DELORS SUCCESSION

10. ON THE DELORS SUCCESSION, THERE IS NO INDICATION THAT THE PORTUGUESE HAVE EVER SERIOUSLY CONSIDERED ANY CANDIDATE OTHER THAN DELORS HIMSELF. NEWSPAPERS ARE BEGINNING TENTATIVELY TO QUESTION HIS SUITABILITY FOLLOWING THE DANISH REFERENDUM, BUT NO OTHER NAMES ARE BEING SERIOUSLY AIRED.

SITES OF INSTITUTIONS

11. OFFICIALS IN BOTH THE MFA AND THE PRIME MINISTER'S OFFICE ARE UNAWARE OF ANY PLANNED INITIATIVE ON SITES, BUT FREELY CONFESS THAT CAVACO HAS BEEN HANDLING THIS PERSONALLY. DELORS, AT ANY RATE, SEEMS TO THINK CAVACO HAS SOMETHING READY (UKREP TELNO 1500). THE PORTUGUESE ARE UNLIKELY TO HAVE ANY TECHNICAL PREFERENCE ON THE SITE OF THE ECB, SO THEIR DECISION WILL DEPEND ON POLITICAL CONSIDERATIONS AND THE POSSIBILITY OF A QUID PRO QUO. A GESTURE THAT WOULD COST US LITTLE, BUT WOULD BE IMPORTANT FOR THE PORTUGUESE, WOULD BE A VOTE AT NEXT WEEK'S BIS MEETING IN PARIS FOR LISBON AS THE SITE OF EXPO 98. I RECOGNISE THE COMPETING CLAIMS OF TORONTO, BUT A VOTE FOR THE PORTUGUESE - PARTICULARLY AS THEY SEEM LIKELY TO WIN ANYWAY - MIGHT HELP QUELL THEIR SUSPICION THAT WE ARE WONT TO TAKE THEM FOR GRANTED, AND AVOID CLOUDING THEIR ATTITUDE TOWARDS THE POSSIBLE ESTABLISHMENT OF THE ECB IN LONDON.

CAP

12. THE PRESIDENCY HAS REJECTED THE ITALIAN SUGGESTION THAT THE CAP REFORM PACKAGE SHOULD BE REOPENED AT LISBON. QUITE APART FROM THE RISK OF OVERLOADING THE AGENDA, IT WOULD TARNISH THE PRESIDENCY'S BIGGEST FRONT-PAGE TRIUMPH. AGRICULTURE MINISTER ARLINDO CUNHA HAS BEEN TASKED WITH FINDING A SOLUTION WITHIN THE AGRICULTURAL COUNCIL.

ARBUTHNOTT

YYYY

DISTRIBUTION

20

ADVANCE

20 22

.FRAME GENERAL
 PS (2)
 PS/PUS
 MR CROWE
 MR JAY
 ECD(I)//HD(3)
 NEWS D//HD(2)
 CABINET OFFICE//MR ELDON
 CABINET OFFICE//MR HADLEY

CABINET OFFICE//MR BENDER
 CABINET OFFICE//MS TATHAM
 HMT//PS/PAYMASTER GENERAL
 HMT//SIR N WICKS
 HMT//MR EVANS
 HMT//MR BOSTOCK
 HMT//MR KROLL
 DTI//MR ROBERTS
 MAFF//PERMANENT SECRETARY

NNNN

SEA



Foreign &
Commonwealth
Office

London SW1A 2AH

17 June 1992

Dear Stephen,

Cavaco

/ As requested, I enclose three additional elements for the Prime Minister's brief for Cavaco tomorrow:

- a) an update on the External Frontiers Convention in Gibraltar;
- b) a note on Portuguese Presidency successes;
- c) a note on Sites, in particular the possibility of a mini-package at Lisbon.

I am sending a copy of this letter to David Hadley (Cabinet Office).

*Yours ever,
Richard.*

(R H T Gozney)
Private Secretary

Stephen Wall Esq
10 Downing Street



CRB
Bup

CONFIDENTIAL

Foreign &
Commonwealth
Office

16 June 1992

London SW1A 2AH

Dear Stephen,

**PRIME MINISTER'S MEETING WITH THE PORTUGUESE
PRIME MINISTER, THURSDAY 18 JUNE**

The Prime Minister will be seeing the Portuguese Prime Minister on Thursday 18 June.

Cavaco will already have visited Bonn (1 June), Athens and Luxembourg (16 June), the Hague and Copenhagen (17 June) and Dublin (earlier on the 18th). He will visit Brussels and Madrid on the 19th, Rome and Paris on the 22nd and Brussels again (Commission) on the 23rd. His agenda letter should therefore arrive on 24 June.

The Foreign Secretary's minute of 15 June (copy enclosed) covered the prospects for Lisbon. OPD will discuss UK objectives on 17 June.

for you only

Our objective for the meeting on 18 June is to hear how Cavaco plans to handle the European Council, and to lobby him. Cavaco may open with Maastricht ratification. All other member states are firmly opposed to renegotiation of the Maastricht Treaty. The French, Germans and Dutch are the most insistent. The Portuguese made some sharp comments about the Danish decision on the day after, but have been more cautious since, holding to the conclusions of the Oslo meeting of Foreign Ministers on 4 June:

CONFIDENTIAL



CONFIDENTIAL

- Ministers heard a report from the Danish Foreign Minister on the results of the Danish referendum, the outcome of which they all regret.
- Ministers noted that all 11 member states expressed their wish to see the European union established by all member states. They exclude any reopening of the text signed at Maastricht.
- The ratification process in member states will continue on the basis of the existing text and in accordance with the agreed timetable before the end of the year.
- They all agreed that the door for Denmark's participation in the union remains open.

The Presidency has not suggested commissioning any legal or other work, although the Belgians and Italians have expressed some interest in this.

The Prime Minister might therefore set out the prospects for ratification in Britain and make the following points on handling at Lisbon:

- Lisbon discussion should be guided by Oslo conclusions. Hope European Council will endorse them and ask Foreign Ministers to return to the subject in the autumn. Must avoid crisis atmosphere, and give Danes time to think. Need to show other Community business continuing;
- [if raised] no need to commission particular legal or other work now. Danes not ready to consider

CONFIDENTIAL



CONFIDENTIAL

options. Even sensible ones risk being rejected at this stage. Quiet contacts with the Danes will be the first step;

- clear that Community's first priority is to proceed together. Cannot imagine going ahead as Eleven with Maastricht Treaty;
- useful to commission from Lisbon work on establishing agreed ground rules for the operation in the Commission and the Council of the new subsidiarity provision;
- hope Delors will produce report to Council on ways to entrench subsidiarity in Commission working practices. Council should examine our own procedures to ensure principle is observed. This would address one of the most neuralgic issues in many member states, particularly after the Danish referendum.

Cavaco confirmed at a recent press conference that future financing would be top of the Lisbon agenda. The Portuguese plan to put draft Conclusions language to the 20 June Foreign Ministers' Conclave. But since the Commission's proposals have been roundly criticised by a clear majority of member states at ECOFIN, it is difficult to see a basis for agreement at this stage. Nevertheless M. Delors warned the Foreign Secretary this week that Cavaco will press hard at Lisbon for some substantive decisions. He also warned that Cavaco (and Gonzalez) would not agree decisions at Lisbon on enlargement unless he seemed satisfied on future financing.

CONFIDENTIAL



CONFIDENTIAL

The Portuguese may be tempted to think that there could be a partial deal at Lisbon in which the 1.2% Own Resources ceiling is maintained for a couple of years; but they would no doubt see the quid pro quo as a commitment to substantially increased cohesion expenditure from the start, with more to come later. There would be little for the United Kingdom in such an arrangement. In any case, while the Portuguese would doubtless receive Southern support, there is little political will amongst Northern member states for substantive conclusions of any kind at Lisbon. Chancellor Kohl told the Prime Minister on 5 June that there should only be a first general discussion at Lisbon. This view has been echoed by the Belgians and others. The Prime Minister may therefore wish to say:

- Recognise progress made under your Presidency on a difficult dossier, but still a lot of ground to cover. Difficult to see what basis there is for a global settlement, given fact that at last ECOFIN a clear majority of member states regarded Commission proposals as unaffordable and unjustified. You know our views;
- Lisbon conclusions could record progress made so far, reaffirm commitments made at Maastricht and call for work to be intensified, building on considerable achievement of Portuguese Presidency. But to try to do more will simply lead to a divisive European Council;
- [if raised] do not want to preempt Commission report on abatement. But no question of UK

CONFIDENTIAL



CONFIDENTIAL

agreeing any adverse change. Even after abatement, UK second largest contributor to EC Budget per head of population, well out of line with relative prosperity. Abatement must continue to apply to all expenditure within the Community, as now.

The Portuguese broadly share our approach to enlargement and want preparations to continue despite the Danish referendum. Cavaco has spoken of an "orientation" debate at Lisbon. To notch up a Presidency success, he may go further and press for substantive conclusions if these look achievable (and subject to his linkage with future financing). The French proposal for a lunch in the margins of the European Council for applicants and potential applicants (EFTAns, Southerners, Eastern Europeans), was rejected by the FAC on 15 June. The Prime Minister might say:

- support your plans for substantive discussion of enlargement at Lisbon. Case for enlargement unchanged by Danish vote. Paul Schluter believes preparing for EFTAn accession will help bring Danes back into fold. Delors agrees, and is now convinced that next institutional debate should be left until 1996;
- aim must be clear conclusions text calling for acceleration of work on enlargement for EFTAns, and rejecting the idea - which did so much damage in the Danish referendum - that their admission could require major institutional change;

CONFIDENTIAL



CONFIDENTIAL

- [If necessary] Maastricht agreed accession negotiations could start as soon as future financing settled, so need to prepare now.

Some discussion of internal frontier controls on people may be inevitable at Lisbon, in the light of the Commission's Article 8a Communication, which calls on the European Council to make a political commitment to abolish such controls by the end of this year. At the 11 June Immigration Ministers' meeting eight member states supported the Commission, but the French, Danes and Irish joined us to varying degrees in arguing against internal frontier abolition, at least before adequate compensatory measures were in place. The Prime Minister might wish to urge Cavaco not to open up a divisive Lisbon debate, on the following lines:

- immigration a difficult and sensitive problem for us all. Noted Delors' sensitive handling of Commission's Article 8a Communication at May Foreign Affairs Council;
- in the light of Communication, accept that there may be pressure for some discussion of frontier controls on people at Lisbon. But should avoid sterile legal debate, and encourage Interior Ministers to concentrate on practical measures of cooperation on immigration/asylum issues.

Spain has rejected the Portuguese compromise proposal to settle the Gibraltar/External Frontiers Convention dispute. We had earlier agreed to it.

**THIS IS A COPY. THE ORIGINAL IS
RETAINED UNDER SECTION 3 (4)
OF THE PUBLIC RECORDS ACT**

CONFIDENTIAL

Temporarily retained



Temporarily retained

CONFIDENTIAL

**THIS IS A COPY. THE ORIGINAL IS
RETAINED UNDER SECTION 3 (4)
OF THE PUBLIC RECORDS ACT**

The Portuguese appear not to regard the Spaniards' rejection as final; their proposal remains on the table. Cavaco may have tried to persuade Gonzalez to reconsider in Rio last week. He may have other ideas for talking the Spaniards round eg a Prime Ministerial trilateral in the margins of Lisbon. Delors may also weigh in to try to shift the Spanish position. The Prime Minister should register with Cavaco our support for the Portuguese efforts and ask about the next moves:

- greatly appreciate Portuguese efforts to broker a solution. Have done very well to bring a settlement within reach. Problems have not been of our making;
- any further news of the Spanish position? What are your plans now? If matter still unresolved by Lisbon, do you intend a trilateral (Presidency/UK/Spain) in the margins?

Cavaco is likely to want to discuss the next Commission (1993-4) and its President. The assumption is that the Commission will stay at 17. There is unlikely to be Lisbon discussion of the size of the European Parliament. But we could accept most of the variants under discussion, ie 18 extra only for Germany; 18 for Germany and 6 extra for the other big three (the formula adopted by the EP last week); 18 extra for all the big four.

CONFIDENTIAL



CONFIDENTIAL

Cavaco is also handling the sites dossier personally. It is not yet clear how he proposes to handle any discussion of this at Lisbon. The French and Germans have been active behind the scenes and may have tried to fix the Portuguese. Delors told the Foreign Secretary on 14 June that Cavaco intended to propose a package solution. The Prime Minister may have spoken to Lubbers before seeing Cavaco (my letter of 15 June). The Prime Minister may need to speak plainly on the difficulties in attempting to decide the EMI/ECB site now. The following points might be drawn on:

- interested to know whether you intend to promote a sites discussion. Views of other member states? Clear that, given uncertainties following Danish referendum, a decision on the EMI/ECB site should not be taken at Lisbon. Better kept off the agenda until ratification outlook clearer;

- [if Cavaco says decision necessary on EMI/ECB to emphasise momentum of Maastricht] No. As agreed at Oslo, key is to press on with ratification and keep door open to Danes. Having a row about sites, in anticipation of the Treaty, can only prejudice wider Community objectives. Doubt whether others want a decision now. Many hats still in ring - Amsterdam, Luxembourg, Barcelona, London, Paris. Merits should be debated.

There is likely to be little European Council discussion of the Single Market as such, although good progress has been made by the Portuguese Presidency, particularly on insurance and transport. The Prime Minister may wish to say:

CONFIDENTIAL



CONFIDENTIAL

- congratulate Portuguese Presidency on Single Market progress. Helpful if Lisbon conclusions could outline priorities for the next six months and look ahead to making the Single Market work post-1992;
- [if raised] Welcome your idea of a declaration on implementation and enforcement.

The Lisbon European Council falls immediately after the 24 June Social Affairs Council, where the working time proposal is likely to be decided. If that goes badly, and particularly if we have to invoke the Luxembourg Compromise, discussion at Lisbon will probably be unavoidable. Separately, we have heard that the Portuguese may aim for at least conclusions on the 'direction' of social policy. This sounds unwelcome. The Prime Minister may wish to say:

- at Social Affairs Council (SAC) on 30 April, Mrs Shephard made clear UK's wish and determination to explore every sensible way of finding solution on working time which would be acceptable to all. Appreciate (Portuguese Labour Minister) Dr Peneda's hard work to same end;
- blanket 48 hour week politically unacceptable. No existing legislation in this field in UK;
- new Presidency text helpful in including "voluntary approach" to working more than 48 hours a week. But ^{any} time limit ~~(to 2002)~~ on this unacceptable. This could be converted into a neutral review clause;

CONFIDENTIAL



CONFIDENTIAL

- fine print on Sunday working also needs to reflect April agreement, ie must be made clear in the text itself that member states are free to decide whether Sundays should be a standard day of rest;
- remain committed to trying to find an agreement at June SAC. We have already shown considerable flexibility over this directive. With good will on part of other partners, an acceptable agreement looks at last to be in sight. Would be great achievement for Portugal;
- see no need for substantive debate on social issues at Lisbon. Any conclusions language should reflect spirit of Maastricht Agreement, ie respect for diversity and subsidiarity.

We do not want Lisbon discussion of indirect tax dossiers. There was another inconclusive discussion on the outstanding VAT and excise duty rate Directives in ECOFIN on 9 June. Presidency plan a further ECOFIN on 29 June, but they may also refer to the subject at the European Council. The Prime Minister could say:

- indirect tax a difficult technical subject. Not suitable for European Council. Will anyway be discussed again in ECOFIN on 29 June.

Another subject we do not want discussed at Lisbon is CAP reform. The Italians, who feel they were short-changed on milk quota, are trying to reopen the agreement. Andreotti has written to Delors and Cavaco Silva proposing discussion at Lisbon, but the Portuguese

CONFIDENTIAL



CONFIDENTIAL

have resisted. The Prime Minister may wish to reiterate our opposition, reopening the package.

Discussion of CAP reform at Lisbon would risk undermining recent progress in the Uruguay Round. The Maastricht and Luxembourg European Councils both committed the Community to work for early conclusion of the Round. A further declaration at Lisbon would be widely expected, even if the EC and US had still not reached agreement on agriculture. However, discussion in the European Council itself would be unlikely to add anything to this and might be unhelpful. The Prime Minister might say:

- Finest prize for your Presidency and the Commission would be a breakthrough in the GATT Round before Lisbon. Believe agriculture deal close and requiring only final political effort by Community and US. Hope you can work on commission to take final steps.
- European Council must of course repeat its commitment to an early conclusion of the Round. But would be best if it could welcome an EC/US agreement on agriculture and call on all parties to finish work on other areas in the following weeks.

We will also want the Lisbon Conclusions to reflect the Community's commitment to strengthening relations with Central and Eastern Europe and former Soviet Union. This will help us to make progress on Agreements under our Presidency. The Prime Minister might say:

CONFIDENTIAL



CONFIDENTIAL

- Lisbon conclusions should look forward to rapid progress in 1992 on negotiation of enhanced Trade and Cooperation Agreements with Russia, Ukraine, Belarus and Kazakhstan, to include new trade liberalisation, political dialogue and approximation of laws;
- likewise, should look forward to successful negotiation in 1992 of Association Agreements with Bulgaria and Romania;
- following my visit to Central Europe, convinced Lisbon should also call for early and effective implementation of Association Agreements with Poland, Hungary and Czechoslovakia.

Finally the European Council will, as usual, agree a number of Declarations on EPC subjects. We are urging the Presidency to restrict the number and not try to cover the waterfront of world affairs.

A declaration and discussion on Yugoslavia is unavoidable. The substance will depend on developments in the meantime, but will probably have to cover sustaining UN peacekeeping efforts and Lord Carrington's quest for a negotiated settlement; safeguarding access to Sarajevo airport; and the status of the "Federal Republic of Yugoslavia" in international organisations. Macedonia might also be covered.

Other possible declarations (which we shall aim to get agreed by Foreign Ministers) include: the Middle East Peace Process, EC/Maghreb relations,

CONFIDENTIAL



North-South relations, the CSCE and Central and Eastern Europe.

The Portuguese also intend to seek the European Council's endorsement for the Foreign Ministers' report on geographical areas for joint action in CFSP. This too should be agreed at official level or at the Conclave and we should head off any attempt to raise its profile by having it discussed at Lisbon. If raised, the Prime Minister may therefore wish to say:

- European Council will need to agree some declarations on EPC issues at Lisbon, particularly on Yugoslavia;
- but must be careful not to devalue the currency by reiterating platitudes or known positions. Any declarations should be operational and have substance;
- European Council should endorse Foreign Ministers' report on CFSP joint action. But see no need for a discussion at Lisbon itself. Could give rise to misleading impression we intended to launch joint actions at once. Joint Action "pilot projects" may be feasible later in the year, but will need to judge this in the autumn.

CONFIDENTIAL



CONFIDENTIAL

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

Yours ever,
Christopher Prentice.

(C N R Prentice)
Private Secretary

J S Wall Esq CMG LVO
10 Downing Street

CONFIDENTIAL

CONFIDENTIAL



PRIME MINISTER'S MEETING WITH THE PORTUGUESE PRIME MINISTER,
THURSDAY 18 JUNE

SPEAKING NOTES

[D-D]

Maastricht Ratification

- Lisbon discussion should be guided by Oslo conclusions. Hope European Council will endorse them and ask Foreign Ministers to return to the subject in the autumn. Must avoid crisis atmosphere, and give Danes time to think. Need to show other Community business continuing.
- [if raised] No need to commission particular legal or other work now. Danes not ready to consider options. Even sensible ones risk being rejected at this stage. Quiet contacts with the Danes will be the first step.
- Clear that Community's first priority is to proceed together. Cannot imagine going ahead as Eleven with Maastricht Treaty.
- Useful to commission from Lisbon work on establishing agreed ground rules for the operation in the Commission and the Council of the new subsidiarity provision.
- Hope Delors will produce report to Council on ways to entrench subsidiarity in Commission working practices. Council should examine our own procedures to ensure principle is observed. This would address one of the most neuralgic issues in many member states, particularly after the Danish referendum.

PORTUGUESE PRESIDENCY SUCCESSES

01
The Prime Minister might want to congratulate Cavaco on the following achievements during the Portuguese Presidency:

- About 60 Single Market measures already adopted. With final Internal Market Council of Presidency on 18 June Portuguese are heading for a record number of agreed measures.
- Portuguese have done particularly well on transport (aviation liberalisation and maritime cabotage); intellectual property and insurance.
- Agreement on CAP Reform.
- Cool handling of outcome of Danish referendum on Maastricht. Oslo FAC Conclusions very helpful.
- Agreement on infrastructure for the two inter-Governmental pillars of Maastricht Treaty and working out implications of single institutional framework.
- Preparation of Community position for UNCED.
- Continuing efforts to resolve UK/Spanish problem over Gibraltar and signature of External Frontiers Convention.
- Successful signature of EEA Agreement in May. A great achievement for the Community and an important contribution to greater prosperity and cooperation across Europe.
- Signature in May of Trade and Cooperation Agreements with Baltic States and Albania.
- Lisbon Conference on aid to the former Soviet Union.
- Portuguese have grappled heroically with very difficult problems of former Yugoslavia. Impressed in particular by handling of monitoring mission and Ambassador Cutilero's tenacity in working for an end to violence in Bosnia.

PRIME MINISTER'S MEETING WITH THE PORTUGUESE PRIME MINISTER,
THURSDAY 18 JUNE

Supplementary Briefing

GIBRALTAR/EFC

The Portuguese proposal to solve the Gibraltar/EFC dispute remains on the table. We have accepted it. The Spaniards have apparently rejected it, though we believe Gonzalez has not formally replied to Cavaco and the Portuguese hope to talk him round. The heat, therefore, is on the Spaniards. Tactically it is in our interests to keep it that way at Lisbon. Peer pressure at the European Council may be the strongest weapon available for making the Spaniards compromise.

The Prime Minister will want to register our support for the Portuguese efforts and draw attention to the flexible and constructive way we have approached the negotiations (in contrast to Spain). He will also want to discover what Cavaco's plans for handling this at Lisbon are. The Prime Minister may wish to draw on the following points as necessary:

D/

- greatly appreciate Portuguese efforts to broker a solution. Have done very well to bring a settlement within reach. Must get a break through as all twelve want to proceed with EFC as soon as possible.
- problems have not been of our making. We were able to accept EFC text last June when Spain first raised the Gibraltar issue. We have since cooperated closely with Dutch Presidency and yourselves to find a solution.

**THIS IS A COPY. THE ORIGINAL IS
RETAINED UNDER SECTION 3 (4)
OF THE PUBLIC RECORDS ACT**

Temporarily retained

**THIS IS A COPY. THE ORIGINAL IS
RETAINED UNDER SECTION 3 (4)
OF THE PUBLIC RECORDS ACT**

Temporarily retained

- Hope you will keep up pressure on Spain to be flexible. Delors told the Foreign Secretary on 14 June that he would speak to Gonzalez. Our willingness to compromise to get agreement on the EFC for the sake of the Community needs to be matched by Spain.

- Any further news of the Spanish position? What are your plans now?

/B

Future Financing

- Recognise progress made under your Presidency on a difficult dossier, but still a lot of ground to cover. Difficult to see what basis there is for a global settlement, given fact that at last ECOFIN a clear majority of member states regarded Commission proposals as unaffordable and unjustified. You know our views.
- Lisbon Conclusions could record progress made so far, reaffirm commitments made at Maastricht and call for work to be intensified, building on considerable achievement of Portuguese Presidency. But to try to do more will simply lead to a divisive European Council.
- [If raised] Do not want to preempt Commission report on abatement. But no question of UK agreeing any adverse change. Even after abatement, UK second largest contributor to EC Budget per head of population, well out of line with relative prosperity. Abatement must continue to apply to all expenditure within the Community, as now.

[If you should prefer] :- (A-A)
Enlargement

- Support your plans for substantive discussion of enlargement at Lisbon. Case for enlargement unchanged by Danish vote. Paul Schluter believes preparing for EFTAN accession will help bring Danes back into fold. Delors agrees, and is now convinced that next institutional debate should be left until 1996.
- Aim must be clear conclusions text calling for acceleration of work on enlargement for EFTANs, and rejecting the idea - which did so much damage in the Danish referendum - that their admission could require major institutional change.



- [If necessary] Maastricht agreed accession negotiations could start as soon as future financing settled, so need to prepare now.

Internal Frontiers

- Immigration a difficult and sensitive problem for us all. Noted Delors' sensitive handling of Commission's Article 8a Communication at May Foreign Affairs Council.

- In the light of Communication, accept that there may be pressure for some discussion of frontier controls on people at Lisbon. But should avoid sterile legal debate, and encourage Interior Ministers to concentrate on practical measures of cooperation on immigration/asylum issues.

Gibraltar/EFC

- Greatly appreciate Portuguese efforts to broker a solution. Have done very well to bring a settlement within reach. Problems have not been of our making.

- Any further news of the Spanish position? What are your plans now? If matter still unresolved by Lisbon, do you intend a trilateral (Presidency/UK/Spain) in the margins?

Sites of EC Institutions

- Interested to know whether you intend to promote a sites discussion. Views of other member states? Clear that, given uncertainties following Danish referendum, a decision on the EMI/ECB site should not be taken at Lisbon. Better kept off the agenda until ratification outlook clearer.



- [if Cavaco says decision necessary on EMI/ECB to emphasise momentum of Maastricht] No. As agreed at Oslo, key is to press on with ratification and keep door open to Danes. Having a row about sites, in anticipation of the Treaty, can only prejudice wider Community objectives. Doubt whether others want a decision now. Many hats still in ring - Amsterdam, Luxembourg, Barcelona, London, Paris. Merits should be debated.

[Handwritten: Cavaco's idea from the idea of a mini package] [initials] - would be ok
Single Market
your idea, but reluctant to collect the same proposal.

- Congratulate Portuguese Presidency on Single Market progress. Helpful if Lisbon conclusions could outline priorities for the next six months and look ahead to making the Single Market work post-1992.

- [if raised] Welcome your idea of a declaration on implementation and enforcement.

Social Affairs

[c-d]

- At Social Affairs Council (SAC) on 30 April, Mrs Shephard made clear UK's wish and determination to explore every sensible way of finding solution on working time which would be acceptable to all. Appreciate (Portuguese Labour Minister) Dr Peneda's hard work to same end.

- Blanket 48 hour week politically unacceptable. No existing legislation in this field in UK.

- New Presidency text helpful in including "voluntary approach" to working more than 48 hours a week. But time limit (to 2002) on this unacceptable. This could be converted into a neutral review clause.



- Fine print on Sunday working also needs to reflect April agreement, ie must be made clear in the text itself that member states are free to decide whether Sundays should be a standard day of rest.
- Remain committed to trying to find an agreement at June SAC. We have already shown considerable flexibility over this directive. With good will on part of other partners, an acceptable agreement looks at last to be in sight. Would be great achievement for Portugal.
- See no need for substantive debate on social issues at Lisbon. Any conclusions language should reflect spirit of Maastricht Agreement, ie respect for diversity and subsidiarity.

Indirect Tax

- Indirect tax a difficult technical subject. Not suitable for European Council. Will anyway be discussed again in ECOFIN on 29 June.

Uruguay Round

- Finest prize for your Presidency and the Commission would be a breakthrough in the GATT Round before Lisbon. Believe agriculture deal close and requiring only final political effort by Community and US. Hope you can work on Commission to take final steps.
- European Council must of course repeat its commitment to an early conclusion of the Round. But would be best if it could welcome an EC/US agreement on agriculture and call on all parties to finish work on other areas in the following weeks.

CONFIDENTIAL



Central and Eastern Europe and former Soviet Union

- Lisbon conclusions should look forward to rapid progress in 1992 on negotiation of enhanced Trade and Cooperation Agreements with Russia, Ukraine, Belarus and Kazakhstan, to include new trade liberalisation, political dialogue and approximation of laws.
- Likewise, should look forward to successful negotiation in 1992 of Association Agreements with Bulgaria and Romania.
- Following my visit to Central Europe, convinced Lisbon should also call for early and effective implementation of Association Agreements with Poland, Hungary and Czechoslovakia.

CFSP

- European Council will need to agree some declarations on EPC issues at Lisbon, particularly on Yugoslavia.
- But must be careful not to devalue the currency by reiterating platitudes or known positions. Any declarations should be operational and have substance.
- European Council should endorse Foreign Ministers' report on CFSP joint action. But see no need for a discussion at Lisbon itself. Could give rise to misleading impression we intended to launch joint actions at once. Joint Action "pilot projects" may be feasible later in the year, but will need to judge this in the autumn.

CONFIDENTIAL

LT8AIP/6



p/w f.l.g.
S 16/16

10 DOWNING STREET

Stephen

I gather the FCS +
Chancellor will
attend Portuguese
meeting. Chancellor
has asked to bring
Nigel Wicks with him.

Portuguese team

- pm
- + Diplomatic Advisor
- + EC Advisor

Uk team

- pm
 - FCS
 - CEX
 - JSW
 - ✓ R. Brantstetter
 - ? ~~N. Wicks~~
- Hadley
(Cabinet
Office)

OK? S 16/16

CONFIDENTIAL

TD



ckc

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

4 June 1992

Dear Chrysosha,

As you know, the Portuguese Prime Minister will be coming to London for talks with the Prime Minister at No.10 at 1730 on Thursday, 18 June. The talks will last for between one and one and half hours. The Prime Minister is unable to offer dinner that evening, but the Portuguese are content with this.

I do not yet know who the Portuguese Prime Minister will bring with him, but I am sure the Prime Minister would welcome it if the Foreign Secretary and the Chancellor of the Exchequer could be available.

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

*Yours,
J. S. WALL*
(J. S. WALL)

*Ps I should of course be grateful if you could coordinate
with us by letter on Wednesday*

Christopher Prentice, Esq.,
Foreign and Commonwealth Office.

17 June.

[Signature]

CONFIDENTIAL

J

Slipper



10 DOWNING STREET

Mr. Cruz (Foreign
Affairs Adviser to de
Silva)

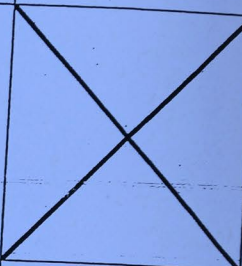
Lisbon 60 55 22.

Portuguese PM.

Have now confirmed
with Portuguese that
their PM will arrive
at No 10 at 1730 on
Thursday 18 June

for maximum of £21-1/2
hrs (to include drinks?)
- PM is hosting a dinner
at 2000 for AT + Sr PC
(positive black tie). 529/5

A The National Archives

DEPARTMENT/SERIES <i>PREM 19</i>	Date and sign
PIECE/ITEM <i>4354</i> (one piece/item number)	
Extract details: <i>Letter from Gogney to Fellows dated 9 March 1992, with enclosures</i>	
CLOSED UNDER FOI EXEMPTION	
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	
TEMPORARILY RETAINED	<i>8 August 2008 Chayland</i>
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.



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

file 215

(221 Day, Ross)

*cc Detectives (+
Incoming etc)*


15 January 1992

The Prime Minister has asked me to thank you for your letter of 14 January about the arrival in London of the President of the Portuguese Republic and Senhora Soares at 1230 pm on Tuesday 31 March.

Mr Major is honoured to comply with Her Majesty's wishes that he should be present on this occasion, and will leave 10 Downing Street in time to arrive at Victoria Station, Hudson's Place by no later than 12.10 pm.

SANDRA PHILLIPS

Lieutenant Colonel Malcolm Ross, O.B.E.





BUCKINGHAM PALACE

Saada

14th January, 1992

Dear Prime Minister.

**STATE VISIT OF
THE PRESIDENT OF THE PORTUGUESE REPUBLIC AND SENHORA SOARES**

Arrival - Tuesday, 31st March, 1992

I have the honour to inform you that The Queen and The Duke of Edinburgh will meet The President of the Portuguese Republic and Senhora Soares upon Their Excellencies' Arrival at Victoria Station at 12.30 p.m. on Tuesday, 31st March, next.

The Queen wishes you, as Prime Minister, to be present on this occasion and to arrive at Victoria Station, Hudson's Place by not later than 12.10 p.m.

Morning Dress will be worn.

I shall be grateful if I may please be provided with the address from which you will start your journey to Victoria Station in order that a route and windscreen label may be provided to facilitate your arrival.

*Your sincerely
Mabelin Ken*

Comptroller
Lord Chamberlain's Office

The Right Honourable John Major, MP.,
10 Downing Street,
London.
SW1

BRITISH PALACE



1915

STATE

REPUBLIC

1915

you that the Government of the State of Virginia
has approved and passed an act
to amend the Constitution of the State of Virginia

to be printed on this occasion and
to be signed by not later than 12:30 p.m.

please be provided with the address from which
the copy is to be sent and



PRESIDENCIA DO CONSELHO DE MINISTROS

Indicador de Mensagem

PRIME MINISTER'S
PERSONAL MESSAGE

REF No. T.35/88

*Subject re master
ops*

PRIME MINISTER,

FIRSTLY I WOULD LIKE TO THANK YOU FOR THE OPPORTUNITY OF
THIS WORKING VISIT TO LONDON AND ALSO FOR THIS EXCELLENT
LUNCH.

RELATIONS BETWEEN OUR TWO COUNTRIES ARE RULED BY THE OLDEST
ALLIANCE IN THE WORLD AND I BELIEVE THAT NO CLOUD CASTS
SHADOWS OVER THEM. THEY CAN BE CONSIDERED EXEMPLARY IN THE
MODERN WORLD.

TWO RECENT FACTS HAVE CONTRIBUTED TO STRENGTHEN THEM WITHIN
THE STRUCTURES WHERE THEY ARE INSERTED. I AM REFERRING TO
THE LAST EUROPEAN COUNCIL, WHERE IT WAS POSSIBLE TO DECIDE
UPON REFORMS TO THE EUROPEAN COMMUNITY IN THE PERSPECTIVE OF

PRESIDENCIA DO CONSELHO DE MINISTROS

Industria de Laminas Aluminadas

2

THE VAST EUROPEAN INTERNAL MARKET THAT WE SHALL PREPARE UNTIL 1992. AND LAST WEEK, ALSO IN BRUSSELS, WE MET FOR THE NATO SUMMIT THAT CLEARLY SHOWED OUR COHESION AND DETERMINATION IN THE DEFENSE OF EUROPE AND IN STRENGTHENING THE PILARS OF THE ALLIANCE ON BOTH SIDES OF THE ATLANTIC.

IN THIS TWO MEETINGS WE PASSED ON A CLEAR MESSAGE TO OUR PUBLIC OPINIONS AND TO OUR ECONOMIC AGENTS. A CLEAR MESSAGE OF TRUST IN EUROPE'S FUTURE.

IN OUR MEETING THIS MORNING WE EMPHASIZED THAT MESSAGE TO OUR TWO COUNTRIES. THE EXISTING GOOD RELATIONS SHOULD LEAD TO INTENSIFICATION OF TRADE, INVESTMENT, TOURISM, CULTURE AND SCIENTIFIC RELATIONS BETWEEN ENGLISH AND PORTUGUESE. I BELIEVE WE ARE IN THE RIGHT PATH. AND I ALSO BELIEVE THAT,



PRESIDENCIA DO CONSELHO DE MINISTROS

Palácio da Rua do Marquês

3

WHEN I HAVE THE PLEASURE TO WELCOME YOU IN LISBON WE
WILL BE ABLE TO ACKNOWLEDGE THAT INTENSIFICATION.

WITH THIS VOW, I ASK EVERYONE TO JOIN ME AND MY WIFE IN A
TOAST TO THE ANGLO-PORTUGUESE ALLIANCE AND TO THE PERSONAL
WELL-BEING OF MRS. THATCHER.



PLEASE TO WELCOME YOU IN LERSON WE
KNOWLEDGE THAT IDENTIFICATION

ASK EVERYONE TO JOIN ME AND MY WIFE IN

PLEASE TO WELCOME YOU IN LERSON WE

010
Portuguese Embassy,
11, Belgrave Square,
London, SW1X 8PP

CCPC

COB
1573

15th March 88

Dear Charles

António Martins da Cruz has
asked me to send you this
copy of Prof. Lúcio Silva's
speech after the lunch at
no 10 Downing St.

Everyone was delighted with
the visit to London and
specially with the warm

welcome given by the
Prime Minister.

I hope everything is well
with you, Carla and the
boys.

Yours ever

Jamal

CONFIDENTIAL



MEETING RECORD

SUBJECT
CC master

File

OTRSK
cc PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

11 March 1988

**PRIME MINISTER'S MEETING WITH THE
PRIME MINISTER OF PORTUGAL**

The Prime Minister had a talk today with the Prime Minister of Portugal. Sr. Cavaco Silva's diplomatic adviser was also present. The Foreign Secretary and the Portuguese Foreign Minister joined the meeting in the later stages.

Developments in Portugal

Sr. Cavaco Silva conveyed something of the excitement of the changes on which he was embarking in Portugal. They would affect virtually the whole of Portuguese society: new agrarian laws, a new tax system, much reduced public sector, extensive privatisation, flexibility in labour laws, changes in the structure of the health service; in short a massive undertaking which would affect everyone in Portugal. He was determined to push these radical changes through rapidly, to enable Portugal to cope with the end of the transitional period of its membership of the European Community and with the completion of the European Single Market in 1992. The trade unions had threatened a general strike on 28 March. His personal assessment was that they would back down. The people believed more in him than in the unions. But whatever happened he would not be deterred. So far his popular support was holding up well. It was an interesting time to be Prime Minister in Portugal: there were so many things to do.

European Community

The Prime Minister said that both Governments had reason to be satisfied with the recent European Council. We had been pleased that additional funds had been made available for the modernisation of Portugal's industry. We considered this justified. She hoped that the Portuguese Government would use the funds in ways which would produce quick and visible results.

Sr. Cavaco Silva said that he was very grateful for the Prime Minister's support in Brussels. The funds would be used to support the goals which he had described. A particular priority was to improve Portugal's road system.

CONFIDENTIAL

Sr. Cavaco Silva continued that agriculture reform was another major undertaking facing him. Some twenty four per cent of the population were still in agriculture and the average size of a Portuguese smallholding was only 2½ acres. The European Community was helping to finance the modernisation of Portuguese agriculture. But Portugal would remain a major importer of agriculture products from the rest of the Community.

EC/Morocco Fisheries Agreement

Sr. Cavaco Silva raised Portuguese objections to the unfair competition to their canned sardine industry as a result of the recently signed EC/Morocco Fisheries Agreement. It was not acceptable that Portugal continued to face levies on its own exports of canned sardines to the Community while concessions were given to a third country. The Prime Minister said that we understood Portugal's concerns. The matter would be considered further in Brussels.

President of the European Commission

Sr. Cavaco Silva asked the Prime Minister whether she had yet reached any conclusions about the next President of the European Commission. He expected Delors to try to stay. The Prime Minister said that she had not yet taken a view on this. She knew that Herr Bangemann expressed an interest, although the Germans had now got the NATO Secretary General post. The present Agriculture Commissioner, Mr. Andriessen, might also be a strong candidate.

NATO

The Prime Minister said that the combination of the recent European Council and the NATO Summit had set a clear course for Europe for several years ahead. Sr. Cavaco Silva agreed and congratulated the Prime Minister on her spectacular performance at the NATO Summit. It had been very useful to obtain such a strong reaffirmation of NATO's basic strategy as well as of the need to modernise NATO's weapons.

Franco/German Defence Co-operation

Sr. Cavaco Silva asked the Prime Minister's views on Franco/German defence co-operation. The Prime Minister said that she was worried that it might undermine NATO, although equally it might be confined largely to talk. Sr. Cavaco Silva shared the Prime Minister's view of the risks for NATO.

Portuguese Membership of WEU

Sr. Cavaco Silva said that Portugal very much wished to join WEU and found it hard to understand the delay. Unlike Spain, Portugal was a full member of NATO's integrated military structure. There had been some question in his mind whether strengthening WEU might be seen as a step towards de-coupling Europe from the United States. But the recently agreed Platform on European Security agreed by the WEU had

been very reassuring and Portugal now wanted to join as rapidly as possible.

The Prime Minister said that we certainly wanted Portugal in. The Foreign Secretary added that the principle of Portuguese membership had been accepted. WEU had recently been preoccupied with its own internal reorganisation as well as the drafting of the Platform on European Security. But he hoped that it would now turn its attention once more to the question of enlargement. The United Kingdom would take over the Presidency of WEU in July. The Prime Minister said that we should make it our aim to bring Portugal into WEU during our Presidency.

Lynx Helicopters

The Prime Minister said that we very much hoped that Portugal would decide to buy Lynx. To help them, we would be prepared to give them one Lynx helicopter with associated spares and training so that they would in fact get five for the price of four. Sr. Cavaco Silva said that the offer was appreciated. Lynx was being evaluated by the Portuguese military alongside a number of other possible helicopters. There were major problems over funding military purchases, in part because of the decline in United States military assistance to Portugal, which was mostly the fault of Congress. The purchase of helicopters had to be considered in this broader context. It was unlikely that a decision would be reached before October.

Compensation for Agricultural Land

The Prime Minister welcomed the Portuguese intention to pay compensation for the losses incurred by British subjects as a result of expropriation of land after the 1974 Revolution. We hoped that matters could be brought to a speedy conclusion. Sr. Cavaco Silva said that this was a difficult issue but Portugal was willing to see a solution reached on the basis of the 1914 Treaty of Friendship. They were now moving to the stage of direct contact with representatives of claimants to determine compensation. Inevitably there would be differences, which would need to be resolved in negotiation. The Prime Minister said that the main thing was to start on the process as soon as possible.

Southern Africa

The Prime Minister and Sr. Cavaco Silva talked about Southern Africa over lunch. The Prime Minister's recollection is that nothing new emerged. Sr. Cavaco Silva agreed that the main objective in Angola must be to get the Cubans out but did not expect any early progress on this, despite signs of a more positive Soviet attitude. He had several times stressed that Savimbi had a strong tribal base of support, while Dos Santos had virtually none. Sr. Cavaco Silva gave the impression of having very close contacts with the South African government over Angola.

Sr. Cavaco Silva had commented that SWAPO were losing influence in Namibia.

Sr. Cavaco Silva had been dismissive of Renamo. He thought they were receiving support from the South African military. He did not dissent when the Prime Minister suggested that they might be receiving support from private sources in Portugal. He stressed the need to support Chissano: at present he was unable to govern large parts of the country.

I am copying this letter to Brian Hawtin (Ministry of Defence), Stephen Ratcliffe (Department of Trade and Industry) and to Trevor Woolley (Cabinet Office).

(CHARLES POWELL)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

PRIME MINISTER

MEETING WITH THE PORTUGUESE PRIME MINISTER

The Portuguese Prime Minister and his wife visit London tomorrow as your guests. He will be accompanied by his Foreign Minister.

The programme is:

- 1200 Talks between you and Professor Cavaco Silva.
I suggest the study.
- 1230 Foreign Secretary and Portuguese Foreign
Minister join the talks.
- 1245 Mrs. Cavaco Silva arrives, plus other lunch
guests.
- 1315 Lunch.

Although this does not leave you a lot of time for talks, you will of course be able to go on through lunch.

There is a full brief in the folder. I think that the main points to make, in order of priority, are:

- congratulations on his impressive re-election and the very successful outcome for Portugal which he secured at the recent European Council;
- there are two points which you want to raise on the bilateral front;
- the first is agricultural compensation for British farms expropriated after the 1974 revolution. We are grateful for the recent Portuguese Note saying that they are prepared to pay compensation. But it would be very

- helpful if they could set a date for negotiations to begin. We must get this settled at last;
- the second is Lynx helicopters. We very much hope that the Portuguese are going to buy Lynx. We want to use our offer of cash aid (£6.1 million) as usefully as possible. If they prefer, we are ready to give them one Lynx helicopter with associated spares and training rather than cash. We can also provide Navy training free of charge;
 - on South Africa you will want to give your impressions of Botha's dilemma. He seems to find himself trapped and is too weak to get out. There is probably little that can be done to influence him before elections. But the point on which to keep up pressure is Mandela's release;
 - you will want to seek his views on Angola. (The Portuguese are closer to the Angolan government than we are and refuse to admit Savimbi.) You might say - stressing that you are speaking in great confidence - that we are debating whether we could make a more effective contribution to a peaceful settlement in Angola by stepping up the level of our contacts with UNITA. The aim would be to reduce Soviet/Cuban influence and help get the South Africans out. Several African governments now have such contacts. We recognise that the Angolans will react adversely, although this would be tempered if other governments were to do likewise. What does he think the effect would be? How does he see the prospects for African mediation? You will want to emphasise that we have not made up our minds about contacts with UNITA;
 - you might also ask how he sees the prospects for reconciliation in Mozambique and for the rehabilitation of the Cabora Bassa Scheme. What do they think about Renamo and the sources of its support?

I should try to cover these points in the first half-hour.

When the Foreign Ministers join, you might cover:

- EC affairs. There is nothing very specific here. But you should stress that the next priority is completion of the internal market. You will also want to say that programme of industrial development for Portugal opens up possibilities for EC-funded contracts. We hope that the UK will be able to share in this. You might propose that we issue the attached joint statement to encourage our firms;
- Middle East and East/West relations. There is nothing new to say;

There are a number of points which the Portuguese may raise:

- East Timor. We don't want to take sides. You should reiterate our support for the UN Secretary-General's efforts;
- WEU. The Portuguese want to join. We don't mind, but some of the others think that Portugal should not be invited ahead of Spain. Anyway WEU is in the middle of a reorganisation;
- Textiles. The Portuguese, who are big producers, do not like the EC's rather liberal policy towards textile agreements with third world countries. We want to see international trade in textiles opened up;
- EC/Morocco Fisheries Agreement. The Portuguese are worried about competition for their canned sardines. But this is a matter for the EC as a whole;
- Portuguese workers. He wants Portuguese workers in Gibraltar to have residence permits there. We have asked the Gibraltarians to oblige. But the further request that they should have the right of free movement to the UK raises difficult problems.

CONFIDENTIAL

- 4 -

I suggest that over lunch you discuss economic issues, the performance of the Portuguese economy and internal developments there. His wife who will be on the other side of you speaks good English, having lived with her husband in York. She lectures in Portuguese literature at the Catholic University in Lisbon. They have two children.

You are presenting the Prime Minister with the complete works of Walter Bagehot and his wife with a Crown Derby bowl.

C.D.P.

(C.D. POWELL)

10 March 1988

DCAAHK

CONFIDENTIAL



cc PC
cc BUP

Foreign and Commonwealth Office

London SW1A 2AH

CONFIDENTIAL

10 March 1988

Dear Charles,

Visit by Portuguese Prime Minister

The Portuguese Prime Minister, Professor Anibal Cavaco Silva, is paying a working visit to London from 10-12 March. He is accompanied by his wife and his Foreign Minister; personality notes are attached at Annex A.

It has been agreed that the Prime Minister's talks with Cavaco Silva at 1200 on 11 March will cover bilateral relations, EC issues, the Middle East, East-West relations, Southern Africa (including Angola and Mozambique) East Timor and WEU. After the lunch hosted by the Prime Minister, Cavaco Silva will pay a call on the Speaker. The two Foreign Ministers will have separate talks at 1500 hours.

Cavaco Silva has been in office since October 1985. He has built up a reputation at home and abroad as a tough and competent leader. In the July 1987 General Election his Social Democrat Party won 50.1% of the votes, the first overall majority since the 1974 revolution. He is therefore in a strong position to carry out the constitutional reforms, particularly of labour law, which are a necessary preliminary to many of his economic restructuring plans. Although there has been criticism on the right of his lack of decisiveness, and on the left of his economic policies and authoritarianism (the trade unions have called a general strike on 28 March in protest) his position as Prime Minister is not at present in any danger. A broader look at the current scene in Portugal is in Lisbon telegram 60 (Annex B).

BILATERAL RELATIONS

Bilateral relations are excellent. There is a regular stream of high level visitors in both directions. The Prince and Princess of Wales visited Portugal and opened a British industrial exhibition in Lisbon in

/March

CONFIDENTIAL



CONFIDENTIAL

March 1987, which is reputed to have been the largest British trade exhibition held in Western Europe since World War 2. British exports to Portugal increased last year by 48% to around £700m. Portuguese exports to Britain rose to £850m, a 10% increase over 1986. Last year British companies were the second largest investors in Portugal, and some 1.2m British tourists visited the country.

British companies are taking a keen interest in Portuguese development plans. The Prime Minister may wish to mention GEC and BR's interest in obtaining the contract for railway signal switching at Oporto. Swan Hunter are trying to obtain an order from the Portuguese Navy for 12 ocean going patrol vessels and recently gave a presentation in Lisbon. The Portuguese Government are considering constructing two natural gas pipelines, one of which could join Portugal to the European natural gas grid. UK companies such as BP and British Gas could be interested in participating in this project, which it is intended should be largely financed by EC funds.

The only outstanding problem between Portugal and Britain is the failure of the Portuguese Government to make a firm offer of agricultural compensation for the British owned or rented farms, worth £1.3m, which were expropriated after the 1974 revolution. No doubt in order to preempt criticism from the Prime Minister, the Portuguese Government told us in a note of 8 March (Annex C) that they are prepared to pay compensation for the losses incurred by British subjects in accordance with the 1914 Treaty of Friendship between Portugal and Britain. The note asks for representatives of the claimants to contact with the Foreign Ministry; but no date is set for negotiations to begin. The Prime Minister will wish to thank Cavaco Silva for this progress on the compensation claim; but to urge him strongly to set an date for the negotiations so that the issue can be speedily settled.

The Portuguese Navy are interested in buying 5 Westland Lynx helicopters for their NATO sponsored frigate programme. In 1983 we offered the Portuguese £5.0m towards the purchase of British military equipment: This was later updated to £6.1m. This amount would cover the cost of one basic Lynx helicopter, spares and training. Cavaco Silva may press the Prime Minister to raise the offer. MOD have written separately about this.

/EC

CONFIDENTIAL



CONFIDENTIAL

EC ISSUES

Following the successful conclusion of the Brussels European Council, we shall want to concentrate on the single market. The Portuguese have been unenthusiastic, but the agreement at Brussels to double the Structural Funds by 1993, and to double Portugal's receipts from the Funds by 1992, as well as on the special 100 mecu a year programme for industrial development in Portugal, may change Portuguese attitudes. It certainly creates major opportunities for UK firms to secure EC-funded contracts in Portugal; and it would be good to attract their attention, and improve their chances, by giving a political impetus to the idea of cooperation in Portugal's industrial development. I attach at Annex D the outline of a possible joint statement which could be issued after the meeting. (This idea has not yet been put to the Portuguese.)

With Professor Cavaco Silva the Prime Minister might take the following line:

- agreement at Brussels allows the Community to focus on the single market;
- this will create new opportunities for businesses throughout the Community, strengthen Europe's position in world, and bring home the benefits of EC membership to all our citizens;
- the terms of the Brussels agreement, if satisfactorily implemented, should help to ensure that Portugal will in due course be well placed to take advantage of these new opportunities;
- the UK wishes to help ensure that implementation is satisfactory;
- this reflects common history and common interest: as in the past, UK industry will naturally hope to share in the new expansion of Portuguese economic activity;
- suggest we give such cooperation a political impetus, for example in a joint statement.

CONFIDENTIAL

/The

CONFIDENTIAL



CONFIDENTIAL

The Prime Minister may also wish to underline the need for the Community to continue taking a constructive and prominent role in the Uruguay Round of GATT negotiations. We can take credit in GATT for the Brussels CAP reforms, and must encourage others to follow suit; but we should not give the impression that the EC will now sit on its hands.

The Portuguese have been pressing us to agree that under the terms of their accession:

- (a) Portuguese workers who have worked in Gibraltar with valid work permits for more than 12 months are entitled to residence permits there;
- (b) holders of such permits should be given the right of free movement to the UK.

We have asked Gibraltar to make arrangements for (a); but (b) could lead to an obligation to admit to the UK, via Gibraltar, Spanish and Portuguese workers who would not otherwise have an automatic right of entry until the end of the transitional period in 1992. The legal strength of the Portuguese arguments is being studied. If Cavaco Silva raises the subject the Prime Minister might say that we have asked Gibraltar to make the arrangements requested by Portugal, but the question of such permit-holders being given the right of free movement to the UK raises difficult problems which are currently under study.

The Portuguese have made representations to us about what they regard as unfair competition to their canned sardine industry stemming from the recently signed EC/Morocco Fisheries Agreement. If this subject is raised, the Prime Minister might simply say that we understand Portuguese concerns and note that an EC working group will be examining the problem.

Cavaco Silva may also draw attention to Portugal's concern at the impact on its economy of the Community's relatively liberal policy towards textile agreements with third countries. The Prime Minister says that the UK fully understands this concern, but that it is in the Community's wider interests to encourage the opening-up of international trade in textiles.

/MIDDLE

CONFIDENTIAL



CONFIDENTIAL

MIDDLE EAST

Cavaco Silva will welcome an account of our recent contacts with the Americans and with King Hussein on Arab/Israel. The Prime Minister will wish to reaffirm our support for current US efforts, and to urge the Portuguese to give them a fair wind.

On Iran/Iraq, the Prime Minister will wish to highlight the momentum generated under our Presidency of the Security Council in January, our regret that we have thus far failed to achieve an arms embargo against Iran, our hope that Portuguese support for these efforts will continue, and that they will join us in putting pressure on those who are reluctant to move ahead. (Given their own thriving involvement in arms trade with the Iranians, however, they are unlikely to be over-supportive.)

EAST/WEST RELATIONS

Although the subject has been well aired lately, Cavaco Silva may appreciate a short round-up on East/West relations. The next landmark is Shultz and Shevardnadze's second pre-summit meeting on 22/23 March in Washington. The prospects for a START agreement by late May are beginning to look more doubtful. The Prime Minister could reaffirm our satisfaction at the declaration agreed at last week's NATO summit and the importance we attach to a solid and coherent European contribution to the East/West dialogue.

The Prime Minister could discuss Gorbachev's position within the leadership, particularly in the light of the recent demonstrations in Armenia. (President Soares visited Armenia during his visit to the Soviet Union last November.)

The CSCE Vienna Follow-Up Meeting is now likely to continue beyond an Easter recess and into the summer. Intransigence from several (but not all) Eastern countries on humanitarian issues and human rights is still causing deadlock, though there are a few signs of an imminent thaw. The Prime Minister may wish to argue that the West must stand firm until a satisfactory overall package is agreed, balancing progress on military security with a substantial outcome in the human dimension. She could also reaffirm our conviction that a Moscow Humanitarian Conference would be inappropriate in

/the

CONFIDENTIAL



CONFIDENTIAL

the absence of substantial progress in Soviet human rights performance and in the negotiation of a Vienna concluding document. It would therefore be opportune for the Western countries to consider how the Vienna meeting might best be concluded without a Moscow Conference. (EC Foreign Ministers will be discussing CSCE issues on 22 March.) On past form, Professor Cavaco Silva is likely to support this approach.

SOUTHERN AFRICA

In the wake of the recent repressive moves by the South African Government, and of the Transvaal by-election results, the exchange of views on South Africa will be an opportunity to reaffirm our policy of advocacy and pressure on the South African Government. The Portuguese are perhaps closest to us of all the Twelve in their policy towards South Africa and, in particular, their opposition to further restrictive measures. The Prime Minister may wish to press for Portuguese support in resisting any unwelcome new initiatives in the Twelve which may be generated by the South African Government's actions.

The Portuguese are working hard at maintaining good relations with the Angolan Government. President Dos Santos paid an official visit to Lisbon last September and the Portuguese are supporting Angola's application for IMF membership. The Portuguese have told us that although they are in touch with UNITA covertly and at official level, if Savimbi should seek to visit Portugal he would not be admitted. This is a harder line than our own.

Meanwhile there is renewed activity on several fronts to try to resolve the Angolan conflict. The subject was discussed at the recent meeting between Shultz and Shevardnadze and an early meeting between Crocker and the Soviet Deputy Foreign Minister, Adamishin, is in prospect. At the same time there are indications of contacts between the Angolans and the SAG and, in a probably diversionary tactic, General Malan has reportedly said that the SAG would be willing to negotiate an Angolan settlement with the Soviet Union if it led to the Angolan Government becoming non-aligned. But for the time being the US/Angolan talks remain centre stage. The Angolans have proposed further talks this month. Crocker has responded positively and it now seems

/likely

CONFIDENTIAL



likely that there will be preliminary talks this week followed by a Crocker visit to Luanda next week. On the ground the apparent stalemate at Cuito Cuanavale continues with heavy South African and Cuban involvement in support of UNITA and the MPLA respectively.

The Prime Minister may wish to say that in our view it is in the interests of the West for the US/Angolan talks to continue. We are urging the Angolans to table a specific timetable on CTW. It would be useful if the Portuguese could do the same. The best alternative option would probably be African mediation between the MPLA and UNITA leading to a limited settlement which would however probably not extend to Namibia. But the aversion to Savimbi himself among the MPLA leadership remains an obstacle.

The Portuguese strongly share our view that we should continue to encourage President Chissano to strengthen Mozambique's links with the West. The overall security situation remains serious. So far the response to Chissano's recent amnesty law for RENAMO supporters has not been encouraging and he continues to resist suggestions of direct talks with RENAMO. Meanwhile the Portuguese are anxious to salvage their investment of \$1,000m in the Cabora Bassa hydro-electric scheme. They have actively promoted trilateral meetings between South African, Mozambican and Portuguese Ministers about its rehabilitation.

The Prime Minister may wish to ask how the Portuguese see the prospect for internal reconciliation and for implementation of the agreement now reached on the rehabilitation of the Cabora Bassa scheme (see Maputo telno 127 at Annex F). We are instructing Mr Renwick to encourage the South Africans to follow through. She might also ask for a Portuguese view on the degree of external support for RENAMO, especially from South Africa,

THIS IS A COPY. THE ORIGINAL IS
RETAINED UNDER SECTION 3 (4)
OF THE PUBLIC RECORDS ACT

EAST TIMOR

The Portuguese Government are still concerned about East Timor, which was annexed by Indonesia in 1976. We are keen to see a settlement but we also wish to avoid

CONFIDENTIAL

/having

CONFIDENTIAL



CONFIDENTIAL

having to take sides. If Cavaco Silva raises the subject, the Prime Minister might reiterate our support for the UN Secretary General's efforts to bring about a settlement, express the hope that both parties will work actively for a solution, and reaffirm our willingness to assist in a low-key manner if the parties see a role for us. The Prime Minister might also refer to our measured statement (copy at Annex E) at the UN Commission on Human Rights on 4 March as evidence of our understanding for Portugal's concerns.

WEU

Cavaco Silva may raise Portugal's interest in joining the WEU. The Portuguese have not hitherto pressed hard for a response to their application to join, first made in 1984. But the "préjugé favorable" towards accession by Spain and Portugal expressed by the WEU Ministerial meeting in The Hague in October 1987, together with recent visits to Lisbon by the Dutch Foreign Minister (currently the WEU President) and the Presidential Committee of the WEU Assembly, has increased Portuguese interest. There is no evidence that the Portuguese would let membership of WEU weaken their commitment to NATO; and we would ourselves see no objection to their being invited to join. But other WEU partners would be reluctant to invite Portugal in advance of Spain; and the conditions under which Spain might be invited to join are less clear-cut. We have been more cautious about Spanish entry than most of our partners.

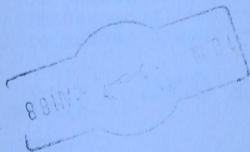
The Prime Minister might say that our support for Portuguese accession is genuine: the Portuguese would have no difficulty in subscribing to the principles in the WEU Platform; and their membership of NATO's Integrated Military Structure (including commitment of a brigade to reinforcement of Italy) amply shows their readiness to defend partners at their borders. But WEU is still in the middle of a radical reorganisation of its role, staffing and location: this should be concluded before we can think of enlargement. The Prime Minister might also take the opportunity of asking for the Portuguese assessment of Spain's proposed military contribution to NATO (Mr Culshaw's letter of 15 February refers - Annex G).

How's ever, L Parker

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL





CAVACO SILVA, PROFESSOR ANIBAL

Prime Minister and Leader of the Social Democrat Party (PSD).

Born 15 July 1939 at Boliqueime in the Algarve. Graduated in Economics from the Higher Economic Institute of Lisbon in 1964 before taking a PhD in Economics at the University of York in 1973.

Taught economics at the Higher Economic Institute (1974-76), later lectured on the same subject at the Catholic University Lisbon (1975 onwards), and subsequently appointed a Professor at the New University of Lisbon (1979). Simultaneously, he was working at the Bank of Portugal and, in 1977, was appointed Director of the department responsible for the preparation of statistical and economic studies. Led Portugal's delegation during negotiations in 1978 with the IMF.

In 1980/81 he was appointed Minister of Finance in the First Democratic Alliance Government, headed by Sá Carneiro. He saw most of the Government's economic targets attained, but his policy of strong domestic growth is regarded as having over-heated the economy as a whole from 1980-82 and resulted in huge current account deficits.

Cavaco Silvo preferred not to stay on as a Minister in the Balsemao Government, becoming President of the National Council of Planning (1981-84) and returning to his role at the Bank of Portugal. Rivalry with Balsemao continued during 1981, but from 1982 he tended to stay in the background until the PSD Congress in May 1985 propelled him forward as party leader. One of his first acts was to give notice of PSD withdrawal from the coalition government. He subsequently avoided any involvement with that government, so as to allow himself the room to criticise them and overlook PSD involvement.



An enthusiastic election campaign saw him lead the PSD to victory on 6 October 1985. In his present role he has shown a considerable determination to get on with a job and himself to be an increasingly formidable politician. He projects a businesslike image which has struck a chord with the electorate. The PSD's landslide victory in the July 1987 election has been largely seen as a result of this and the campaign was built around him.

Married. He and his wife speak fluent English. She lectures on Portuguese Literature and on languages at the Catholic University in Lisbon. (This is likely to be her priority.) They have two children. Both look back upon their time at York with pleasure and affection.



PINHEIRO, PROFESSOR JOAO DE DEUS ROGADO SALVADOR

Minister of Foreign Affairs.

Born 11 July 1945 in Lisbon. Graduated in Chemical Engineering from the Higher Technical Institute of Lisbon in 1970. Obtained MSc and PhD in Chemical Engineering from Birmingham University in 1974 and 1976 respectively. He began his academic career in 1970 at the Department of Chemical Engineering of the University of Lourenço Marques in Mozambique, and joined the University of Minho in 1975 after a scholarship in Britain.

Previous government posts include Secretary of State for Schools in the VIIIth Constitutional Government led by Pinto Balsemao. More recently held the post of Rector of the University of Minho and was a consultant in scientific policies to UNESCO in 1983-84. Appointed to the post of Minister of Education in the IXth Constitutional Government, led by Mario Soares, replacing Jose Augusto Seabra. Selected by Cavaco Silva for the same post in the Xth Constitutional Government. His appointment as Foreign Minister in the XIth Constitutional Government came as something of a surprise but many view his young deputy as a man with the political clout. Visited London in October 1986 to undertake a programme organised by the British Council.

Bearded and friendly, speaks English.

Married with four children. His wife, Manuela, has broadly paralleled her husband's academic achievements. She also graduated in Chemical Engineering from Lisbon's Higher Technical Institute in 1970 and obtained an MSc in Biological Engineering from Birmingham University in 1975. She obtained a doctorate in Engineering Sciences from the University of the Minho in 1987. Like her husband, she began her academic career in 1970 at the University of Lourenço Marques in Mozambique. Since 1976 she has continued this career with posts at the University of the Minho.

CONFIDENTIAL

152307
MDHIAN 0285

CONFIDENTIAL
FM LISBON
TO IMMEDIATE FCO
TELNO 60
OF 031243Z MARCH 88

PORTUGUESE PRIME MINISTER'S VISIT TO UK

SUMMARY

1. PROF CAVACO SILVA IS DUE TO VISIT LONDON FROM 10-12 MARCH. DESPITE LAST YEAR'S OVERWHELMING ELECTION VICTORY, HE HAS BEEN UNDER SOME PRESSURE RECENTLY, ESPECIALLY ON THE LABOUR FRONT. BUT HIS UNDERLYING POSITION REMAINS STRONG.

DETAIL

2. CAVACO SILVA WAS LAST IN UK FOR THE EUROPEAN COUNCIL AT THE END OF 1986. SINCE THEN, HE HAS IMMEASURABLY IMPROVED HIS POSITION BY WINNING THE GENERAL ELECTION IN JULY 1987 WITH 50.1 PER CENT OF THE VOTE. THIS ENABLED HIM TO FORM THE FIRST SINGLE-PARTY MAJORITY GOVERNMENT SINCE THE PORTUGUESE REVOLUTION IN 1974. THE EUPHORIA OF THAT VICTORY HAS NOW EVAPORATED SOMEWHAT. THE OCTOBER CRASH HIT PORTUGAL'S SOARING STOCK MARKET BADLY AND DENTED CONFIDENCE. ALTHOUGH THE 1988 BUDGET HAS BEEN PASSED WITHOUT DIFFICULTY, AND THE FIRST STEPS TAKEN TOWARDS PRIVATISATION, THERE HAS BEEN MOUNTING CRITICISM OF LACK OF ACTION BY THE GOVERNMENT. WHERE IT HAS ACTED - E.G. TO REFORM THE LABOUR LAWS IN AN ATTEMPT TO SHAKE UP THE RIGID EMPLOYMENT STRUCTURE BEQUEATHED BY THE REVOLUTION - THE GOVERNMENT HAS RUN INTO STRONG OPPOSITION. A NUMBER OF TRANSPORT STRIKES HAVE CAUSED TRAFFIC CHAOS IN LISBON. A GENERAL STRIKE HAS NOW BEEN CALLED FOR 28 MARCH. UNUSUALLY, BOTH THE MODERATE UNIONS AND THE COMMUNIST-LED WORKERS' FEDERATION HAVE JOINED FORCES.

3. THERE HAS ALSO BEEN CRITICISM OF CAVACO'S LACK OF DECISIVENESS FROM THE RIGHT-WING CDS PARTY, WHICH HAS BEEN GIVEN A NEW LEASE OF LIFE BY FREITAS DO AMARAL. THE SOCIALIST PARTY (WHOSE LEADER, CONSTANCIO, HAS MANAGED TO IMPROVE HIS POSITION AT A RECENT CONGRESS) HAS MEANWHILE CRITICISED CAVACO FOR HIS AUTHORITARIANISM. THE SUPPORT OF THE SOCIALISTS IS IN THE LONG RUN MORE IMPORTANT FOR CAVACO, BECAUSE WITHOUT THEM, HE CANNOT ACHIEVE ANY CONSTITUTIONAL REFORM.

4. AT A SPECIALLY ARRANGED PRESS CONFERENCE ON 1 MARCH IN OPORTO, CAVACO HIT BACK AT HIS CRITICS BY ACCUSING THEM OF TRYING TO IMPEDE PROGRESS. WHEN QUESTIONED ABOUT HIS DECLINING POPULARITY IN THE

CONFIDENTIAL

152307
MDHIAN 0285

OPINION POLLS, HE STATED THAT HIS WAS STILL THE MOST POPULAR GOVERNMENT IN EUROPE (IN TERMS OF THE PERCENTAGE OF VOTES HE WON AT THE LAST ELECTION). THERE IS NO PARTICULAR SYMPATHY FOR THE STRIKERS AMONG THE GENERAL PUBLIC AND THERE IS NO SIGN OF ANY OTHER PORTUGUESE POLITICIAN'S BEING ABLE TO COMMAND A CONSENSUS AGAINST CAVACO. MOREOVER, HE HAS HAD ALMOST NO PROBLEMS OF COHABITATION WITH PRESIDENT SOARES, WHOSE INFLUENCE REMAINS IMPORTANT. THE UNDERLYING PERFORMANCE OF THE ECONOMY CONTINUES TO BE GOOD. AND CAVACO HAS BEEN ABLE TO CLAIM A RESOUNDING SUCCESS AT THE BRUSSELS EUROPEAN COUNCIL BY ACHIEVING RECOGNITION OF PORTUGAL'S SPECIAL NEEDS, INCLUDING 450 MILLION ECUS OVER THE NEXT 5 YEARS FOR HIS GOVERNMENT'S PLANS TO MODERNISE PORTUGUESE INDUSTRY (PEDIP).

5. CAVACO HAS SPENT MUCH OF THE PAST MONTH ABROAD: AT THE EUROPEAN COUNCIL, VISITING WASHINGTON (23-26 FEBRUARY) AND AT THE NATO SUMMIT. PORTUGUESE COMMITMENT TO THE WEST REMAINS FIRM. RELATIONS WITH THE AMERICANS HAVE, HOWEVER, BEEN THROUGH A DIFFICULT PERIOD, AND THE QUESTION OF AMERICAN PAYMENTS FOR THE USE OF THE AZORES HAS YET TO BE RESOLVED TO PORTUGUESE SATISFACTION. (THE PORTUGUESE SUSPECT THAT THE AMERICANS TAKE THEM FOR GRANTED.) DESPITE A DETERMINED ATTEMPT TO IMPROVE RELATIONS WITH SPAIN, THE SPANISH PROPOSALS FOR COLLABORATION WITH NATO CONTINUE TO WORRY THE PORTUGUESE (MADRID TELNO 147).

6. SEE MIFT FOR LIST OF SPECIFIC POINTS WHICH EACH SIDE MIGHT RAISE.

SIMPSON-ORLEBAR

YYYY

DISTRIBUTION

68

MAIN 65

LIMITED
SED
PROTOCOL
NEWS
INFO
WED

SEC POL
PS
PS/MRS CHALKER
PS/PUS
SIR J FRETWELL
MR RATFORD

ADDITIONAL 3

NO 10 DS

PAGE 2
CONFIDENTIAL

NNNN

UNCLASSIFIED

ANNEX C

ADVANCE COPY

166430
MDADAN 8622

UNCLASSIFIED
FM LISBON
TO DESKBY 081500Z FCO
TELNO 76
OF 081157Z MARCH 88

MY TELNO 61, PARA 2
AGRICULTURAL COMPENSATION

1. WE RECEIVED ON 7 MARCH A NOTE FROM THE MFA DATED FOR MARCH.
FOLLOWING IS TRANSLATION:

" THE MINISTRY OF FOREIGN AFFAIRS PRESENTS ITS COMPLIMENTS TO THE
BRITISH EMBASSY AND, WITH REFERENCE TO THE QUESTION OF CLAIMS BY
BRITISH SUBJECTS RELATING TO EXPROPRIATIONS AND OCCUPATION OF RURAL
PROPERTY, OR DESTRUCTION OF ASSETS CONTAINED THEREIN, IN THE PERIOD
FROM 1974-77, HAS THE HONOUR TO STATE THE FOLLOWING:

- 1) THE PORTUGUESE GOVERNMENT IS PREPARED TO COMPENSATE IN A JUST
WAY, BRITISH SUBJECTS WHO HAVE SUFFERED LOSSES IN ACCORDANCE WITH
THE TREATIES OF FRIENDSHIP LINKING PORTUGAL TO THE UNITED KINGDOM,
IN PARTICULAR THE TREATY OF COMMERCE AND NAVIGATION OF 1914.
- 2) THE PORTUGUESE GOVERNMENT NOW HAS SUFFICIENT INFORMATION TO
ALLOW IT VERY SHORTLY TO ENTER INTO A PHASE OF DIRECT DIALOGUE WITH
PARTIES OR THEIR REPRESENTATIVES.
- 3) IN VIEW OF PARA 2, THE PORTUGUESE GOVERNMENT WOULD BE GRATEFUL
FOR THE GOOD OFFICES OF HMG IN INFORMING INTERESTED BRITISH SUBJECTS
OF THE NEED TO INFORM THE MINISTRY OF FOREIGN AFFAIRS AS SOON AS
POSSIBLE IF THEY WISH TO BE REPRESENTED AND, IF SO, BY WHOM.

THE MINISTRY OF FOREIGN AFFAIRS AVAILS ITSELF OF THIS OPPORTUNITY TO
RENEW TO THE BRITISH EMBASSY THE ASSURANCE OF ITS HIGHEST
CONSIDERATION"

SEE MIFT FOR COMMENT.

SIMPSON-ORLEBAR

ADVANCE 1

HD/SED

NNNN



ANNEX E

EAST TIMOR: UK STATEMENT AT UN COMMISSION ON HUMAN RIGHTS
ON 4 MARCH 1988

The United Kingdom Government has since 1982 supported the efforts of the Secretary General to encourage a bilateral settlement between Portugal and Indonesia on the issue of East Timor. We hope that both sides will work actively at the problem with a view to reaching early agreement. We are sure that both parties will be concerned to find a settlement which fully protects the interests of the people of East Timor.

CONFIDENTIAL

170211
MDLIAN 6003

CONFIDENTIAL
FM MAPUTO
TO PRIORITY FCO
TELNO 127
OF 080940Z MARCH 88
INFO PRIORITY CAPE TOWN, LISBON

CAHORA BASSA

SUMMARY

1. MOZAMBICAN MINISTER DESCRIBES TRIPARTITE MEETING. PACKAGE INCLUDES ARRANGEMENTS FOR REHABILITATING TRANSMISSION LINE AND ITS MANAGEMENT BY A THIRD ENTITY WHICH WOULD BE RESPONSIBLE FOR SECURITY. BRITAIN ASKED TO GIVE SUPPORT TO ENSURE SOUTH AFRICANS DO NOT DRAG THEIR FEET.

DETAIL

2. ANTONIO BRANCO, MINISTER OF INDUSTRY AND ENERGY INVITED ME TO HIS OFFICE ON 7 MARCH FOR A BRIEFING ON THE TRIPARTITE TALKS HELD IN SONGO ON 25 AND 26 FEBRUARY. HE CONFIRMED THAT THE TALKS HAD STARTED STICKILY, WITH THE SOUTH AFRICANS SAYING THAT IT WAS NOT WORTH PROCEEDING WITH ANY REHABILITATION OF THE TRANSMISSION LINES BECAUSE IT WOULD BE IMPOSSIBLE TO GUARANTEE ITS PROTECTION. THE IMPLICATION WAS THAT RENAMO SHOULD BE PARTY TO THE TALKS.

3. AFTER A GOOD DEAL OF DISCUSSION, SOME APPARENTLY WITH THE TWO SOUTH AFRICAN MINISTERS (MEIRING AND BARTLETT) AND THE PORTUGUESE AND MOZAMBICAN MINISTERS MEETING IN PRIVATE, AGREEMENT WAS REACHED ALONG THE FOLLOWING LINES:

A) TRANSMISSION REHABILITATION COSTING APPROXIMATELY 26M US DOLLARS WOULD BE UNDERTAKEN BY THE FIRMS SAC (ITALIAN) AND POWER LINES (SA). THE BULK OF THE MONIES NEEDED WOULD BE FOUND BY THE SOUTH AFRICIANS, WHO WOULD STAND GUARANTEE FOR ANY LOANS EXCEPT THAT THE MOZAMBICANS WOULD SEEK APPROXIMATELY 7.5 MILLION DOLLARS IN AID FROM THE ITALIANS. AFTER REHABILITATION HAD TAKEN PLACE APPROXIMATELY 6M WOULD BE NEEDED FOR A FULL CHECK OF THE LINES.

B) A THIRD ENTITY WOULD BE ERECTED TO MANAGE THE TRANSMISSION LINE IE BETWEEN CAHORA BASSA AND THE SOUTH AFRICAN BORDER. ALTHOUGH IT HAD NOT BEEN SPECIFIED, IT WAS CLEAR THAT THE MAIN COMPANIES CONCERNED WERE LIKELY TO BE LONRHO AND THE PORTUGUESE ENTERPRISE, ENTREPOSTO.

C) THE THIRD ENTITY WOULD BE RESPONSIBLE FOR SECURITY. FOR THIS THE MOZAMBICANS WOULD PROVIDE MANPOWER. THE MINISTER BELIEVED DSL WOULD BE RETAINED BY THE THIRD ENTITY TO ASSIST IN THIS FIELD.

4. BRANCO SAID THAT THE MOZAMBICAN GOVERNMENT ENDORSED THE PACKAGE AND ARRANGEMENTS FOR PREPARING A FINAL AGREEMENT AT A MEETING OF THE COUNCIL OF MINISTERS ON 1 MARCH. GOM HOPED BRITAIN COULD GIVE DIPLOMATIC SUPPORT. THEY AWAITED SOUTH AFRICAN AGREEMENT IN PRINCIPLE, WHICH WAS NEEDED IN THE NEXT FEW DAYS IF MOMENTUM WAS NOT TO BE LOST. THE MOZAMBICANS REGARDED THE CONCLUSION OF AGREEMENTS WITH SOUTH AFRICA AS AN IMPORTANT MODEL FOR PRAGMATIC RELATIONS ON MATTERS OF MUTUAL INTEREST. IT WAS IMPORTANT THAT THE SOUTH AFRICANS SHOULD NOT DRAG THEIR FEET (THE MINISTER EXPRESSED CONCERN THAT THE SAG WAS PREOCCUPIED WITH THE RIGHT WING THREAT).

5. THE MINISTER WAS PARTICULARLY KEEN ON THE THIRD ENTITY CONCEPT. THIS TOOK MATTERS OF SECURITY AND ARGUMENTS ABOUT WHO MIGHT OR MIGHT NOT HAVE INFLUENCE OVER THE BANDITS OUT OF GOVERNMENTS' HANDS. IT WAS FOR THE THIRD ENTITY TO ARRANGE MATTERS. INDEED, UNDER QUESTIONING THE MINISTER ADMITTED IN CONFIDENCE THAT EVEN MONETARY ARRANGEMENTS WITH RENAMO WERE NOT EXCLUDED - ALL THIS WOULD BE FOR THE THIRD ENTITY.

6. BRANCO POINTED OUT THAT DISCUSSIONS ON THE TARIFF WOULD BE EXTREMELY IMPORTANT SINCE IT WAS FROM THESE MONIES THAT THE THIRD ENTITY WOULD PAY FOR SECURITY. IF ALL WENT WELL AND MOZAMBIQUE/SA/PORTUGAL AGREED IN PRINCIPLE, AND DISCUSSIONS WITH SAC AND POWER LINES PROCEEDED WITHOUT A HITCH, THE WHOLE PACKAGE WOULD BE RATIFIED IN APRIL AND THE AGREEMENT SIGNED IN MAY. WORK ON THE LINE COULD THEN START FORTHWITH.

7. I ASSURED THE MINISTER OF HMG'S INTEREST IN SUSTAINING MOZAMBIQUE'S PRAGMATIC RELATIONS WITH SOUTH AFRICA. I KNEW THAT MR RENWICK WOULD CONTINUE TO STRESS TO THE SOUTH AFRICANS THE WIDER IMPORTANCE OF THE CONCLUSION OF AN AGREEMENT ON THE TRANSMISSION OF CAHORA BASSA POWER.

8. BRANCO PROMISED TO KEEP ME IN TOUCH WITH FUTURE DEVELOPMENTS.

ALLAN

YYYY

CONFIDENTIAL

170211
MDLIAN 6003

DISTRIBUTION 150

MAIN 143

MOZAMBIQUE
LIMITED
CAFD
OADS
SED
DEFENCE
SOVIET
CONSULAR
PUSD
NEWS
INFO
RESEARCH

PLANNERS
SECURITY
PS
PS/MRS CHALKER
PS/PUS
MR MUNRO
MR FAIRWEATHER
MISS PESTELL
MR J CAINES ODA
MR HUDSON ODA
CABINET OFFICE

ADDITIONAL 7

DI ROW, MOD
SEC(O)(C) MOD
DMAO MOD
DCTS, ROW, MOD

MR FERGUSON DESO MOD
HD/CSAD ODA
MR J P ROBERTS
(ECONOMIC SERVICE ODA)

NNNN



027/32

See 101
(22)

ANNEX G

Foreign and Commonwealth Office

CONFIDENTIAL

London SW1A 2AH

[Redacted]

15 February 1988

Mr. [unclear]
Mr. [unclear]
16:4

Dear Charles

POA

Spain/NATO/Gibraltar

You may like a note of where we stand on Spain's proposed military contribution to NATO, although we have no reason to suppose that the subject will come up during the Prime Minister's visit to NATO next week.

The Spaniards wrote formally to Lord Carrington on 18 January to outline their proposals. The principal elements are:

- use of Spain as a rear logistic area, and land and air defence of it;
- naval and air operations in the Eastern Atlantic and Western Mediterranean; and
- control of the Straits of Gibraltar.

There are also proposals for bringing together Spanish and Alliance force planning, albeit outside the Integrated Military Structure.

This is a substantial contribution, particularly of maritime and air forces (the assets to be contributed under the second heading would include 9 - 12 escort ships, 3 - 5 submarines, 3 fighter aircraft squadrons and 4 - 5 air defence squadrons), and is welcome. It is welcome also that the Spaniards want to make it possible for their force plans to be taken into account in the Alliance force planning process. There are, however, some disappointing aspects. There is no provision for a land forces contribution (the argument that the Spanish Army is not ready to make such a contribution is weakened by recent suggestions that they might contribute to the joint Franco/German brigade). Nor is it acceptable (or realistic) that Spain should control the Straits of Gibraltar on the Alliance's behalf: that must remain NATO's responsibility. If the Spaniards are claiming a full role in DPC examination of force plans addressed to other Allies, including potentially the veto, Allies must have similar arrangements for examination of Spanish force plans. At the first discussion among the Allies of Spain's proposed

/contribution

CONFIDENTIAL

PO5AAB

NOT/NOT A BILATERAL MATTER
CONFIDENTIAL



CONFIDENTIAL

contribution, earlier this week, Sir M Alexander made clear these concerns, which were shared by a number of other Allies.

The next steps, as proposed by the Secretary-General, are that the Chairman of the Military Committee should establish with the Spaniards general guidelines, on the basis of which 'coordination agreements' would be reached between Spain and the Major NATO Commanders covering the details of Spains contribution and methods of coordination of Spanish and Allied forces involved. Both the guidelines and the subsequent agreements will need to be subject to approval by the DPC and the NAC. The intention is for the guidelines at least to be ready for submission to the DPC and NAC Ministerials in May and June.

The Spanish proposals include the proviso that "Spanish military coordination in the Alliance will not be carried out with Allied commands in Gibraltar". We are discussing bilaterally with the Spaniards the implications of this proviso. It at least suggests that they are not seeking the abolition of the Gibraltar sub-commands, or trying to dictate to the members of the Integrated Military Structure how they should organise their command structure. Given that these principles are safe, our approach is that the Spanish proviso needs to be interpreted so as to promote maximum military efficiency. We recognise that it is politically impossible for Spain to place her own forces under those commands, but hope to reach an understanding which will protect functions currently (and efficiently) carried out for the Alliance from Gibraltar, eg submarine surveillance and storage. At the same time we hope to get Spanish agreement to procedures to coordinate activities of Spanish and Allied forces in the region, despite the different sources of command (eg to prevent confusion over exercises) and to permit cooperation between Gibraltar and Spanish commands in case of emergency (eg ship collisions, air crashes, submarine emergencies). There will be military and potentially political advantage in both, if the Spaniards can be brought to agree to them.

Jans

(R N Culshaw)
Private Secretary

C D Powell Esq
10 Downing Street

PO5AAB

CONFIDENTIAL



JOINT STATEMENT ON ECONOMIC COOPERATION

Mrs Thatcher and Professor Cavaco Silva welcomed the agreements reached at the Brussels European Council, and the increased impetus to the creation of a genuine single market by 1992. They noted that:

- the introduction of legally binding controls on Community agricultural spending will increase the proportion of the EC budget available for other spending; and
- the decision to double the Community's Structural Funds, and to provide 500 million ecu (£350 million) for a special programme for Portugal's industrial development, will assist Portugal to benefit fully from the completion of the single market.

They agreed that the United Kingdom and Portugal should cooperate closely to ensure that these new opportunities are used to maximum effect, in the interests of both countries and of the Community as a whole.

dti

the department for Enterprise

ccpk

The Rt. Hon. Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

**Department of
Trade and Industry**

1-19 Victoria Street
London SW1H 0ET
Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5147

Our ref

Your ref

Date

10 March 1988

Dear Charles,

LYNX HELICOPTERS: VISIT BY PORTUGUESE PRIME MINISTER

Thank you for your letter of 8 March. There have been further developments since my letter to Lyn Parker of ^{Star} 27 March. We and MOD have spoken again to Westland about their estimates for the costs of the Lynx package. The £7.6m referred to in my letter represented what Westland considered might be necessary if we were pressed by the Portuguese to improve our offer, with the extra £1.5m providing additional support and training to make the package more attractive.

In the light of the further discussions with Westland, I understand that the MOD have recommended that the Prime Minister should indicate our willingness to give the Portuguese a helicopter rather than cash, if they preferred this, and have confirmed that Navy-to-Navy training free of charge could also be provided as part of the package. It should therefore be possible to offer an acceptable package within the existing budget ceiling of £6.1m. This should obviously be our starting point with the additional £1.5m only being considered if that offer does not prove attractive. I have to say that we would have expected MoD to bear this, just as they did the original rise from £5m to £6.1m, but no doubt we could discuss this further with MOD if the need ever arises.

EC9ARI

dti

the department for Enterprise

I am copying this letter to Lyn Parker (FCO) and Brian Hawtin
(MOD).

Yours

Rosalind Cole

ROSALIND COLE
PRIVATE SECRETARY

EC9ARI



MINISTRY OF DEFENCE
 MAIN BUILDING, WHITE HALL, LONDON SW1
 Telephone 01-930 7022

MO 14/26L

9th March 1988

Dear Charles,

VISIT BY THE PORTUGUESE PRIME MINISTER, 11TH MARCH

As I mentioned, I was about to write to you about financial support for the sale of Lynx helicopters to the Portuguese Navy when we received a copy of Rosalind Coles' letter of 7th March. The advice in this letter takes account, therefore, of the further points raised in her letter and your reply of 8th March.

We have been working closely with Westlands on a package which would permit an offer to the Portuguese of five aircraft for the price of four, together with some free spares and training. Indeed, we have succeeded in constructing a package, the costs of which would fall within the limit of £6.1M (linked to the purchase of British equipment) already on offer as Westland have expressed willingness to forego profit on the first aircraft, bringing its cost below £5M. The balance of more than £1M would be available for purchase of spares and company training. In addition, we are also prepared to provide the Portuguese with free Navy-to-Navy training by waiving charges worth a further £0.5M. This package, therefore includes a substantial element for support and training already. But enquiries we have made, in the light of Rosalind Coles' letter, indicate that Westland would like to do even more in this area to make the offer more attractive.

At this stage, it is difficult to be precise about costs since the Portuguese have yet to set out their detailed requirements. For example, it is possible that they might want to fit an American sonar in the Lynx as there is unfortunately no equivalent British sonar available. If so, that could affect the total cost of the package and the nature of the training required; and our offer is, of course, linked to the purchase of British equipment. But we believe that the current package described above should enable the Prime Minister to respond positively to Cavaco Silva. We also think it would be inadvisable to give the impression to Westlands that there might be more cash available from HMG as they might then relax efforts to contain costs.

C D Powell Esq
 10 Downing Street

CONFIDENTIAL



We suggest, therefore, that the Prime Minister should welcome the Portuguese interest in Lynx and emphasise that we want to use our offer of cash aid as helpfully as possible to bring the whole contract to fruition. She could add that, if the Portuguese would prefer us to give them a Lynx helicopter, with associated spares and training, rather than cash, we would be prepared to do so, subject to the negotiation of a satisfactory contract between Westland and the Portuguese Navy. The Prime Minister might emphasise that, in addition to company training, we can also provide Navy-to-Navy training free of charge.

But we suggest that the Prime Minister should avoid being specific about the costs of such a package, pointing out, if asked, that this would depend on the Portuguese requirements and on progress in the contract negotiations with Westlands. We see no need for the Prime Minister to mention sonar equipment but if Cavaco Silva does so, she might remind him that our offer is linked to the purchase of British equipment.

In view of our discussions with Westlands, and the need to maintain pressure to keep costs to a minimum, the Defence Secretary sees no need to increase the funding available at this stage. But he would have no objection to provision of additional funding by the Department of Trade and Industry as envisaged in your letter of 8th March, if it were judged appropriate further to improve the terms of the package on offer.

I am copying this letter to Lyn Parker (FCO) and to Rosalind Coles (DTI).

Yours sincerely
Brian Hawtin

(B R HAWTIN)
Private Secretary

PRIME MINISTER

LUNCH FOR THE PRIME MINISTER OF PORTUGAL:
SPEECH

I attach a draft of a speech for you to make at the lunch for the Prime Minister of Portugal on Friday. I hope it is on the right lines but am ready to do whatever further work you would like.

(C. D. POWELL)

8 March 1988



Foreign and Commonwealth Office

London SW1A 2AH

8 March 1988

COB
8/3.

Dear Charles,

Thank you for your letter of 7 March enclosing a revised draft speech for the Prime Minister's lunch for Cavaco Silva. We have only two comments. It would be better to drop the word "official" on page 3 (the visit is in fact technically a "working" visit; the Portuguese have therefore been offered less in the way of logistic support than would be the case for a fully fledged visit).

We would suggest modifying the paragraph beginning on page 9 to read:

"This was a considerable tribute to your negotiating skill. But I can say that Britain is very happy to contribute to the additional help which we feel Portugal deserves. The growth of the funds - and the special industrial development programme which we agreed at Brussels - will give a major impetus to your economic development. I hope it will create new opportunities for business and industrial projects of benefit to both our countries. It will certainly help you benefit"

The Prime Minister's speech will be an important opportunity to give a boost to British firms which stand to benefit from structural fund programmes. The amendment above is designed to do this.

Yours ever,

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street





file LOSAKT
cefr PC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

8 March 1988

VISIT OF THE PORTUGUESE PRIME MINISTER: MONEY FOR
LYNX HELICOPTERS

The Prime Minister has seen a copy of your letter of 7 March to Lyn Parker proposing that we should raise the value of our offer to the Portuguese to £7.6 million, to cover the cost of one entire helicopter package, in the belief that this will help Westland obtain Lynx orders not just in Portugal but elsewhere.

The Prime Minister supports this proposal. She notes that the funds hitherto committed will come from the Defence Vote and takes the view that the additional £1.5 million should be found by the DTI. I should be grateful if you would confirm your agreement to this before the Prime Minister sees the Portuguese Prime Minister on Friday, 11 March.

BF |

I am copying this letter to Brian Hawtin (Ministry of Defence) and to Lyn Parker (Foreign and Commonwealth Office).

CHARLES POWELL

Mrs. Rosalind Cole,
Office of the Chancellor of the Duchy
of Lancaster.

BF



File

86

alc

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

7 March 1988

Thank you for your letter of 4 March enclosing a draft speech for the Prime Minister to give at her lunch for the Portuguese Prime Minister next Friday. I attach a much revised version on which I would welcome comments by tomorrow afternoon.

(C. D. POWELL)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

②



10 DOWNING STREET

Prime Minister

You are sending flowers
to Mrs. Caraco Silva.

Could you please write
on the attached card:

" To Senhora Caraco Silva

With best wishes for
a happy & successful
visit.

Margaret Thatcher "

CDB 7/3

dti

the department for Enterprise

CONFIDENTIAL

The Rt. Hon. Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

Lyn Parker Esq
Private Secretary to the
Secretary of State
Foreign and Commonwealth Office
LONDON
SW1A 2AH

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5147

Our ref

Your ref

Date

7 March 1988

Prime Minister

Dear Lyn,

As Westland is involved - surely Agreel to press MOD the entire MOD concession? is hand pressed not COP 7/3.

VISIT OF PORTUGUESE PRIME MINISTER : MONEY FOR LYNX HELICOPTERS

I have seen your letter of ¹⁹ February to Charles Powell and his reply to you of ¹⁰ February.

Our view is that if the £6.1m currently on the table could be raised to cover the cost of one helicopter package (ie the helicopter plus UK equipment, training and spares), this, together with the Portuguese Navy's apparent preference for the Lynx, would strengthen the UK's ability to compete with the funding that is likely to be available to the competing Aerospatiale Dauphin and Kaman Sea Sprite from French and US military base arrangements. Westland estimate that such a package, if it is to provide adequate training for the Portuguese Navy, which has not previously operated helicopters, would cost some £7.6m. (This figure excludes some £1.6m worth of profits and financing costs to be applied to the four remaining helicopters required). The French are understood to be taking very much the same view on training in the financial package they are preparing.

MA3ABG



the department for Enterprise

This order would be of obvious immediate importance to Westland given that the company, in the absence of new orders, will have a serious production shortfall from the end of this year until the early 1990s, when the EH101 helicopter comes on stream.

It is also of significance in the context of other potential Lynx orders that Westland are pursuing, notably in Korea and Brazil - in the former against the same competition, and in the latter against the Dauphin. An expression of confidence in the aircraft, both by Portugal and by the UK in increasing their support for it, could not be other than beneficial.

Given that this is money that could only be used for the purchase of British equipment, and would not be called upon at all if the Portuguese failed to identify an appropriate purchase, an increase in the amount to some £7.6m is not, in our view, too generous an offer to make.

If such an offer is made, however, we would argue that it should be made clear to the Portuguese Prime Minister that apart from possible increases to reflect inflation (the principle of which was accepted by Mr Younger in raising the £5m previously offered to £6.1m last year), this is the UK's final offer, and will not be improved - in an effort to discourage further requests for increases to the amount on offer.

I am copying this letter to Charles Powell at No 10 and to Brian Hawtin at the Ministry of Defence.

Yours
Rosalind Cole

ROSALIND COLE
PRIVATE SECRETARY

MA3ABG

PORTUGAL. Visto at P.M. Nov 81.



CONFIDENTIAL

. 12554
MDHIAN 0307

CONFIDENTIAL
FM LISBON
TO IMMEDIATE FCO
TELNO 61
OF 031312Z MARCH 88

MIPT: PORTUGUESE PRIME MINISTER'S VISIT TO UK

1. POINTS WHICH IT WOULD BE USEFUL TO RAISE FROM OUR SIDE INCLUDE:

AGRICULTURAL COMPENSATION

2. UNLESS CAVACO IS ABLE TO GUARANTEE THAT AN OFFER IS ON THE TABLE, WE MAY NEED TO MAKE A PUBLIC STATEMENT EXPRESSING OUR DISSATISFACTION THAT THE PORTUGUESE CONTINUE TO PREVARICATE, NOTWITHSTANDING THEIR ACKNOWLEDGEMENT OF THE JUSTICE OF AT LEAST SOME OF THE CLAIMS. (DESPITE ENQUIRIES, WE HAVE STILL TO RECEIVE THE NOTE WHICH THE PRIME MINISTER'S DIPLOMATIC ADVISER PROMISED WOULD BE FORTHCOMING BY 10 MARCH.) THE PORTUGUESE RISK DISCOURAGING FURTHER INVESTMENT BY THEIR ATTITUDE.

UK EXPORTS

3. WE ARE DOING WELL IN THIS MARKET (50 PER CENT UP ON LAST YEAR) BUT OUR MAJOR EC COMPETITORS - FRG, FRANCE, ITALY, SPAIN - ARE AHEAD OF US. UNLIKE THEIRS, OUR TRADE BALANCE IS IN PORTUGAL'S FAVOUR AND WE ARE STILL THE LARGEST INVESTOR IN PORTUGAL (THOUGH NECK AND NECK WITH SPAIN). THERE ARE LIKELY TO BE GOOD OPPORTUNITIES RESULTING FROM PORTUGAL'S INFRASTRUCTURE AND INDUSTRIAL MODERNISATION PROGRAMMES, PARTICULARLY PEDIP. BOTH BRITISH GAS AND BP HAVE EXPRESSED INTEREST IN PLANS FOR A NATURAL GAS PIPELINE NETWORK IN PORTUGAL (THE FIRST STAGE ENVISAGES AN LNG IMPORT TERMINAL AT SETUBAL AND A HIGH PRESSURE LINE TO BRAGA). THE ONGOING THERMAL ENERGY PROGRAMME SHOULD ALSO PROVIDE GOOD OPPORTUNITIES.

4. PRIVATISATION AND EDUCATIONAL SUPPLIES ARE WORTH MENTIONING AS TWO OTHER AREAS OF BRITISH EXPERTISE. THE GOVERNMENT IS INTRODUCING ITS PLANS FOR PRIVATISATION CAUTIOUSLY, BUT THERE IS ROOM FOR BRITISH INVOLVEMENT DESPITE COMPETITION FROM FRANCE. WE HAVE ALREADY HELD A SUCCESSFUL SEMINAR IN CONJUNCTION WITH THE BANK OF PORTUGAL. THE PORTUGUESE MINISTER OF EDUCATION, CARNEIRO, IS AN ADMIRER OF OUR PLANS FOR EDUCATIONAL REFORM AND AN INVITATION FOR MR BAKER TO VISIT PORTUGAL LATER THIS YEAR IS IN HAND. (THE FOREIGN MINISTER, PINHEIRO, WAS EDUCATION MINISTER IN THE LAST GOVERNMENT.)

DEFENCE SALES

5. WE HAVE OFFERED THE PORTUGUESE POUNDS 6.1 MILLION TOWARDS THE PURCHASE OF LYNX HELICOPTERS, WHICH THE PORTUGUESE NAVY WANT AS PART OF THE NATO-AIDED FRIGATE PROGRAMME. THESE ARE EXPENSIVE FOR A POOR COUNTRY WITH A LOW DEFENCE BUDGET AND THE PORTUGUESE GOVERNMENT MAY WELL BE READY TO CONSIDER ALTERNATIVE OFFERS DESPITE THE NAVY'S PREFERENCE FOR LYNX. CAVACO IS LIKELY TO RAISE THE QUESTION AND MAY WELL PRESS US TO PAY THE EQUIVALENT COST OF ONE FULLY-EQUIPPED MACHINE. IT IS IMPORTANT TO SECURE THIS SALE WITH ITS SIGNIFICANT POTENTIAL FOR FOLLOW-UP ORDERS. IT SHOULD BE OUR OBJECTIVE TO CLARIFY TO THE PORTUGUESE WHAT OUR FINAL OFFER MIGHT BE AND TO SEEK TO PIN CAVACO DOWN TO A DEFINITE DECISION ON PURCHASE. OUR CONTRIBUTION TO THE FRIGATE PROGRAMME LOOKS VERY SMALL COMPARED WITH THOSE MADE BY OTHER NATO PARTNERS, USA, FRG, HOLLAND AND FRANCE FOR EXAMPLE, AND OUR REMARKS ABOUT STRENGTHENING NATO DEFENCES RISK APPEARING HOLLOW IN THIS CONTEXT.

6. THE PORTUGUESE HAVE AN EVENTUAL REQUIREMENT FOR ABOUT 12 OCEAN PATROL VESSELS. SWAN HUNTER ARE ANXIOUS TO SECURE THIS BUSINESS THROUGH A COOPERATIVE VENTURE WITH A PORTUGUESE YARD. SPANISH COMPETITORS ARE CURRENTLY BETTER PLACED, BUT WE SHOULD AIM TO PERSUADE THE PORTUGUESE TO GIVE FULL CONSIDERATION TO SWAN HUNTER'S PROPOSALS.

AFRICA AND MACAU

7. WE SHOULD AIM TO DISPEL PORTUGUESE CONCERNS ABOUT OUR ASSISTANCE TO THEIR EX-COLONIES, ESPECIALLY MOZAMBIQUE, AND TO EXPLORE HOW TO EXTEND COOPERATION WITH THEM ON SOUTHERN AFRICAN (THE ANNUAL BILATERAL TALKS WERE HELD ON 22 FEBRUARY). IN MACAU THE PORTUGUESE ARE ATTEMPTING TO ENCOURAGE INWARD INVESTMENT WITHOUT ALLOWING A COMPLETE TAKE-OVER BY HONG KONG. AGAIN, THIS SEEMS A NATURAL AREA FOR CONSULTATION AND COOPERATION IF PORTUGAL'S CONCERNS CAN BE ALLAYED.

8. POINTS WHICH THE PORTUGUESE MAY RAISE INCLUDE:

EAST TIMOR

9. THIS IS OF MINOR INTEREST TO US, BUT IMPORTANT TO PORTUGAL (SEE MY TELNO 57). PARALLELS MAY BE DRAWN WITH SELF-DETERMINATION IN THE FALKLANDS ON WHICH THE PORTUGUESE HAVE BEEN HELPFUL.

EC ISSUES

10. THE PORTUGUESE ARE BEGINNING TO BE MORE ASSERTIVE ABOUT THEIR NATIONAL INTERESTS. THEY WILL PROBABLY RAISE TEXTILES AND FISHERIES, REFERRING RESPECTIVELY TO THE RECENT AGREEMENTS WITH

152554
IN 0307

CONFIDENTIAL

152554
MDHIAN 0307

TURKEY AND MOROCCO.

WEU

11. THERE IS GROWING PUBLIC PRESSURE FOR THE GOVERNMENT TO PURSUE ITS APPLICATIONS TO JOIN WEU. THE FOREIGN MINISTER HAS SAID THAT PORTUGAL WOULD NOT UNDERSTAND IF THIS WAS REJECTED BECAUSE OF PROBLEMS WITH THE SPANISH APPLICATION (SEE MY TELNO 48).

TOURISM

12. THERE IS AN INCREASING PORTUGUESE CONCERN ABOUT THE LOW SPENDING AND HIGHER CRIME TENDENCIES OF THE 1 MILLION PLUS BRITISH TOURISTS VISITING PORTUGAL ANNUALLY. 32 BRITISH SUBJECTS ARE CURRENTLY IN PRISON IN PORTUGAL (MAINLY DRUG CASES). THERE HAS BEEN CRITICISM IN THE ALGARVE, WHERE CAVACO COMES FROM, OF ENGLISH DOMINATION E.G. PUBLIC SIGNS IN ENGLISH RATHER THAN PORTUGUESE.

RETURN VISIT

13. CAVACO IS CERTAIN TO INVITE THE PRIME MINISTER TO PORTUGAL. IT WOULD BE HELPFUL IF A PROVISIONAL DATE COULD BE SET EVEN IF SOME TIME AHEAD.

SIMPSON-ORLEBAR

FCO PSE PASS TO NO 10

YYYY

DISTRIBUTION

68

MAIN

65

LIMITED
SED
PROTOCOL
NEWS
INFO
WED

SEC POL
PS
PS/MRS CHALKER
PS/PUS
SIR J FRETWELL
MR RATFORD

ADDITIONAL

3

NO 10 DS

NNNN

PAGE 3
CONFIDENTIAL

CONFIDENTIAL

152307
MDHIAN 0285

CONFIDENTIAL
FM LISBON
TO IMMEDIATE FCO
TELNO 60
OF 031243Z MARCH 88

PORTUGUESE PRIME MINISTER'S VISIT TO UK

SUMMARY

1. PROF CAVACO SILVA IS DUE TO VISIT LONDON FROM 10-12 MARCH. DESPITE LAST YEAR'S OVERWHELMING ELECTION VICTORY, HE HAS BEEN UNDER SOME PRESSURE RECENTLY, ESPECIALLY ON THE LABOUR FRONT. BUT HIS UNDERLYING POSITION REMAINS STRONG.

DETAIL

2. CAVACO SILVA WAS LAST IN UK FOR THE EUROPEAN COUNCIL AT THE END OF 1986. SINCE THEN, HE HAS IMMEASURABLY IMPROVED HIS POSITION BY WINNING THE GENERAL ELECTION IN JULY 1987 WITH 50.1 PER CENT OF THE VOTE. THIS ENABLED HIM TO FORM THE FIRST SINGLE-PARTY MAJORITY GOVERNMENT SINCE THE PORTUGUESE REVOLUTION IN 1974. THE EUPHORIA OF THAT VICTORY HAS NOW EVAPORATED SOMEWHAT. THE OCTOBER CRASH HIT PORTUGAL'S SOARING STOCK MARKET BADLY AND DENTED CONFIDENCE. ALTHOUGH THE 1988 BUDGET HAS BEEN PASSED WITHOUT DIFFICULTY, AND THE FIRST STEPS TAKEN TOWARDS PRIVATISATION, THERE HAS BEEN MOUNTING CRITICISM OF LACK OF ACTION BY THE GOVERNMENT. WHERE IT HAS ACTED - E.G. TO REFORM THE LABOUR LAWS IN AN ATTEMPT TO SHAKE UP THE RIGID EMPLOYMENT STRUCTURE BEQUEATHED BY THE REVOLUTION - THE GOVERNMENT HAS RUN INTO STRONG OPPOSITION. A NUMBER OF TRANSPORT STRIKES HAVE CAUSED TRAFFIC CHAOS IN LISBON. A GENERAL STRIKE HAS NOW BEEN CALLED FOR 28 MARCH. UNUSUALLY, BOTH THE MODERATE UNIONS AND THE COMMUNIST-LED WORKERS' FEDERATION HAVE JOINED FORCES.

3. THERE HAS ALSO BEEN CRITICISM OF CAVACO'S LACK OF DECISIVENESS FROM THE RIGHT-WING CDS PARTY, WHICH HAS BEEN GIVEN A NEW LEASE OF LIFE BY FREITAS DO AMARAL. THE SOCIALIST PARTY (WHOSE LEADER, CONSTANCIO, HAS MANAGED TO IMPROVE HIS POSITION AT A RECENT CONGRESS) HAS MEANWHILE CRITICISED CAVACO FOR HIS AUTHORITARIANISM. THE SUPPORT OF THE SOCIALISTS IS IN THE LONG RUN MORE IMPORTANT FOR CAVACO, BECAUSE WITHOUT THEM, HE CANNOT ACHIEVE ANY CONSTITUTIONAL REFORM.

4. AT A SPECIALLY ARRANGED PRESS CONFERENCE ON 1 MARCH IN OPORTO, CAVACO HIT BACK AT HIS CRITICS BY ACCUSING THEM OF TRYING TO IMPEDE PROGRESS. WHEN QUESTIONED ABOUT HIS DECLINING POPULARITY IN THE

CONFIDENTIAL

152307
MDHIAN 0285

OPINION POLLS, HE STATED THAT HIS WAS STILL THE MOST POPULAR GOVERNMENT IN EUROPE (IN TERMS OF THE PERCENTAGE OF VOTES HE WON AT THE LAST ELECTION). THERE IS NO PARTICULAR SYMPATHY FOR THE STRIKERS AMONG THE GENERAL PUBLIC AND THERE IS NO SIGN OF ANY OTHER PORTUGUESE POLITICIAN'S BEING ABLE TO COMMAND A CONSENSUS AGAINST CAVACO. MOREOVER, HE HAS HAD ALMOST NO PROBLEMS OF COHABITATION WITH PRESIDENT SOARES, WHOSE INFLUENCE REMAINS IMPORTANT. THE UNDERLYING PERFORMANCE OF THE ECONOMY CONTINUES TO BE GOOD. AND CAVACO HAS BEEN ABLE TO CLAIM A RESOUNDING SUCCESS AT THE BRUSSELS EUROPEAN COUNCIL BY ACHIEVING RECOGNITION OF PORTUGAL'S SPECIAL NEEDS, INCLUDING 450 MILLION ECUS OVER THE NEXT 5 YEARS FOR HIS GOVERNMENT'S PLANS TO MODERNISE PORTUGUESE INDUSTRY (PEDIP).

5. CAVACO HAS SPENT MUCH OF THE PAST MONTH ABROAD: AT THE EUROPEAN COUNCIL, VISITING WASHINGTON (23-26 FEBRUARY) AND AT THE NATO SUMMIT. PORTUGUESE COMMITMENT TO THE WEST REMAINS FIRM. RELATIONS WITH THE AMERICANS HAVE, HOWEVER, BEEN THROUGH A DIFFICULT PERIOD, AND THE QUESTION OF AMERICAN PAYMENTS FOR THE USE OF THE AZORES HAS YET TO BE RESOLVED TO PORTUGUESE SATISFACTION. (THE PORTUGUESE SUSPECT THAT THE AMERICANS TAKE THEM FOR GRANTED.) DESPITE A DETERMINED ATTEMPT TO IMPROVE RELATIONS WITH SPAIN, THE SPANISH PROPOSALS FOR COLLABORATION WITH NATO CONTINUE TO WORRY THE PORTUGUESE (MADRID TELNO 147).

6. SEE MIFT FOR LIST OF SPECIFIC POINTS WHICH EACH SIDE MIGHT RAISE.

SIMPSON-ORLEBAR

YYYY

DISTRIBUTION

68

MAIN 65

LIMITED
SED
PROTOCOL
NEWS
INFO
WED

SEC POL
PS
PS/MRS CHALKER
PS/PUS
SIR J FRETWELL
MR RATFORD

ADDITIONAL 3

NO 10 DS

PAGE 2
CONFIDENTIAL

NNNN

CONFIDENTIAL



cfp *JHW*

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

10 February 1988

Dear Lyn,

VISIT OF THE PORTUGUESE PRIME MINISTER

Thank you for your letter of 9 February about the likely Portuguese request for increased support for the purchase of Westland helicopters. The Prime Minister has commented that she thinks we can help the Portuguese a little more if we really want these orders.

I am copying this letter to Brian Hawtin (Ministry of Defence) and Timothy Walker (Department of Trade and Industry).

Yours sincerely
C. D. Powell
(C. D. POWELL)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

CEPC ②



Foreign and Commonwealth Office

London SW1A 2AH

9 February 1988

Ria Austin
CAP
9/2.

ow
I really think we could help Portugal & we really want more orders.
Dear Charles,

Visit of Portuguese Prime Minister: 11 March 1988

You should be aware, in advance of the Prime Minister's meeting with the Portuguese Prime Minister on 11 March, that Cavaco Silva is likely to ask the Prime Minister to increase HMG's offer of £6.1 million support for the purchase of four Westland helicopters.

In 1983 Mr Heseltine offered £5 million towards the purchase of helicopters, in the context of the NATO-sponsored Portuguese frigate programme. Since then, the Portuguese have repeatedly pressed us to increase the amount. The Secretary of State for Defence decided in July 1987 that the 1983 offer should be up-dated to £6.1 million to take account of inflation. The Portuguese Government were informed of this.

In October last year, the Portuguese Defence Minister suggested to our Ambassador in Lisbon that HMG might pay for one helicopter and the Portuguese the other three. This was on the understanding that a fully equipped helicopter would cost between £8-10 million (depending on what special equipment is fitted - the Portuguese have not yet told Westland what they require). The Defence Minister has since told the Ambassador that Cavaco Silva will put this proposal to the Prime Minister when he sees her on 11 March.

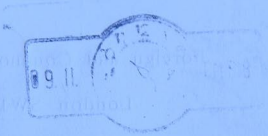
There are no new foreign policy reasons for raising our offer to £8-10 million. We therefore believe that the Prime Minister should tell Cavaco Silva that we are unable to do so. The MOD agree. Mrs Thatcher might, however, add that, at present prices, £6.1 million would in fact suffice to buy one basic helicopter, without special equipment.

I am copying this letter to Brian Hawtin at the Ministry of Defence and Timothy Walker at the Department of Trade and Industry.

Lowes eyes,
Lyn Parker

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street



CONFIDENTIAL

file 8hr
etc



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

30 December 1987

PORTUGAL

Thank you for your letter of 29 December about the visit of Professor Cavaco Silva. I am sure the Prime Minister would have no objection to his being accompanied by Mr. Pinheiro, whom she met during the European Council in Copenhagen. The arrangements which you propose for the meeting seem sensible, though I would not exclude the possibility that the Prime Minister might want a separate meeting alone with Cavaco Silva before the Foreign Secretary and Mr. Pinheiro join them. We can decide this nearer the time.

BF //

I confirm that a meeting has been pencilled in the Prime Minister's diary for 6 pm on 3 March.

(C. D. POWELL)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

8hr

CONFIDENTIAL

ccjc



Foreign and Commonwealth Office
London SW1A 2AH

29 December 1987

Dear Charles,

Portugal

top one

Thank you for your letter of 11 October. The Portuguese have now confirmed 3 March for Professor Cavaco Silva's visit to London. They have asked whether the Foreign Minister could be included in the invitation; Cavaco Silva apparently likes Pinheiro to accompany him on his trips abroad whenever possible. The Foreign Secretary recommends that Pinheiro be included in the invitation. He would propose to have a separate bilateral meeting with Pinheiro before the Prime Minister sees Cavaco Silva. The Foreign Secretary and Pinheiro could then both be present when Cavaco Silva calls on the Prime Minister.

I understand that 6.00 pm has been pencilled into the Prime Minister's diary for the meeting, followed by her dinner for Cavaco Silva.

Yours ever

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

PORTUGAL

visit of PM

NOV 81

1981-1982

1981-1982



1981-1982

1981-1982

1981-1982

1981-1982

CONFIDENTIAL



file XB
cdi PC
JESSA

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

11 October 1987

PORTUGAL

Thank you for your letter of 7 October conveying the Foreign Secretary's proposal that the Portuguese Prime Minister should be invited to pay a visit in early 1988.

The Prime Minister agrees that we should invite Senhor Cavaco Silva. I note that her involvement in the visit would be limited to a dinner and a session of talks. I should be grateful if you could discuss possible dates in the period March-June with Mrs. Gaisman.

CHARLES POWELL

Lyn Parker Esq.,
Foreign and Commonwealth Office.

JRC
①

Foreign and Commonwealth Office

London SW1A 2AH

7 October 1987

Portugal

As you know, Sr Cavaco Silva's Social Democratic Party won an outright majority in the Portuguese General Elections in July - the first time this century that a Portuguese democratic Party has managed to win a governing majority on its own. This gives Portugal the prospect of a reasonable period of political stability for the first time since the revolution. Cavaco Silva is determined to revitalise the Portuguese economy, in particular by repealing socialist measures introduced immediately after the revolution which have turned out to be a major obstacle to economic progress. His new Government programme proposes sweeping changes in industry and agriculture, with the emphasis on privatisation and the encouragement of individual initiative.

We have been told by Cavaco Silva's Diplomatic Adviser that he wishes to invite the Prime Minister to Lisbon in early 1988. As she visited Lisbon as recently as 1984, the Foreign Secretary does not recommend that the Prime Minister should do this. But he hopes that the Prime Minister might be prepared instead to invite Cavaco Silva to pay a short visit to Britain next year. Our partners are moving quickly to cultivate him: Chirac is due in Lisbon this month and Felipe Gonzales in November.

An inward visit to London would enable us to develop our dialogue with the Portuguese in a number of areas of European political cooperation where they have been particularly helpful of late, especially over Southern Africa. It would also enable us to promote the prospects for British companies in the new opportunities which Cavaco Silva's economic reforms should create for British exporters (our traditional market has become stagnant of late). A visit could also give us an opportunity to clear up the long-running problem of agricultural compensation.

Yes no

Prime Minister
Agree to invite
Mr. Cavaco Silva
next year?

COP 27x

CONFIDENTIAL



The Foreign Secretary considers that the Prime Minister's own involvement in the programme need amount to no more than a session of talks and a meal. I should be grateful to know whether the Prime Minister would be prepared to consider an invitation to Cavaco Silva on this basis. Timing would need to be worked out in due course. The Foreign Secretary would see advantage in a visit in the first half of 1988.

Yours ever,

L Parker

(L Parker)

Private Secretary

C D Powell Esq
PS/No 10 Downing Street

CONFIDENTIAL

CONFIDENTIAL



JAGAES
cc pfe
SUBJECT
cc Master

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

21 October 1986

PRIME MINISTER'S MEETING WITH THE PRESIDENT OF PORTUGAL

The Prime Minister saw President Soares for a talk this morning. The President was accompanied by the Portuguese Ambassador and by his Private Secretary.

Mozambique

The Prime Minister said that President Machel's death was a great tragedy. We had no evidence that it was anything other than an accident caused by pilot error. She was concerned that Machel's successor would be more of a hard line Marxist, and would put an end to Machel's efforts to draw Mozambique closer to the West. We had provided Machel with modest assistance to encourage this process. We had also urged the South African government not to intervene in Mozambique. But greater instability now seemed inevitable, with Renamo strengthening its position further.

President Soares said that the Portuguese Government had no information about the accident. He agreed that President Machel's death would bring greater instability to Southern Africa. He also agreed with the Prime Minister that a successor was likely to be drawn from those who had been critical of Machel's opening to the West. South Africa bore heavy responsibility for the recent deterioration in Mozambique. The Nkomati Accord could have contributed to greater stability in Mozambique. But it now seemed clear that the South Africans had continued all along to support and encourage Renamo. President Soares continued that he had maintained particularly close contact with Snr. Veloso who had been the main architect of a policy of dialogue between Mozambique and South Africa. Sadly he was now likely to lose his influence.

Angola

President Soares commented that the situation in Angola might also become more difficult. Although Portugal's official policy was to support the Angolan Government his personal belief was that Savimbi was a great African leader. Machel had always maintained contact with Savimbi and could

CONFIDENTIAL

have played a mediating role. His own view was that the situation in Angola was not lost from the West's point of view.

The Prime Minister said that she understood that Savimbi was a charismatic figure. Unfortunately she was unable to meet him. She frequently heard that the only solution for Angola was for Dos Santos and Savimbi to come to a working arrangement. But this never seemed to come any nearer. Meanwhile the Soviet Union was stepping up its help to the Angolan government. President Soares said that, had there been agreement in Reykjavik, this could have led to a reduction in East/West tensions which might in turn have helped promote a settlement in Angola. The Prime Minister doubted this. The Soviet Union's public declarations never hindered them from carrying out subversion. The message which the West had to get across in Africa was that African countries could look to the Soviet Union for arms but would go hungry if they depended on them for any other help.

South Africa

The Prime Minister said that it was difficult to see a way forward in South Africa at the present. As both Britain and Portugal had predicted, additional measures against South Africa were driving President Botha to be more extreme instead of more co-operative. She welcomed the manner in which Britain, Portugal and Germany had been able to work closely together in the European Community for reasonable policies.

President Soares said that the experience of the last two decades in Africa was that it was important to reach agreements early. The longer problems were allowed to run, the greater the risk of losing control of the situation. We must find ways to convince the South African government that external pressure on it would only grow in the long term. Portugal had supported the line advocated by the United Kingdom and Germany within the EEC and would continue to do so. He had experienced the difficulties of coping with one million refugees from Africa and did not want to face this problem again. But the fact was that a majority in the Portuguese parliament supported sanctions. The Prime Minister said that the only course was to continue to press the South African government to release Mandela, unban the ANC and enter into negotiations with black representatives.

Macao

In reply to a question from the Prime Minister, President Soares said that talks with the Chinese government were proceeding satisfactorily but had not yet reached a decisive phase. The Chinese government's statements had been rather general so far and the Portuguese had contented themselves with listening. However there would be a third round of talks in Peking later this month, and the intention was to achieve concrete results by the time of Zhou Nan's visit to

Portugal at the end of November. Meanwhile the situation in Macao was calm.

East Timor

President Soares said that Portugal could not accept Indonesia's unilateral occupation of East Timor. It wanted to find a solution which would guarantee to the population the right of self-determination and the protection of their own culture, religion and language. There had been difficult negotiations through the offices of the United Nations Secretary General, but Indonesia had failed to offer adequate guarantees. Portugal could accept any form of self determination but could not agree to allow the present situation to continue unchanged. The Prime Minister took note.

Situation in Portugal

President Soares said that there had been a considerable improvement in Portugal's economic prospects. The financial situation had been brought under control. The balance of payments deficit was being reduced and inflation had been brought under 12 per cent. The introduction of VAT had been a considerable help. Portugal was also receiving valuable financial support from the European Community. He saw his own role as being to guarantee continued political stability.

(CHARLES POWELL)

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

SRWAKX

1

PRIME MINISTER

MEETING WITH PRESIDENT SOARES

He is coming to see you for a brief courtesy call. He will have received his honorary degree from Lancaster University today; and visited Stratford on Avon, Warwick Castle and the Lake District over the weekend.

You have already read the briefs. But the main interest now will lie in discussing the implications of President Machel's tragic death. Soares visited Mozambique recently. You will want to ask him how he assesses the consequences for the balance of forces in Mozambique and whether he sees Renamo getting the upper hand. I suppose it is conceivable that Soares will attend Machel's funeral.

I attach a card.

C.D.P

(C. D. POWELL)

20 October 1986

MEETING WITH PRESIDENT SOARES

1. Congratulate on honorary degree. Hope he enjoyed his weekend.
2. Machel's death a great blow. Consequences for Mozambique's internal stability. Who will succeed? Does it strengthen Renamo's prospects in the long term?
3. Welcome way in which Britain and Portugal have worked closely together to block punitive sanctions against South Africa.
4. Reykjavik.
5. European Council. Main themes will be Jobs, Internal Market and Drugs/Terrorism/Immigration.

000
CONFIDENTIAL



CDP
BTUP

Foreign and Commonwealth Office

London SW1A 2AH

20 October 1986

Dear Charles,

CDP
20/x.

Prime Minister's Meeting with President of Portugal

It would no doubt be appropriate to touch on the tragic death of President Machel, if only to stress our regret and the need to do all we can to damp down tensions in the region.

The key facts are that President Machel was killed when his aircraft crashed in the early hours of 20 October. He was returning from an PLS Summit in Lusaka. The crash occurred on the South African side of the border with Mozambique. There is little information on the cause, and investigations are continuing. P W Botha has expressed sorrow and regret, and invited the Mozambicans to send representatives to scene of the crash.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
PS/10 Downing Street

CONFIDENTIAL



10 DOWNING STREET

Prime Minister re
Mozambique.

In view of
Madet's death and
your meeting
tomorrow with President
Soares, you may
like to see this
fuller version of
the JIC report.

CDP 207K

CONFIDENTIAL

cc PC
BUP



Foreign and Commonwealth Office

London SW1A 2AH

17 October 1986

Prime Minister
CDP
17/A

Dear Charles,

Prime Minister's Meeting with President Soares:

21 October

As requested in your letter of 9 October, I enclose briefing for use by the Prime Minister with Dr Soares. The Portuguese Embassy tell us that he is likely to be most interested in an exchange of views on South Africa and Reykjavik, but would also welcome an exchange of views on EC issues.

The President arrived in England on 17 October. He is on a private visit, with his wife, to receive his honorary degree from Lancaster University on 20 October. He is taking the opportunity to spend the weekend as a tourist, visiting Stratford-on-Avon, Warwick Castle and the Lake District. After attending the opening of a short season by the Gulbenkian Ballet at Sadlers Wells on the evening of 21 October, he leaves England on 22 October for Paris.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
No 10 Downing St

CONFIDENTIAL



PRIME MINISTER'S MEETING WITH THE PRESIDENT OF PORTUGAL: TUESDAY, 21
OCTOBER

Our Objectives

- (a) To congratulate President Soares on his honorary degree.
- (b) To brief the President on the European Council meeting 5/6
December.

Arguments

- Aim to show EC tackling problems that are top of public agenda and relevant to ordinary people.
- Intend to focus discussion on business and jobs:
 - reducing burdens of bureaucracy on small businesses
 - making progress on internal market and giving a push to Council decisions which need to be taken in December
 - securing agreement on employment now being discussed by Employment Ministers
- Another main area for discussion will be terrorism, drugs and immigration. Interior Ministers met yesterday. European Council should call for:
 - top priority to be given to joint fight against terrorism
 - stepped up cooperation on immigration
 - a joint anti-drugs campaign, following up work of Interior Ministers.



His Objectives

To exchange views on:

- (a) East/West relations after Reykjavik meeting;
- (b) Further EC restrictive measures against South Africa and on future policy of the Twelve, in the wake of US Sanctions Bill.

Your Response

- (a) Reykjavik

Incorrect to describe as failure. Struck by amount of movement on Soviet side. Task now to consolidate, build on progress at Reykjavik. Encouraging both sides, at least in public, saying that Reykjavik proposals still on table.

Unclear whether Soviet Union really intend to de-link INF agreement from agreement on space/defence. Despite remarks in press in London, Karpov did not answer this question directly here last week. Gorbachev on record since Reykjavik as saying that package still linked together. Negotiators at Geneva Nuclear and Space Talks will need to explore way ahead. Welcome that Gorbachev did not resist US proposals on INF verification and moved towards West on SRINF.

On strategic reductions, welcome progress made towards agreement on 50% reductions. But UK ^{not under 50%} ~~less~~ happy with proposals for complete elimination of ballistic missiles in 10 years. Difficult to equate this with basic Alliance strategy: British view continues to be that nuclear weapons necessary for security for foreseeable future.

UK view on participation in strategic nuclear arms reduction talks remains unchanged. Puzzled by Shultz's statement on the NAC on participation of UK.

President right not to allow Russians to emasculate SDI research



programme. Gorbachev overplayed his hand. But way ahead will need to be found on managing period of SDI research before decision can be taken on feasibility of strategic defences.

(b) South Africa

Internal situation in South Africa continuing cause for concern. SAG mood introspective and defiant. Declaration of UDF as an "affected organisation" further step away from dialogue. Inconsistent with President Botha's repeated statements of readiness to negotiate with non-violent organisations.

South Africa's relations with Front Line States again seem to be deteriorating. Further South African action against Mozambique would have serious consequences.

Must keep working to find ways of promoting peaceful change through dialogue. Fundamental to EC policy. Must continue to promote understanding of the complexities of sanctions debate. Provided Portugal and FRG maintain opposition to coal import ban, UK will not agree to consideration of further restrictive measures. Want to draw line under sanctions ledger.

Important to shift focus from restrictive measures to fresh practical political approach. Current action to strengthen and co-ordinate positive measures to assist victims of apartheid one way forward.

PRESS LINE

Draft text at Annex A.

Essential Facts

1. President Soares is on a private visit to receive an honorary degree from Lancaster University. Next year sees 600th anniversary of marriage of Phillipa of Lancaster to King Joao I of Portugal. The Prince and Princess of Wales are visiting Portugal in February to attend celebrations.
2. Prime Minister last met President in May this year (annex B).
3. Although it will be the Portuguese Prime Minister, Professor Cavaco Silva, who will attend the European Council in December, Soares will appreciate being briefed.
4. The Prime Minister will be aware of the background to the Reykjavik meeting. Reports are at Annex C.
5. President Soares visited Southern Africa twice in July and August (Angola, Mozambique, Zambia and South Africa). His intention was to maintain support for Portugal's two former colonies and give support to the Presidency mission.
6. Portugal considers that general economic sanctions would be ineffective. Opposition to restrictive measures connected with the implications for the substantial number of Portuguese immigrants in South Africa. Remittances are not negligible.
7. Portugal, together with FRG, opposed a ban on the import of coal from South Africa in discussions of FAC on 15/16 September. They have given no sign of weakening of their resolve.
8. On 8 October SAG announced its decision to end recruitment of Mozambican workers and not to renew their existing contracts. This was retaliation for alleged Mozambican support for the ANC and involvement in cross-border terrorist activity. There are an estimated 100,000 Mozambicans legally employed in South Africa, some 52,000 in the mining industry. There have since been press reports



that the South Africans are planning military action against Mozambique in retaliation for what they see as Mozambican support for ANC activities. On 15 October the South African Defence Minister Magnus Malan said, in a statement widely interpreted as sabre-rattling, that Mozambique was on the brink of collapse.

9. On 9 October the South African Bureau of Information announced that the State President had declared the United Democratic Front (UDF) an "affected organisation". The principal effect is to prevent the UDF from receiving money from abroad, although other UDF activities are not restricted. It is not yet clear whether the approximately 850 individual organisations affiliated to the UDF are also to be considered "affected". If so, there will be implications for the aid activities in South Africa of the community and individual Member States, a considerable proportion of whose aid money goes to the UDF affiliates.

10. At the Africa Working Group on 14 October it was agreed that these two SAG actions should be the subject of a joint statement of the Twelve.



PRIME MINISTER'S MEETING WITH PRESIDENT SOARES: 21 OCTOBER

Advance Press Line on the Record

1. The Prime Minister met President Soares for minutes on Tuesday 21 October. The President is on a private visit to receive an honorary degree from the University of Lancaster.
2. A full and friendly discussion was held, covering EC matters, East/West relations, and Southern Africa.
3. President Soares leaves on 22 October for Paris.



MR. BEARPARK ✓

PRESIDENT SOARES

1 CDP
2 CF
10-30 - 11.15 conf.

The Prime Minister has agreed to see President Soares on 21 October. I did pencil in the diary a provisional time. Could you now please confirm this.

CDP

C. D. POWELL

12 October 1986



SE 102 AMY
C PC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

9 October 1986

PRESIDENT SOARES

The Portuguese Ambassador has asked whether President Soares might call on the Prime Minister briefly on 21 October. He is apparently here to receive an honorary degree from the University of Lancaster.

BF | I am consulting the Prime Minister but would expect her to agree. Could I please have briefing by 19 October.

C.D. POWELL

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

OA

PRIME MINISTER

c Mr Bearpark

PRESIDENT SOARES

President Soares of Portugal is in the United Kingdom on 20 and 21 October to recieve an honorary degree from the University of Lancaster. He has asked whether he might see you briefly on 21 October.

It is the day on which Parliament resumes. But it would be possible to fit in a half-hour meeting in mid-morning. You probably ought to see him, given that we have the EC Presidency and given the Portuguese position on South Africa.

Agree to see him?

CDP

Yes mb

CHARLES POWELL

9 October 1986

VC2AMJ

SUBJECT

cc wasted .

CONFIDENTIAL

file

PM



cc PC

10 DOWNING STREET

From the Private Secretary

12 May 1986

**PRIME MINISTER'S MEETING WITH PRESIDENT SOARES
OF PORTUGAL AT THE PORTUGUESE EMBASSY
ON MONDAY 12 MAY AT 1830 HOURS**

The Prime Minister had a brief meeting with President Soares at the Portuguese Embassy this evening before attending the Reception to celebrate the 600th Anniversary of the Treaty of Windsor. The exchange was largely formal, covering the Tokyo Economic Summit, the opening of negotiations on Macao and the situation in Angola and Mozambique. It did not add materially to the Prime Minister's earlier discussions with the Portuguese Minister.

(C.D. Powell)

Colin Budd, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL

SUBJECT.
cc master

CONFIDENTIAL

JOSEPH



10 DOWNING STREET

12 May 1986

From the Private Secretary

Dear Colin,

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

089

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

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.

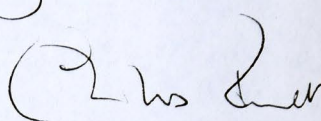
Tokyo Economic Summit

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

Colin Budd, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

9 May 1986

CDP
9/5

Dear Charles,

Prime Minister's Meeting with Portuguese President and Prime
Minister: 12 May

I enclose briefing for use by the Prime Minister for her meetings with President Soares and Prime Minister Cavaco Silva.

Both meetings have been requested by the Portuguese. It is the first official visit by both Soares and Cavaco to this country in their present roles.

Cavaco Silva has asked for a tete-a-tete meeting with the Prime Minister, with one notetaker only on each side.

Soares will be accompanied by the Foreign Minister, the Portuguese Ambassador and his Diplomatic Adviser.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
PS/10 Downing Street

CONFIDENTIAL

London, 2012. 21. 12.



PK/JP

CALL BY THE PRIME MINISTER OF PORTUGAL ON THE PRIME MINISTER,
5.15PM, 12 MAY

OUR OBJECTIVES

- a) To welcome Cavaco Silva on first official visit to UK;
- b) to improve prospects for British companies in Portugal especially when bidding for public sector contracts;
- c) to persuade Portuguese to meet outstanding claims for compensation for seized agricultural property.
- d) to emphasise need for Community to stay within 1.4% VAT ceiling;
- e) to express condolences about the rail crash in Portugal on 5 May in which 16 people died.

ARGUMENTS

- a) Head of State representation on both sides at 600th Anniversary celebrations of Treaty of Windsor shows goodwill on both sides; glad you are going to visit your alma mater in York;
- b) Concerned that British companies seem to miss out on major public sector contracts - understandable when offers overpriced but not so when British offer is very competitive. Specifically ICL has been excluded from official tender for computer equipment for five social security centres despite their good record in supplying this sector. Hope their elimination on apparent technicality can be urgently reviewed. Plessey also recently excluded from shortlisting of companies able to bid for digital switching equipment, despite their proven technological capacity and competitive pricing. Could they not be shortlisted? If decision taken for Portuguese nuclear energy programme to go ahead the UK, with its experience in



this field, well able to help with and contribute to the programme.

Recent events in Kiev shows importance of dealing with suppliers of proven reliability.

c) very much hope you will soon meet claims for agricultural properties seized after revolution. This irritant in our relations has been going on for too many years now and the money involved (£1.3m) really very little. Under pressure from claimants and their MPs who will be looking for positive action as a result of our talk today. Since my visit to Portugal in 1984 no progress made. Very much hope that time taken to process claims is cut to a minimum.

d) Community spending must remain within 1.4% VAT ceiling in 1986 and 1987 as agreed at Fontainebleau. Can only be done if further savings found. This must include agriculture so that burden of savings does not fall solely on structural funds from which Portugal, and UK, are significant beneficiaries.

HIS OBJECTIVES

- a) To review problem of terrorism;
- b) to discuss EC's trade difficulties with US;
- c) to ensure that in negotiation EC does not make concessions to US restricting transitional arrangements for Portuguese accession.

YOUR RESPONSE

- a) The arguments are well known to the Prime Minister;
- b) UK is committed to a firm EC response to any unilateral US action but also to working for a negotiated settlement. Have made clear to Americans that their allegations of immediate trade loss through Portuguese grain and soybean measures cannot be sustained and there is no alternative to settling this issue in the proper way in the GATT. EC should take equivalent action if US imposes unilateral measures, but should make clear our readiness to

CONFIDENTIAL



negotiate.

c) Agree that we cannot reopen terms of Accession Treaty. Firm EC position up till now has meant that any US action is likely to be at levels that will not in fact restrict EC trade. EC will respond with measures having equivalent effect (ie symbolic if US measures also symbolic, allowing time for negotiation in the GATT).

PRESS LINE

Draft text at annex

CONFIDENTIAL

CONFIDENTIAL

ESSENTIAL FACTS

1. This is Cavaco Silva's first official visit to UK since his taking office last November. In addition to attending ceremonies at Windsor on 12 May, he wishes to visit York University where he took his doctorate in Economics in 1973.
2. UK remains Portugal's largest export market (nearly £700m in 1985) and UK was number one investor in Portugal last year. British exports to Portugal about £450m.
3. An international tender was published on 4 February for supply of computer equipment to 5 social centres in Portugal. Portuguese authorities accept that ICL was excluded from this on a technicality over the closure date but have not agreed to reconsider. Contract value is about £1,000,000 and a further tender for 5 more centres is to be issued shortly. The Prime Minister presented an ICL personal computer to one of the regional health authorities during her visit in April 1984.
4. Earlier this year Plessey, with its System X, was also excluded from the shortlist of companies able to submit bids for telephone digital switching. This is considerably the largest public sector contract around, worth up to £250m over the coming decade. Portuguese decision apparently taken due to Plessey's withdrawal from Portugal on commercial grounds in 1978 and uncertainty about Plessey's commitment to local cooperative manufacturing.
5. Portugal has been considering a nuclear programme for a number of years but a final decision has not yet been taken on the systems to be used. Wimpey and Atomic Energy of Canada have carried out a joint, detailed study to illustrate the advantages of their CANDU system.
6. Great pressure has been brought to bear, including by the Prime Minister herself, to persuade the Portuguese to pay up for the properties seized following the 1974 revolution. Four properties out of the original nine remain to be settled, at a cost of only £1.3m. Portuguese Government accepts the British claimants' cases

CONFIDENTIAL

in principle, but says it is now necessary to appoint experts to examine the claims in detail. The examination in two stages - the first taking 6-8 weeks, but the second stage ominously described as "more complicated". The Prime Minister raised the same question during her 1984 visit to Portugal. Progress since has effectively been nil.

7. Further savings in the CAP will have to be found if the 1.4% VAT limit is to be respected in 1986 and 1987. The Fontainebleau agreement says that "the maximum rate may be increased to 1.6% on 1 January 1988 by unanimous decision of the Council and after agreement has been given in accordance with national procedures".

8. Although Portugal favours higher overall levels of Community spending than we want, UK and Portugal share an interest in controlling agricultural spending which would otherwise crowd out the regional and social fund, from which Portugal is a beneficiary. Although the UK has also traditionally been a beneficiary from these funds we have now become post-enlargement a net contributor to the Regional Fund and will soon become a net contributor to the Social Fund.

9. It was agreed in the accession negotiations that during the transition period (and probably afterwards) Portugal would remain a modest net beneficiary (in practice by about 200 mecu per annum; equivalent to 0.6% of the Community budget). The UK of course stands by the undertakings to Portugal but, as Professor Cavaco Silva recognised when the Ambassador saw him on 6 May, it will be difficult to increase structural fund spending to the required levels as long as agriculture takes up two thirds of the Budget.

10. President Reagan announced on 31 March unilateral measures against EC, in response to alleged \$1 billion trade loss through transitional measures for Spanish and Portuguese accession. Measures include quota on white wine, equivalent to alleged impact on US of new Portuguese restrictions on imports of soybeans, and increased agriculture duties to match alleged trade loss through 15.5% EC reserve of Portuguese grain market.

CONFIDENTIAL

11. EC disputes that Portuguese measures will result in any downward pressure on US trade. Has made clear intention to take 'equivalent action' against US exports if US impose any unilateral restrictions (unlikely before 12 May Foreign Affairs Council).

12. GATT Article XXIV. 6 negotiations have now opened in Geneva, addressing as a priority Americans' other complaint about introduction of variable levies on Spanish cereals imports, on which US are threatening to retaliate against inter alia whisky (UK exports £270 million). US are considering taking EC through GATT dispute settlement procedure in addition to imposing unilateral measures.

CONFIDENTIAL

PRIME MINISTER'S MEETING WITH PRIME MINISTER CAVACO SILVA: 12 MAY
ADVANCE PRESS LINE ON THE RECORD

1. The Prime Minister met Prime Minister Cavaco Silva for minutes on Monday 12 May. It was the Portuguese Prime Minister's first visit to Britain since taking office. He is in UK to attend the celebrations to mark the 600th Anniversary of the Anglo-Portuguese Treaty of Windsor.
2. A full and friendly discussion was held, covering EC matters, terrorism and bilateral relations.
3. Sr Cavaco Silva plans to visit York University on 13 May. He received his doctorate from that University in 1973.

CONFIDENTIAL

CALL BY THE PRIME MINISTER OF PORTUGAL ON THE PRIME MINISTER, 5.15PM
ON 12 MAY

POLITICAL AND ECONOMIC BACKGROUND

1. The visit takes place against the background of a political scene which shows signs of Portugal's achieving some governmental stability, at least for some months to come. Since assuming office in November, Cavaco has reinforced his public image and that of his party as tough and competent. He has been seen as getting on with the job of governing and he still enjoys a good measure of public approval. It will boost his image domestically to be seen meeting fellow heads of government of EC partners (he paid an official visit to Germany last month).

2. Except for the Communists, none of the opposition parties (who hold 65% of the seats in the National Assembly) have any immediate interest in bringing about the government's fall and the probable consequence of new elections. The Socialists are engaged in choosing Mario Soares' successor who will then have to renew the party machine, following its comprehensive defeat in last October's general election. The centre-left Party for Democratic Renewal, which was formed last year as a vehicle for former President Eanes is building up its organisation. The conservative Centre Democrats have just had an internal struggle over the party's future orientation. They too need time to put their house in order.

3. Since the opposition is not ready to provoke an election, the government has been able to pass some of the less controversial items in its legislative programme. The test will come when it tries to deal with the badly needed reform of the labour laws and of the nationalised sector. Cavaco claims that he wants to tackle this. If the economy continues to improve and the average Portuguese to receive real improvements in a standard of living, by the end of the year Cavaco may decide that this is the issue on which he can afford to face the Assembly and risk defeat, in the hope of achieving a workable majority in the ensuing elections.

CONFIDENTIAL

4. Portugal's first year in the EC looks like being her best year since the revolution in 1974. The previous government's austerity measures produced dramatic improvements in current account, albeit at the price of a slight fall in GDP and a distinct fall in average real incomes. With the country's external accounts in good order, and the uncovenanted bonus of the falls in oil prices, interest rates and the dollar, the present government has been able to promote modest reflation. Real incomes and GDP are rising again, whilst inflation remains on a downward curve (running at present at about 12% pa). Growth in 1986 is forecast at 4%.

5. None of this can diminish the huge problems of adaptation faced by a country whose GNP per head is much the lowest in the community. Given the long transitional period, however, the impact of membership has yet to be felt. So far the performance of government departments is getting on with the adaptation process is patchy. The first shock of VAT passed off surprisingly painlessly, and EC funds to modernise and develop Portugal's infrastructure and agriculture have begun to flow. The general mood is fairly optimistic and domestic industry is investing in new plant. With the twelfth anniversary of the revolution just passed, entrepreneurs are beginning to recover the confidence which was so badly jolted by the turmoil of the post-revolutionary period.

PROF ANIBAL CAVACO SILVA

Prime Minister and Leader of the Socialist Democrat Party (PSD).

Born 15 July 1939 at Boliqueime in the Algarve. Graduated in Economics from the Higher Economic Institute of Lisbon in 1964 before taking a PhD in Economics at the University of York in 1973.

Was a lecturer in Economics until appointed a Professor at the New University of Lisbon (1979). Simultaneously he was working at the Bank of Portugal and, in 1977, had been appointed Director of the department responsible for the preparation of statistical and economic studies. Led Portugal's delegation during negotiations in 1978 with the IMF.

In 1980 appointed Minister of Finance in the first Government headed by Sá Carneiro. He saw most of the government's economic targets attained, but his policy of strong domestic growth is regarded as having over-heated the economy as a whole from 1980-82 and resulted in huge current account deficits.

Cavaco Silva preferred not to stay on as Minister in the following Government, becoming President of the National Council of Planning (1981-84) and returning to his role at the Bank of Portugal. From 1982 he tended to stay in the background until the PSD Congress in May 1985 propelled him forward as party leader. One of his first acts was to give notice of PSD withdrawal from the coalition government. An enthusiastic election campaign saw him lead the PSD to victory on 6 October 1985. As Prime Minister he has demonstrated considerable determination and is proving to be increasingly formidable.

Married. He and his wife speak fluent English. She lectures on Portuguese literature and on languages at the Catholic University in Lisbon. They have no children. They both look back upon their time in York with pleasure and affection.

CONFIDENTIAL

PC
Blp



PRIME MINISTER'S MEETING WITH PRESIDENT SOARES, 12 MAY

OUR OBJECTIVES

- a) To congratulate Soares on his election as President in February;
- b) to enlist his help in reaching a solution to the compensation problem;
- c) Southern Africa: to point out this not a time for considering further restrictive measures by Twelve which would only increase intransigence in SAG and reduce chances for dialogue and further reform.

ARGUMENTS

- a) Soares' victory was a remarkable comeback from the wilderness in which he found himself after last October's general election;
- b) when Soares was Prime Minister he himself had been asked to solve the compensation problem; it is especially disappointing on such a happy Anglo/Portuguese occasion that this matter has not yet been resolved. We can expect public and parliamentary criticism if a solution is not in sight;
- c) similarity of British and Portuguese views on South Africa. Importance of dialogue in context of suspension of violence. Efforts of COMGEP. Group now returned to Southern Africa for further discussions with SAG, ANC.

Continuing Renamo activity in central and southern Mozambique cause for concern. Zimbabweans reconsidering their position; Mugabe appears to be applying pressure on Machel to seek a negotiated settlement.

We support US-led negotiations on Namibia which are necessary if effective pressure to be brought on South Africa.

CONFIDENTIAL

CONFIDENTIAL



In Angola, both sides now regrouping prior to resumption of offensive after end of rains: our assessment is that offensive will again lead to stalemate.

THEIR OBJECTIVES

We know from Soares' office that he is very interested in hearing the Prime Minister's impressions of:

- a) the Tokyo summit;
- b) recent events effecting Libya.

YOUR RESPONSE

Details of both these subjects will be fresh in the Prime Minister's memory and no detailed briefing has been submitted.

PRESS LINE

Draft text at annex.

CONFIDENTIAL

CONFIDENTIAL

ESSENTIAL FACTS

1. The meeting has been arranged at Portuguese request and will take place immediately before Soares' reception in the Portuguese Embassy. Soares last visited UK in November 1984 as an official guest of HMG when he had talks with the Prime Minister. This is his first official visit overseas as President. Since his election Soares has shown no signs of interfering with the day-to-day running of government as some had feared. He appears to enjoy his new role of international elder statesman.
2. Briefing on the compensation question is included in the general briefing for the Prime Minister's meeting with the Portuguese Prime Minister the same afternoon.
3. Commonwealth Group of Eminent Persons met in London 30 April-1 May, considered the reply from President Botha to their "possible negotiating concept" and decided to return to Southern Africa on 11 May for further talks with the South African Government. They are also expected to travel to Lusaka for further discussions with the ANC.
4. Renamo activity in the central provinces of Mozambique continues unabated. In the south, Renamo have concentrated around Maputo. They have severely disrupted transport links and inflicted power cuts on the capital. The ZNA have now accepted there is little chance of an outright military victory and there are indications that Mugabe may be applying pressure on Machel to seek a negotiated settlement.
5. Last year's Angolan government offensive in SE Angola more effective than previous similar offensives. Halted by UNITA with timely intervention by South Africa.

CONFIDENTIAL

PRIME MINISTER'S MEETING WITH PRESIDENT SOARES: 12 MAY
ADVANCE PRESS LINE ON THE RECORD

1. The Prime Minister met President Soares for minutes on the evening of 12 May. President Soares last visited this country as guest of HMG in November 1984 when he was Prime Minister of Portugal. He is in UK to attend the celebrations to mark the 600th Anniversary of the Anglo-Portuguese Treaty of Windsor.

2. A full and friendly discussion was held, covering the World Economic Summit in Tokyo, recent events in Libya and bilateral relations.

DR MARIO SOARES
PRESIDENT OF THE REPUBLIC OF PORTUGAL

Born in 1924 in Lisbon, Soares graduated from Lisbon University with a degree of History and Philosophy in 1951 and took a further Law degree in 1957.

From his earliest years Soares was politically active and for some years in his youth was a member of the Communist party. He was detained no fewer than twelve times by Salazar's secret police and was exiled for eight months in 1968, later living in France where he taught at the Sorbonne. He was a founder member of the Accao Socialista Portuguesa in 1964 which was transformed into the Socialist Party, of which he became leader, in 1973.

He was the first well-known political leader to return to Portugal after the 25 April 1974 revolution. He held several posts in a rapidly changing succession of provisional governments until becoming Prime Minister of the first constitutional government in July 1976. This government lasted a little over two years. He then went into opposition until the April 1983 elections when the Socialists were returned as the largest single party. After weeks of negotiations Soares formed a coalition government with the Social Democrats (PSD); this lasted until mid 1985 when the PSD withdrew its support.

Soares did not lead his party in the subsequent election, having announced his intention to run for President. Early opinion polls, however, only gave him 8%. His long political career seemed to have come to an ignominious end. But Soares battled his way back into the presidential campaign. He eventually he won by the narrowest of margins, slightly over 51% of the votes cast. His victory represented a remarkable political comeback.

Soares, a man of considerable warmth and charm, is a politician to his fingertips. He has simple broad objectives to which he sticks and a superb ability to communicate with the Portuguese people. His weaknesses are dislike of detail or work on difficult briefs. He sometimes imagines that fine words can be a substitute for action.

CONFIDENTIAL

But he has the potential to become an outstanding President. He is a staunch friend of Britain. He had an audience of The Queen in November 1984 during his official visit to this country as Prime Minister.

His attractive and intelligent wife, Maria Barroso, was a well-known actress specialising in poetry readings. They were married in 1949, while Soares was serving his fourth prison sentence. They have two children, a daughter who is a journalist and a son who is in business.

Soares speaks very little English but some French.

CONFIDENTIAL

PRIME MINISTER

PORTUGAL

Monday is the celebration of the 600th Anniversary of the Treaty of Windsor. Both President Soares and Prime Minister Cavaco Silva will attend a special service at St. George's, Windsor, followed by lunch with The Queen. (You are unable to go because of your commitment to unveil the Eagle Squadron's Memorial).

Cavaco Silva will call on you at No. 10 in the late afternoon, following which you will go to the Portuguese Embassy for a brief meeting with President Soares. Thereafter you will stay at the Portuguese Embassy for the first half-hour or so of President Soares's Reception.

In your talks with both the President and the Prime Minister you will of course want to make reference to the significance of the 600th Anniversary and welcome the fact that it is being marked in such spectacular fashion.

But there are a number of more grimy matters of everyday business also to be attended to. The principal one concerns the outstanding claims for compensation for seized agricultural property. Despite your efforts to galvanise the Portuguese into settling these during your visit two years ago - the amount of money outstanding is only some £1.3m - no progress has subsequently been made. You will want to express your regret, even dismay, at this lack of movement and urge both the President and the Prime Minister to see that the matter is settled by the end of the year. It is ridiculous to allow such a tiny irritant to continue to dog our bilateral relations.

There is a further matter which needs to be raised with the Prime Minister and that is the treatment of British companies in Portugal. ICL have recently been excluded from official tendering for computer equipment for five social security

centres (you will recall that you presented an ICL computer to a social security centre during your visit). The exclusion is on the basis of a technicality but the Portuguese have so far resisted attempts to allow ICL to join the short list. Similarly, Plessey have been excluded from a shortlist of companies able to bid for digital switching equipment. This too appears to be unfair and relating to Portuguese resentment at Plessey's withdrawal from Portugal in 1978. It would be helpful if you would raise both cases with Cavaco Silva.

On the international front, the main issues to raise are the Tokyo Economic Summit; Southern Africa, where the Portuguese remain well informed on both Mozambique and Angola and may be able to throw some light on the situation in each of them; Macao, on which the Foreign Office have failed to provide any briefing, but you might enquire over the prospect for negotiations with China; and finally the European Community, where the Portuguese are showing an understandable but unfortunate wish to see Community spending grow. Their particular interest is in the Social Fund. You will want to point out that this is bound to remain under strong pressure unless something can be done to control the rate of growth of agricultural spending.

Cavaco Silva, whom you met briefly at President Reagan's briefing for NATO leaders in Brussels following the Geneva Summit, studied at York University, to which he remains greatly attached.

C.D.P.

C.D. Powell
9 May 1986



10 DOWNING STREET

25/4.

CDP *Notes*
at

Mr Alexander from SED/FLO rang about the call by the Portuguese PM on the PM. The Portuguese PM wants to call on his own without even a note-taker. SED wanted to check that there would be no objections from us. I checked with Nigel who said that although this was highly unusual he didn't think there would be any objections although ~~the~~ PM would insist on having a note-taker (you) with her. I passed this back to Mr Alexander. Amanda



Foreign and Commonwealth Office

London SW1A 2AH

22 April 1986

cd/pc

Mr. ~~Hyder~~ to
not
OK
M. S. Soares
CP

Dear Charles,

Many thanks for your letter of 12 April in which you proposed timings which would allow both the Prime Minister and President of Portugal to have a private meeting with the Prime Minister. The Portuguese Ambassador only replied yesterday and it is evident that he finds himself rather between the two fires of his President and Prime Minister and hopes to satisfy both.

He is most grateful for your proposals and happily accepts them with one minor change which may not be unwelcome to the Prime Minister. Largely for presentational reasons with Cavaco Silva, he hopes you can avoid putting a definite time against his departure from Downing Street. Thus, he suggests:

- i) Portuguese Prime Minister calls at No 10 at 1715;
- ii) Prime Minister arrives at Portuguese Embassy at 1825 and holds talks with President Soares, after which;
- iii) Prime Minister attends the Portuguese reception, probably departing at about 1900 hours.

The Portuguese Embassy have not yet been given an absolutely firm time for Her Majesty's arrival, but have been asked by the Palace to accept 1905 hours as a working basis.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
PS/10 Downing Street

PORTUGAL: Vow of Portuguese PM 18/91



110
CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

17 April 1986

Dear Jean,

esp
17/4

600th Anniversary of the Anglo/Portuguese Treaty
of Windsor

On 12 May the 600th anniversary of the Anglo/Portuguese Treaty of Windsor is being celebrated by a thanksgiving service in St George's Chapel in Windsor, attended by The Queen, to be followed by a lunch at Windsor Castle given by Her Majesty.

The Portuguese are taking this commemoration very seriously. Their President, Prime Minister and Foreign Minister are all attending, with wives.

The Prime Minister has an engagement at midday which will prevent her attending either the service or the lunch, though she will be meeting the Portuguese Prime Minister later that afternoon. On present plans the Secretary of State will have to be at the Foreign Affairs Council in Brussels, so he too will be unable to attend.

Of Cabinet Ministers who have a particular interest in Portugal only Mr Jopling is free. Lady Young and Mr Eggar from the FCO will also be going. But we are most anxious that the Portuguese should not feel slighted by our failing to match their level of attendance. They attach great importance to such matters. They may readily take offence which, on an occasion such as this is the last thing we want.

In the circumstances the Foreign Secretary would be particularly grateful if, as I understand may be possible, Lord Whitelaw could consider rearranging his schedule on 12 May so as to be present at Windsor.

As trade and defence are two of our main interests in Portugal, the Foreign Secretary would also be grateful if the Secretaries of State for Trade & Industry and for Defence could consider whether their departments could also be represented by Ministers.

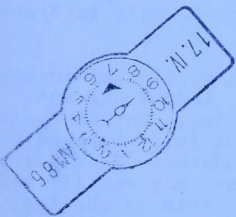
I am copying this letter to Charles Powell (No 10) and to the Private Secretaries to Messrs Younger and Channon.

Yours Sincerely,
Colin Budd

(C R Budd)
Private Secretary

PS/Lord President of the
Council

CONFIDENTIAL





file
28
CCPC
CR

10 DOWNING STREET

From the Private Secretary

12 April 1986

PORTUGAL

As I think you know the Portuguese are agitating for a meeting between the Prime Minister and President Soares on 12 May, as well as that already planned with the Portuguese Prime Minister.

We had hoped the Prime Minister would be able to see Soares briefly at Windsor. Unfortunately she cannot now go, because she is committed to unveiling the Eagle Squadron Memorial in Grosvenor Square.

BF 11

Would you please put the following proposed arrangements to the Portuguese:

- (i) Portuguese Prime Minister calls at No. 10 at 1715 and departs at 1750.
- (ii) Prime Minister calls on President Soares at the Portuguese Embassy at 1810.
- (iii) Prime Minister attends briefly the Portuguese reception at 1830, probably departing at about 1900.

Could you please let me know at what time The Queen is likely to arrive at the reception?

C D POWELL

C R Budd, Esq.,
Foreign and Commonwealth Office

111

6

PRIME MINISTER

PORTUGAL

The President and Prime Minister of Portugal are here on a visit on 12 May for the 600th Anniversary of the Treaty of Windsor. There is a service and lunch with The Queen at Windsor which you cannot attend because you are unveiling the Eagle Squadron Memorial in London. We have, however, arranged for the Portuguese Prime Minister to call on you at 1715 that afternoon.

President Soares is also calling to see you; but he and his Prime Minister can hardly call jointly or consecutively at No 10 (not least because they are from different parties).

The suggestion has therefore been made - by the Portuguese - that you might go to the Portuguese Embassy at 1815 for a brief meeting with President Soares. He is host for a reception at 1830 to mark the Treaty of Windsor, which The Queen will attend. You could if you wished stay for part of this.

Agree:

- to go to the Portuguese Embassy to see President Soares?

Yes

- to say for the reception?

Yes
ms

C.D.P.

CHARLES POWELL

11 April 1986

CAJ54

D.P.

MRS. RYDER

C.P.
I have no choice
after that nice
letter you wrote
about my grapholite

18.00 Depart No 10
18.15 meeting with P.M.
18.30 Depart

PORTUGAL

As you know the Prime Minister will not be able to go to Windsor for the 600th anniversary celebrations of the Treaty of Windsor on 12 May. She is however seeing the Prime Minister of Portugal at 1730 here at 10 Downing Street.

The Portuguese are very keen to arrange a brief meeting also between the Prime Minister and the President of Portugal who will also be here. They had assumed that this would take place in the margins of the lunch at Windsor. Since the Prime Minister is not now going they wonder whether she could see the President very briefly after she has seen the Portuguese Prime Minister. Since it might look a bit odd for him to come here just as his own Prime Minister was leaving, the idea would be for the Prime Minister to make a 15 minute excursion to the Portuguese Embassy in Belgrave Square, say at 6.15.

It all sounds a bit absurd but the President of Portugal is quite a good egg and a friend and admirer of the Prime Minister's. If you can give me some time in the diary I will put it to the Prime Minister.

C.P.

CHARLES POWELL

10 April 1986

EL3BAV



10 DOWNING STREET

From the Private Secretary

25 March 1986

- I enclose a copy of a letter which I have received from the Portuguese Ambassador in which he asks me to arrange for the Prime Minister to go to the Portuguese Embassy to see President Soares, immediately after she has received the Portuguese Prime Minister at Downing Street.

This does not seem to me necessary or appropriate and I have asked Dick Neilson to try to discourage the Portuguese from pressing the request. The Prime Minister is already devoting a good deal of time to the Portuguese on 12 May; and now that Soares is President, I think he has to accept that business contacts with the United Kingdom are for his Prime Minister.

C.D. POWELL

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

✓

010

cc pc

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

Proc. 2,212
No. 48...

25th March, 1986

Dear Mr. Powell,

As you may be aware, Portugal and the United Kingdom celebrate this year the 600th anniversary of the Treaty of Windsor, that first drew the very large terms of the Anglo-Portuguese Alliance.

Her Majesty The Queen graciously invited the President of the Portuguese Republic and the Portuguese Prime Minister to attend a religious service at the Royal Chapel of Windsor on the 12th of May to commemorate this anniversary.

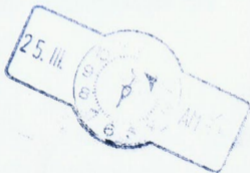
On the evening of the same day His Excellency the President will host a Reception at the Embassy's residence and I was informed that Her Majesty The Queen had expressed the intention of attending.

I would be extremely grateful if you could convey to the Prime Minister, on behalf of the President of the Portuguese Republic, an invitation to attend the Reception. As the President is most anxious to meet Mrs. Thatcher, I suggest we arrange a private interview to take place before Her Majesty The Queen is due to arrive. Should the Prime Minister agree to this perhaps we could make the arrangements at a later date.

Yours sincerely,

João Hall Themido
(João Hall Themido)
Ambassador of Portugal

C.D. Powell, Esq.,
Private Secretary to The Prime Minister,
Prime Minister's Office.





10 DOWNING STREET

From the Private Secretary

16 January 1986

PROPOSED VISIT BY PORTUGUESE PRIME MINISTER

Thank you for your letter of 16 January about the visit of the Portuguese Prime Minister in May for the 600th Anniversary celebration of the Anglo-Portuguese Treaty of Windsor.

The Prime Minister could see Sr. Cavaco Silva at 1730 hours on 12 May.

(C.D. Powell)

Colin Budd, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL

hile

Bu

bc pc

JA

5-30 on 12 May
016
CONFIDENTIAL



Prime Minister

Foreign and Commonwealth Office

London SW1A 2AH

Agree to see
the new Portuguese
Prime Minister for an

Dear Charles, how on 16 January 1986
12 May? COP 161;

Proposed Visit by Portuguese Prime Minister

Yes not

The 600th anniversary of the Anglo-Portuguese Treaty of Windsor is being celebrated on 12 May. Her Majesty The Queen is attending a Thanksgiving Service at St George's Chapel at Windsor, and has offered a lunch at Windsor Castle to which those attending from Portugal will be invited.

The Portuguese representation is likely to be led by the newly-elected President, but as you will see from Lisbon telegram No.005 (copy attached) the Portuguese Prime Minister, Sr Cavaco Silva, has also expressed his firm intention of being present.

HM Ambassador Lisbon recommends that, if at all possible, Sr Cavaco Silva (but not the President) should have a meeting with the Prime Minister. Sir Geoffrey Howe supports this recommendation.

Cavaco Silva was elected on 6 October. Although his Social Democrat government is a minority one, his administration has made a good start. At the age of 46, he seems very likely to remain an important political figure in Portugal for years to come. He is staunchly anglophile. He took his doctorate in economics at York University.

We had earlier considered inviting him as a guest of Government in the first half of this year, but concluded that in view of the many visits exchanged with Portugal in the last couple of years, an invitation as part of our Presidency consultations would be more appropriate and less demanding on the Prime Minister's time. Now that Cavaco Silva is to attend the Windsor celebrations, it would be awkward if he were not invited to meet the Prime Minister. We know he could probably stay over until 13 May if it proved impossible to receive him on the previous afternoon.

/Bilateral

CONFIDENTIAL

CONFIDENTIAL



Bilateral relations with Portugal are excellent. But it is important to pay attention to keeping traditional alliances healthy. A visit to No.10 by Cavaco Silva so soon after his election would be seen in Portugal as a demonstration that the old relationship still held true.

I should be grateful to learn if the Prime Minister is able to accept such a meeting.

Yours ever
Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
No.10 Downing Street

CONFIDENTIAL





38
Bahgal

10 DOWNING STREET

From the Private Secretary

31 December 1981

Thank you for your letter of 30 December to Mr. Alexander, enclosing a letter to the Prime Minister from Senhor Francisco Pinto Balsemao. I shall place this before the Prime Minister as soon as possible.

W. F. S. RICKETT

Senhor Jose Maria A.S. de Lemos Macedo

JSC

Embaxada de Portugal
em
Londres

Prime Minister 2 Portugal
I have acknowledged.

30th December, 1981

WM
20/12

Proc. 2,212

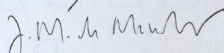
No. 229



Dear Mr. Alexander,

I am enclosing a letter addressed to the British Prime Minister from the Portuguese Prime Minister, Senhor Francisco Pinto Balsemão, and would be most grateful if you would see that the letter reaches Mrs. Thatcher.

Yours sincerely,



(J. M. de Macedo)
Counsellor.

Michael Alexander, Esq.,
Private Secretary,
Office of the Prime Minister,
10 Downing Street,
London, S.W.1.

SUBJECT

ca. 1966
1981



PRIME MINISTER'S
PERSONAL MESSAGE

SERIAL No. T 1764/81

PRESIDÊNCIA DO CONSELHO DE MINISTROS

Gabinete do Primeiro Ministro

Lisbon, 16 th December 1981

Dear Prime Minister

On my return to Lisbon I would like to express to you my sincere thanks for the opportunity to meet with you to discuss matters of the greatest importance to my Government and for the development of the relations between our two countries.

I do think that the meeting was very useful and I thank you for the understanding shown to the political aspects of Portugal's accession to the Community and to the need to push ahead the negotiations in order to allow for the agreement to be signed before the end of 1982.

I would like also to reiterate my invitation for an official visit of Your Excellency to Portugal at your earliest convenience and look forward to maintain a fruitful contact between our two Governments.

With kindest personal regards

Yours sincerely

F. Rebelo

Her Excellency
Mrs. Margaret Thatcher

30 DEC 1991

11 12 1 2 3
4 5 6 7 8 9 10

CONFIDENTIAL



JS

Paragraph

10 DOWNING STREET

From the Private Secretary

14 December 1981

VISIT OF PORTUGUESE PRIME MINISTER:
PRE-ACCESSION AID

The Prime Minister has noted the contents
of your letter of 10 December.

A. J. COLES

S. J. Gomersall, Esq.,
Lord Privy Seal's Office.

K



Foreign and Commonwealth Office

London SW1A 2AH

10 December 1981

Prime MinisterM 11.
12

Dear John.

VISIT OF PORTUGUESE PRIME MINISTER: PRE-ACCESSION AID

When Senhor Balsemao saw the Prime Minister on 9 December he complained that there had been a delay in implementing part of the package of pre-accession aid for Portugal as a result of the position taken by certain EC member states, including the UK. The Prime Minister promised him immediate action.

We looked into this urgently and were able to explain to the Portuguese Foreign Minister when he saw the Lord Privy Seal later the same morning that although there had indeed been a delay of several weeks in approving the relevant financial proposal in Brussels, mainly as a result of the French position, agreement had been reached at working level on 20 November on the basis of a Presidency compromise formula, and the proposal had passed through the Council without discussion on 3 December. The way was therefore now open for the Portuguese to agree the detailed allocation of funds with the Commission and thereafter for expenditure to begin. (We understand from Brussels that the Commission plan to sign the necessary implementing agreement with the Portuguese before Christmas).

Senhor Goncalves Pereira seemed fully satisfied with this explanation. We told him that if there were any further problems we would of course be ready in our Presidency capacity to intervene in Brussels again.

Yours ever
Stephen Gomersall.

S J Gomersall
PS/Lord Privy Seal

A J Coles Esq
10 Downing Street
Whitehall

116
117
118
119
120
121
122
123
124
125
126
127
128
129
130
131
132
133
134
135
136
137
138
139
140
141
142
143
144
145
146
147
148
149
150
151
152
153
154
155
156
157
158
159
160
161
162
163
164
165
166
167
168
169
170
171
172
173
174
175
176
177
178
179
180
181
182
183
184
185
186
187
188
189
190
191
192
193
194
195
196
197
198
199
200

11 DEC 1981





Foreign and Commonwealth Office

London SW1A 2AH

9 December 1981

- 1. AUS ¹²/₁₂
- 2. PRIME MINISTER

If you are content,
we will get this
asked and answered
this ~~early~~ next week

PM has approved
na

M/P 10/12

Dear Mike,

M/P 9/12

PORTUGUESE ACCESSION

Following her discussion this morning with Senhor Balsemao about Portuguese accession to the Community, the Prime Minister asked that a parliamentary question be arranged for written reply tomorrow so that she could confirm publicly what she said to Senhor Balsemao about our support for the accession time-table envisaged by the Portuguese.

We suggest an inspired Question in the following terms:

'Following her meeting with the Portuguese Prime Minister on 9 December will the Prime Minister make a statement about HMG's attitude to Portugal's accession?'

and the following Answer:

'I confirmed to Senhor Balsemao ~~my~~ ^{the} Government's firm support for the early entry of Portugal into the European Community. I expressed my hope that the time-table for accession envisaged by Portugal could be met.'

namely accession on 1 January, 1984,

Yours ever
Stephen Gomersall

S J Gomersall
PS/Lord Privy Seal

M A Pattison Esq
10 Downing Street
Whitehall

- 9 DEC 1981



CONFIDENTIAL



File 11
cc EA Ferguson

10 DOWNING STREET

Patrol

From the Private Secretary

9 December 1981

VISIT OF PORTUGUESE PRIME MINISTER

Dr. Francisco Balsemao called on the Prime Minister this morning. I enclose a copy of the record of conversation.

I am sending a copy of this letter, together with its enclosure, to John Kerr (H.M. Treasury), David Omand (Ministry of Defence), John Rhodes (Department of Trade), Kate Timms (Ministry of Agriculture, Fisheries and Food) and David Wright (Cabinet Office).

AJC

R. M. J. Lyne, Esq.,
Foreign and Commonwealth Office.

Az

CONFIDENTIAL

CONFIDENTIAL

C. Master

SUBJECT

NOTE OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE PRIME MINISTER OF PORTUGAL, DR. FRANCISCO BALSEMAO, AT 10 DOWNING STREET ON WEDNESDAY 9 DECEMBER 1981 AT 0930 HOURS

Present:	Prime Minister	Dr. Balsemao
	Lord Privy Seal	Professor Pereira
	H.M. Ambassador, Lisbon	Sr. de Freitas Cruz
	Mr. E.A.J. Fergusson	Sr. Gomes
	Mr. A.J. Coles	Sr. Macedo

* * * * *

After an exchange of courtesies, the Prime Minister said that she would be interested to hear about the situation in Portugal and the state of Portugal's negotiations with the EC. Dr. Balsemao explained that, in coalition with the Social Democrats, he had had a majority in Parliament since 1980. Portugal was still not a full democracy because of the existence of the Council of the Revolution. The present aim was to change the constitution by removing the Council and bringing the military under the control of the Government. Such a change would require a two-thirds majority in Parliament. Some forces, especially the Communist Party, were not interested in such a change. The Portuguese economic situation was difficult. The balance of trade, including that with the United Kingdom, was very negative, and the trend was increasingly unfavourable. Portugal was attempting to reverse the growing budget deficit. There had been a bad drought this year with severe effects on agricultural production and water supplies. An extra effort was needed to deal with these problems before the local government elections in 1982. Portugal would need to import more food.

The Prime Minister enquired whether the aim of abolishing the Council of the Revolution was going to be difficult to achieve. Democracy had had a difficult birth in Portugal but this would be the final step. When would the decision be taken? Dr. Balsemao said that he hoped the decision would be taken in the first half of 1982, perhaps on 25 April, the anniversary of the revolution. The aim was attainable provided the Socialists stayed in the coalition. The Communist Party was trying^{and} to upset matters with strikes / street demonstrations and would do all they could to exploit the economic difficulties. The Government wished to open

CONFIDENTIAL

/ "doors of

CONFIDENTIAL

- 2 -

"doors of hope" through reforms e.g. in the housing field. They also had difficult decisions to take on the development of nuclear power and telecommunications.

In response to Dr. Balsemao's question, the Prime Minister gave an account of the economic situation in the United Kingdom.

Turning to the question of Portuguese accession to the European Community, the Prime Minister said that she thought negotiations had been advanced somewhat during our Presidency. More important than the economic aspect of the EC was the fact that it was an association of democracies. It was vital to enlarge the area of democratic stability in Europe and maintain it. It was important to show people that they would gain in practical ways from democracy. She would be interested in Dr. Balsemao's assessment of the accession negotiations and to hear about the effects in Portugal of the EC's pre-accession grant.

Dr. Balsemao said that he was disappointed by the progress in the negotiations, though not with the UK Presidency. It was becoming increasingly difficult to sell the EC to domestic public opinion. The EC's own restructuring process, in which Portuguese and British interests were similar, was a complicating factor. It suggested that the house which Portugal was being invited to enter was not well organised. The process of delay was unpleasant. There was a lack of political decision. Some EC countries linked the Portuguese negotiations with those concerning Spain. Portugal did not see why it should pay for the difficulties of Spanish adhesion. As to pre-accession aid, the implementation of the Community's grant was proceeding extremely slowly. The main problem seemed to lie with the Commission and with France, the UK and Ireland. Member states were insisting on vetting each file closely. No money had yet been received. The Prime Minister said that the matter must be urgently examined and we would look into it straight away. She assumed that Portugal had met the necessary requirements to provide facts and figures. The matter was of political importance. She entirely understood that the Portuguese Government needed to be able to point to concrete benefits from the EC.

CONFIDENTIAL

/ Dr. Balsemao

CONFIDENTIAL

- 3 -

Dr. Balsemao said that he would face an election in 1984. It was politically impossible for him to say then that Portugal might enter Europe in the next year. He had to portray himself as the man who had got Portugal into Europe. So the Accession Treaty should be signed in 1982 with ratification taking place in 1983. The Prime Minister said that she entirely understood the political imperatives. There was a risk that he would otherwise have to face an anti-European campaign. Dr. Balsemao asked what timing we had in mind for Portuguese accession. The Prime Minister enquired what the obstacles were. The Lord Privy Seal said that one difficulty was the Community's internal restructuring problem which was tending to monopolise time and attention. It was to Portugal's benefit that the Community should be restructured but it was difficult for Portugal to negotiate on detailed matters if the likely outcome was not clear. Some advance had been made on the detailed files during the British Presidency. The target of signature of an Accession Treaty at the end of 1982 or early in 1983 was one which we should like to see. He strongly endorsed this. We would try to instil a sense of urgency. Dr. Balsemao said that some clear signs of progress would be needed in the first four months of 1982.

The Prime Minister enquired whether progress could be made on more detailed matters. Professor Pereira said that there had been no substantial progress on any file during the UK Presidency. A recent meeting with the Commission on agriculture had been dominated by Spanish rather than Portuguese problems. The Prime Minister observed that the UK had a particular problem on textiles. There was no point in ducking the issue. We could not lose more jobs in this field, and therefore could not make more concessions. Dr. Balsemao said that he too had a problem. How could he explain to his domestic opinion that entry would involve limited Portuguese exports of textiles to the EC? Mr. Byatt commented that after Portuguese accession, a certain increase in Portuguese exports was envisaged. The Lord Privy Seal pointed out that the UK took 50% of Portuguese textile exports to the EC. The Prime Minister said that in general we tended to be more generous than other EC countries on textiles. We could not continue to be so. Since the UK took 50% of Portuguese textile exports, Portugal must seek

/ concessions

CONFIDENTIAL

concessions from other EC states, not the UK. Dr. Balsemao said that Portuguese textiles were only 5% of the textiles which the UK imported. The Prime Minister commented that in that case Portuguese textiles formed a very much lower percentage of e.g. French imports. The Lord Privy Seal said that he had attend EC discussions yesterday on the new Multi-Fibre Agreement Mandate. Whatever was decided in that context for Portugal would change as soon as Portugal entered Europe. Portugal would then get an immediate increase; other quotas would have to be reduced. The Prime Minister said that both sides had political problems in this field. We needed an equitable solution.

Dr. Pereira said that the textile problem had probably become exaggerated. In economic terms, Portugal did not need the EC nor did the EC need Portugal. Entry was necessary for political reasons, particularly at a time when the Soviet Union was pressurising the whole of Europe. The Prime Minister said that she hoped the Portuguese Government would continue to be ardent advocates of Portuguese entry. Did she detect a certain cooling in their attitude? Dr. Balsemao said that confidentially he must make the point that the Portuguese Government could not persistently advocate entry into Europe when the advantages were not clear. Textiles were a very important industry in Portugal. The Prime Minister pointed out that after accession, Portugal would be entitled to an increase of 15% per annum in exports of sensitive textiles for a period of three years. Dr. Balsemao said that the political need was for some light in the middle of the tunnel, not just at the end. The Prime Minister said that that was why she had spoken of the pre-accession grant. She understood the need to see something on the ground.

Reverting to the timetable for Portuguese accession, the Prime Minister noted that Dr. Balsemao wanted the Portuguese negotiations to proceed at their own pace and not to be linked to the difficult negotiations over Mediterranean agriculture. Dr. Pereira said that that was not just the Portuguese wish. They had received assurances from all EC member states that there would be no such link. Dr. Balsemao commented that Portugal had nothing against Spain, but needed the negotiations to be kept separate. The London

/ Declaration

Declaration had not covered this point. It would be useful if the UK could say something helpful in public before the end of our Presidency. The Prime Minister said that we would see what we could do to speed things up. If that resulted in a divergence between the two sets of negotiations, at a later stage, so be it. Dr. Balsemao explained that he was keen to hold European as well as national elections in 1984. Dr. Pereira said that the timing problem really stemmed from French difficulties about Spanish accession. Portugal resented the fact that this affected their own application. They hoped that we would take the matter up with our EC colleagues. President Mitterrand had a more open mind than had his Ministers. Dr. Balsemao said that Portugal's principal points of concern in the negotiations were textiles, agriculture, and the free movement of labour. There had been no progress in any of these areas. Mr. Byatt said that an EC paper on agriculture had been presented to the Portuguese on 1 December. Dr. Pereira said that it was so vague and evasive that it was difficult for the Portuguese to comment on it.

Dr. Balsemao asked for the Prime Minister's assessment of the EC's internal discussions on the Mandate. The Prime Minister said she would speak frankly and confidentially. We had not obtained the fundamental restructuring that she had wanted. This was largely because the Community had not come up against the VAT ceiling. Until this pressure existed, she feared that the Community would adopt another temporary solution rather than a fundamental one. There would be no basic decisions until the agricultural price negotiations in March. We had to insist on certain budget changes, in the Portuguese interests as well as our own. We wanted more proximity between the EC and world agriculture prices and wanted agriculture to take a reducing share of the EC budget. This would mean more money for regional and social problems. The budgetary solution must take account of relative prosperity.

In a brief exchange about Spanish accession to NATO, the Prime Minister said that we welcomed this move. Dr. Balsemao said that Portugal did too but would make a declaration on the question of the command structure.

Dr. Perèira then gave a brief account of his impressions following a recent tour of Africa. Portugal had been grateful for the information we had provided about the Contact Group on Namibia. They believed a meeting of minds between the Front Line States and the Contact Group was emerging. SWAPO were tending to be left on the side lines, which was no bad thing. Both Angola and Zimbabwe needed western help. Zimbabwe was the closest thing to democracy in Africa. Angola was in a state of despair; if it exploded Zimbabwe would not be immune from the effects. Portugal differed to some extent from its allies, not on the aim of reducing Soviet influence in Africa but on the method. There was more Cuban and Soviet influence in Angola now than three months ago. The Prime Minister expressed the hope that the Foreign Minister would be able to discuss these matters further with Lord Carrington. Portugal had a special knowledge of Africa.

The meeting ended at 1030.

A. J. C.

9 December 1981

PRIME MINISTER

PRIME MINISTER OF PORTUGAL

Dr. Balsemao (pronounced Balsemao) is calling on you at 0930 on Wednesday.

He will be accompanied by:-

The Foreign Minister - Professor Pereira
The Portuguese Ambassador - Sr. de Freitas Cruz
His Diplomatic Adviser - Sr. Gomes
An Embassy Official - Sr. Macedo.

To balance this, I have agreed that on our side there should be:-

The Lord Privy Seal

Mr. Byatt - our Ambassador in Lisbon
Mr. Fergusson - FCO

I suggest we use the Cabinet Room.

I assume that you will go down to meet him. A photocall has been arranged.

The briefs are attached. In addition, you should see:-

- (a) A copy of the letter which you sent to Dr. Balsemao on 4 December (he may refer to it) (Flag A).
- (b) A telegram about his Social Democratic Congress on 5/6 December (Flag B).

/The Portuguese

The Portuguese have been told to expect 45 minutes. Balsemao's main purpose in coming here is to demonstrate to his domestic opinion that he is talking at the highest level in the UK about Portuguese accession to the EC (and about textiles). You may think it best to let him say his piece and then respond in terms of brief no. 3. You could then deal with some of the subjects in briefs nos. 2 and 4.

A.S.C. 9/12.

8 December 1981

A

file cc: FCO

10 DOWNING STREET

THE PRIME MINISTER

4 December 1981

Dear Prime Minister,

Thank you for your message of 24 November. You will by now have seen that the European Council issued a statement on 27 November confirming the Community's political commitment to enlargement and for bringing the accession negotiations with Portugal and Spain to a successful conclusion. For our part, we shall do our best to work for an early conclusion to those negotiations, and I am very conscious of the fact that the Portuguese Government would like to complete the negotiations in 1982. I am glad that they appear to have made some useful progress during the last few months.

I look forward to discussing the state of the negotiations with you in more detail when you come to London on 9 December.

Yours sincerely,

(sgd) M T

His Excellency Dr. Francisco Pinto Balsemao.

4

B

RESTRICTED

GRS 400
RESTRICTED
FM LISBON 071640Z DEC 81
TO IMMEDIATE FCO
TELEGRAM NUMBER 156 OF 07 DECEMBER 1981
INFO SAVING UKREP BRUSSELS, UKDEL NATO, MADRID.

PORTUGAL: SOCIAL DEMOCRAT CONGRESS

1. FOLLOWING IS BACKGROUND TO BALSEMAO'S MEETING WITH PRIME MINISTER ON 9 DECEMBER.

2. PSD CONGRESS TOOK PLACE IN PORTO ON 5-6 DECEMBER FOLLOWING CEREMONY TO COMMEMORATE SA CARNEIRO'S DEATH ON 4 DECEMBER. WORKING SESSIONS, ATTENDED BY FIRST SECRETARY, WERE CLOSED TO PUBLIC AND PRESS. BAD PREPARATION AND INSUFFICIENT TIME LED TO SCRAMBLED MEETING WITH INCONCLUSIVE DEBATE AND SOME DISPLAYS OF ILL TEMPER.

3. ELECTION OF PARTY ORGANS, WITH PREVIOUSLY AGREED LISTS, PRESENTED NO PROBLEMS: BALSEMAO WAS OVERWHELMINGLY CONFIRMED AS PSD PRESIDENT. PROMINENT CRITICS WILL CONTINUE TO BE REPRESENTED ON POLITICAL COMMISSION AND NATIONAL COUNCIL.

4. LESS SATISFACTORY WAS DEBATE ON PARTY AND GOVERNMENT STRATEGY. IN HIS CLOSED SESSION SPEECH BALSEMAO SET THREE PRIORITIES FOR 'CRUCIAL YEAR' OF 1982. FIRST CONSTITUTIONAL REVISION: ATTEMPTS BY EXTREME LEFT TO FRUSTRATE MUST BE RESISTED. SECOND COMMUNITY ACCESSION: BALSEMAO GAVE PSD HIS COMMITMENT TO SEEK 'GUARANTEE' OF ENTRY BY SECOND HALF OF 1992. OTHERWISE LACK OF COMMUNITY WILL WOULD BREED DISILLUSION. THIRD, REGIONALISATION.

5. BALSEMAO'S OWN STRATEGY MOTION WAS APPROVED BY A LARGE MAJORITY. A RIVAL MOTION, SPONSORED BY SANTANA LOPES, WHICH CALLED FOR A TOUGHER ATTITUDE TO 'NUMBER ONE' ENEMY OF PSD PRESIDENT EANES AND THE 'INSTITUTIONALISED REVOLUTION' WAS, HOWEVER, ONLY NARROWLY DEFEATED. ANOTHER STRESSING NEED FOR IMPROVED SOCIAL DEMOCRATIC IDENTITY IN POLICY RECEIVED 80 PER CENT APPROVAL. PARTY STRATEGY WAS, THEREFORE, LEFT UNCLEAR.

RESTRICTED

/ 6. CONCLUSION.

RESTRICTED

6. CONCLUSION.

BALSEMAO NOW WELL-INSTALLED FOLLOWING AUGUST RESIGNATION EPISODE. HOWEVER, DOUBTS PERSIST IN PARTY WHETHER HE IS SUFFICIENTLY AUTHORITATIVE TO WITHSTAND EXPECTED COMMUNIST-INSPIRED LABOUR UNREST AGAINST GOVERNMENT AUSTERITY MEASURES. THE PORTO CONGRESS ALSO LEFT UNCERTAINTIES AS TO APPROPRIATE PSD STRATEGY WITHIN DEMOCRATIC ALLIANCE; NEITHER DID IT CONVINCED MANY YOUNG TURKS OF PARTY TO IDENTIFY WITH BALSEMAO. HE NEEDS POSITIVE NEWS ON COMMUNITY ACCESSION TO OFFSET OTHER DIFFICULTIES; OTHERWISE NEXT PSD CONGRESS DUE SHORTLY AFTER DECEMBER 1982 LOCAL ELECTIONS COULD LEAVE CRITICS IN STRONG POSITION TO CHALLENGE HIM. //

FCO PLEASE PASS SAVINGS ADDRESSEES.

HART

FCO/WHITEHALL
SED

[REPEATED AS REQUESTED]

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

4 December 1981

Dear Caroline,

Prime Minister's Meeting with the Prime Minister
of Portugal

As requested in your letter of 10 November, I enclose three copies of briefs for the Prime Minister's meeting with Dr Balsemao at 9.30 am on 9 December.

Dr Balsemao will be accompanied by his Foreign Minister, Professor Andre Goncalves Pereira, the Portuguese Ambassador to London, Sr Joao de Freitas Cruz, Sr Macedo from the Portuguese Embassy and Sr Luis Gomes, Dr Balsemao's Diplomatic Adviser. The Foreign and Commonwealth Secretary will not be in London on 9 December. He suggests that the following should be present: the Lord Privy Seal, HM Ambassador at Lisbon (Mr H C Byatt) and Mr E A J Fergusson.

Yours sincerely,

A handwritten signature in dark ink that reads "Francis Richards".

(F N Richards)
Private Secretary

Miss C Stephens
10 Downing Street

CONFIDENTIAL



CONFIDENTIAL

PRIME MINISTER'S MEETING WITH THE PRIME MINISTER OF PORTUGAL
9 DECEMBER 1981

BRIEF NO 1

STEERING BRIEF

British Objectives

1. (a) to reinforce traditional Anglo-Portuguese friendship;
- (b) to give reassurance of British support for Portugal's accession to the EC, and to point to the help given during the British Presidency;
- (c) to remind the Portuguese of British interests, notably over trade and compensation.

Likely Portuguese Objectives

2. (a) to maximise local prestige for the Government;
 - (b) to press for speeding-up of EC accession negotiations;
 - (c) to explore the scope for separating the EC application from that of Spain;
 - (d) to press over textile problems.
3. The visit was set up following repeated requests from the Portuguese for a meeting with the Prime Minister, however brief, before the end of the British Presidency. Very probably Dr Balsemao's concern is to demonstrate to Portuguese public opinion that he is dealing at the highest level to secure the best possible terms over accession to the EC and over textiles. He would have liked a full scale visit but his main priority was to come before 31 December. Dr Balsemao will doubtless want first to discuss EC enlargement in the light of the European Council on 26-27 November before making a plea on textiles and then discussing international issues.

Summary of Briefs

Brief No 1 Steering Brief: Political Background, Basic Facts and Personality Notes.

Brief No 2 Bilateral issues:
 Compensation for British farmers;
 ODA/Technical Cooperation;
 British Equipment in NATO Frigates;
 Request for advice on Security matters;

CONFIDENTIAL

/Trade



CONFIDENTIAL

Trade;
Anglo-Portuguese Relations.

Brief No 3 European Community:
 State of Accession Negotiations;
 Portuguese Request for larger Textiles quotas.

Brief No 4 International Issues:
 East/West and Poland;
 TNF Arms Control;
 Brezhnev Visit to Bonn;
 Arab/Israel;
 Africa;
 Spain/NATO.

Political Background

4. Following the 1974 revolution, a Communist takeover was narrowly averted in 1975. The Constitution, established during left-wing dominance, leaves important powers with the President and a military 'Council of the Revolution', as well as entrenching a number of Marxist principles. The centre/right Democratic Alliance coalition under Dr Sa Carneiro, leader of the Social Democrat Party (PSD), took power in December 1979 and won an increased majority in September 1980.

5. Dr Sa Carneiro was killed in an air crash in December 1980 whilst campaigning against President Eanes, who was re-elected a few days later. Dr Pinto Balsemao (PSD) succeeded as Prime Minister. Strains within both the Alliance and his own party caused Dr Balsemao to resign in August but, having secured overwhelming PSD support, he agreed to head another coalition Government, which took office in September. The Government was strengthened by the inclusion of Professor Freitas do Amaral, the Centre Social Democrat (EDU-affiliated) leader. But strains persist.

6. The main political issue is reform of the Constitution to eliminate the Council of the Revolution, which has blocked the Government's main economic measures, and to prune the President's powers. A bargain with the Socialist Party is likely to achieve the necessary two thirds' majority. But wholesale reform of the Constitution to eliminate all traces of Marxist principles is unlikely. Other important issues are accession to the EC; NATO (and Spain's entry); regionalisation; and social reform.

CONFIDENTIAL

/Portuguese



CONFIDENTIAL

Portuguese Economy

7. Portugal is one of Western Europe's smallest countries and the least developed. GDP per capita in 1979 was \$2,070 (UK \$7,170, FRG \$12,450). The economy has been hit by recession and disrupted by the revolution and, in 1976, by mass immigration from Portugal's newly independent African colonies. Agricultural productivity is particularly low, 27% of the labour force contributing only 14% of total production. The industrial sector is under-developed and concentrated in areas of severe worldwide competition (textiles, steel, shipping and chemicals). Unemployment and inflation are high (8% and 18%). It has been a bad year for tourism. The current account deficit is high: likely to reach \$1.7bn this year. Portugal is virtually without domestic energy resources. But Portugal once again enjoys a good credit rating, and growing foreign investment. The Government give priority to exports, import substitution and agriculture.

CONFIDENTIAL



PORTUGAL

Basic Facts

Area	92.1 km ²
Population	9.42 million
(Lisbon	830,000)
Employment: total (1980)	4.3 million
Agriculture	27%
Industry	37%
Services	36%
Unemployment (1980)	8%
Official Reserves (1979)	US\$1,962 million
Inflation (Consumer Price Index) (May 1980-82)	18%

Foreign Trade

Export Markets

1st UK	18%
2nd FRG	13%
3rd France	10%

Source of Imports

1st FRG	12.5%
2nd USA	11.7%
3rd UK	9%

	<u>Jan-Sept 1980</u>	<u>1979</u>
UK Exports to Portugal	£300 million	£308 million
UK Imports from Portugal	£267 million	£338 million

Government

President:	General Eanes
Prime Minister:	Dr Pinto Balsemao (PSD)
Deputy Prime Minister:	Professor Freitas do Amaral (CDS)
Foreign Minister:	Professor Goncalves Pereira (non-party)
Leader of Socialist Party:	Dr Mario Soares
Governing Coalition:	Democratic Alliance = Social Democratic Party (PSD); Centre Democrats (CDS); Monarchists (PPM).



CONFIDENTIAL

BALSEMAO, DR FRANCISCO DE CASTRO PEREIRA PINTO

Prime Minister.

Born 1937. A law graduate from Lisbon University, where he also studied Political Economy. Editor of the Lisbon evening newspaper, Diário Popular of which his family were major shareholders, in 1966-71. He used his share of the proceeds of the sale of that newspaper to found a weekly newspaper, Expresso, the foremost quality newspaper in Portugal.

Member of the "'liberal wing'" of the ANP (the official party) in the National Assembly 1969-73, in which he was an active campaigner for human rights and abolition of press censorship.

A founder member of the Popular Democratic Party (PPD, later named PSD) after the overthrow of the Caetano regime in April 1974. Elected to the Constituent Assembly, of which he was Vice-President, in April 1975. A period of estrangement from the PPD after the Aveiro Congress in 1975 ended when he was re-elected to the PSD National Political Committee in October 1976. He understood and sympathised with the attitude of the dissidents who opposed Sá Carneiro but he himself stuck firmly to Sá Carneiro. In January 1979 he was made spokesman for Foreign Affairs in the PSD "'Shadow Cabinet'". In November 1979 together with Sá Carneiro and other members of the Democratic Alliance he visited London for talks with the Prime Minister and Lord Carrington. Elected a deputy for Oporto in the December 1979 elections. Appointed Minister Assistant to the Prime Minister and acted as co-ordinator for the Government's work.

Elected President of the PSD and Prime Minister following the death of Sá Carneiro in December 1980. The decision was not regarded favourably by all the constituent parts of the Democratic Alliance - principally the CDS. But he was accepted as the man to carry on Sá Carneiro's projects but in a more moderate and conciliatory way.

Balsemao speaks fluent English. He has visited Britain often. Wealthy and widely-travelled. Rather disorganised. As a young man very much a playboy, but has settled down. Married, with two children.

GONCALVES PEREIRA, PROFESSOR ANDRÉ

Minister for Foreign Affairs.

Age 45. Goan father and Belgian mother. Student of Law at Lisbon University under Caetano. Portuguese delegate to UN General Assembly from 1959-1966. Professor of International Law at Lisbon University from 1970. Has been a law partner of the Prime Minister, Pinto Balsemao. Not a member of a political party. Speaks English. Unmarried.

/FREITAS CRUZ,

CONFIDENTIAL



CONFIDENTIAL

FREITAS CRUZ, JOAO CARLOS LOPES CARDOSO DE

Ambassador to London.

Born 1925 in Lisbon. He graduated in law from Lisbon University. Joined the Ministry of Foreign Affairs in 1950 and was Third, later Second, Secretary in London from 1950-52. 1952 member of Portugal's delegation to NATO, Pretoria 1959-60, then Chargé d'Affaires Tananarive 1960-62. Consul General New York 1962 and later Consul General in Salisbury. Later Ambassador to the OECD and to Bonn. He returned to Lisbon in 1971 as Director General for Political Affairs in the Ministry of Foreign Affairs. In 1974 he was appointed Permanent Representative to NATO, where he did well and earned good opinions. He was appointed Foreign Minister in November 1978.

CONFIDENTIAL



CONFIDENTIAL

PRIME MINISTER'S MEETING WITH THE PRIME MINISTER OF PORTUGAL
9 DECEMBER 1981

BRIEF NO 2

BILATERAL ISSUES AND ANGLO-PORTUGUESE RELATIONS

POINTS TO MAKE

Compensation for British Farmers

1. Grateful for Portuguese Ministers' personal interest in these claims. Hope for early settlement: a serious embarrassment that nothing paid after more than six years. Concentrate first on five claims for which preliminary valuations have been offered; hope arbitration mechanism will be set up.

ODA/Technical Cooperation [DEFENSIVE]

2. Hope current proposals to replace previous loan offer with technical cooperation funds will be satisfactory for Portuguese.

British Equipment in NATO Frigates [DEFENSIVE]

3. Hope Rolls Royce current offer of Olympus and Tyne engines on generous terms will find favour with Portuguese. [IF PRESSED] No Government funds available to subsidise costs.

Request for Advice on Security Matters [DEFENSIVE]

4. Would consider sympathetically any request for increased cooperation. What precisely do Portuguese want?

Trade

5. Recognise Portugal's economic difficulties but hope that, with world economic recovery, import surcharges, particularly those over 60% level, will be lifted.

BACKGROUND

Compensation for Farmers

6. Nine claims for compensation, totalling some £3.75 million, for the expropriation after the Portuguese Revolution in 1975 of British-owned properties, remain outstanding despite oft repeated promises. Some recent progress: preliminary valuations have been offered on

/five

CONFIDENTIAL



CONFIDENTIAL

five cases; we have suggested establishment of arbitration mechanism. Prime Minister and Foreign Minister recently reaffirmed determination to settle these cases and to submit them to arbitration if there was disagreement about the terms of settlements. The Portuguese will evidently need continual high-level badgering if payment is to be secured (in cash rather than non-transferable Portuguese Government bonds). There is suspicion that the FRG may push them into a special deal for Germans.

7. The Portuguese claim that the other four cases, on which no valuation has been offered, are not eligible for compensation. The Embassy ^{have now told the Portuguese} ~~are verifying~~ that the claimants in these four cases are still maintaining their claims.

ODA/Technical Cooperation

8. A Capital Aid Loan agreement signed in 1979 provided for loans of up to £5m, expiring in November 1982 when repayment by instalments would become due.

9. The Portuguese were slow to put forward projects for funding and none of the £5m has been taken up. The British side is reluctant to extend the loan and it would be inappropriate to continue it beyond Portuguese accession to the EC.

10. It was recently suggested to the Portuguese that the present loan should be cancelled and replaced by Technical Cooperation, funded by a grant of up to £640,000 in the present financial year and in each of the next two years. A Portuguese response is awaited.

British Equipment in NATO Frigates

11. Portuguese hope to acquire three new frigates with a NATO aid package. Rolls Royce have offered to supply six Olympus engines free if Rolls Royce Tyne engines are purchased, or Olympus engines at a reduced price with generous financial terms (3% over 8 years) if used with other than Tyne engines. British engines are in competition with American (General Electric) and German (MTU). Portuguese may finally decide at NATO Defence Minister's meeting (9 December).

12. There is no prospect of British aid apart from Rolls Royce's offer and ECGD cover.

/Request

CONFIDENTIAL



CONFIDENTIAL

Request for Advice on Security Matters

13. When the Lord Privy Seal visited Lisbon on 10/11 November, Dr Balsemao said that he was considering establishing internal security machinery, most of which was disbanded after the Revolution in 1974. Dr Balsemao suggested that the UK might be able to offer useful advice.

14. Portuguese are being asked for further details through the Embassy at Lisbon. Any specific requests could be considered sympathetically.

Trade

15. Portugal is a member of EFTA. Since the UK joined the European Community in 1973, UK/Portuguese commercial relations have been governed by the EC/Portugal Free Trade Agreement (FTA).

16. Since 1975 Portugal has imposed import surcharges at various rates: 10% on goods listed as 'essential' and 60% on 'non-essential' or luxury items (eg. processed foodstuffs, fruit, alcohol, household goods). 60% surcharge hits the UK hardest with some 25% of all imports subject to the surcharge coming from the UK. Although there has been little complaint from UK firms, early removal would benefit UK exports.

Anglo-Portuguese Relations

17. Portugal and Britain have been allies since 1373 without a break (our oldest ally) and have reaffirmed the Alliance on many occasions through the centuries. Relations are generally excellent and Ministerial visits are frequent. President Eanes paid a State Visit in November 1978 and attended the Royal Wedding in July. Professor Goncalves Pereira visited London for talks in April and October and the Lord Privy Seal visited Lisbon on 11-12 November. Portugal has a tendency to seek the UK's opinions on world affairs and to look to Britain to use our influence on her behalf. While this presents some opportunities it is difficult to fulfil Portuguese expectations, especially since many of them require expenditure: Portugal's relative prosperity and the pressures on the Aid Vote make the provision of any form of aid very difficult.

CONFIDENTIAL



CONFIDENTIAL

PRIME MINISTER'S MEETING WITH THE PRIME MINISTER OF PORTUGAL
9 DECEMBER 1981

BRIEF NO 3

EUROPEAN COMMUNITY ISSUES (INCLUDING TEXTILES)

POINTS TO MAKE

Accession

1. UK strongly in favour of accession of democratic Portugal to European Community. Therefore glad that European Council reaffirmed commitment to complete accession negotiations.

Timing

2. Well aware of Portuguese desire to conclude negotiations by end of next year (as explained in your letter) and to accede by 1 January 1984. Mandate is complicating factor, but we are doing our best to overcome it. Good progress made in accession negotiations during UK Presidency.

Spain and Portugal

3. [IF NECESSARY] Likely that Portugal and Spain will accede together. Two negotiations are of course entirely separate but unrealistic to expect one to proceed faster than the other or for Portugal to accede first. Spaniards would find this intolerable. Also Ten member states would have to go through complex ratification procedures twice.

Textiles

4. [IF NECESSARY] Textiles a major problem for United Kingdom. No hope of much increase in Portuguese access to UK market before accession. Portugal would be well advised to diversify into other Community markets.

5. [IF NECESSARY] UK not seeking formal restraints in treaty of accession on Portuguese textiles after accession. Content to rest on understanding reached with Commission that Portuguese sendings of sensitive categories will not increase by more than 15% per annum in first three years.

THAT FREE TRADE

Free Movement

6. [IF NECESSARY] On free movement of labour, unlikely that Community will be prepared to concede to Portugal more flexible terms than those

CONFIDENTIAL

/negotiated



CONFIDENTIAL

negotiated with Greece: i.e. no free movement for seven years after accession.

BACKGROUND

Annexes

- 1: Balsemac's letter of 24 November;
- 2: Statement of European Council on Enlargement.

Accession and Timing

7. European Council statement, though welcome to Portuguese, did not go as far as they would have liked. Their main concern is the timing of accession. They would like a treaty to be signed by the end of 1982 in order to keep their target date for accession of 1 January 1984. In all events they want a decision of some sort before their next elections in the autumn of 1984. This was emphasised to the Lord Privy Seal during his visit to Lisbon 10-12 November and in Balsemac's letter to the Prime Minister at Annex 1, to which a reply has been submitted separately.

8. Whether preferred Portuguese timing can be achieved depends on progress on the Mandate, which is holding up aspects of negotiations with Portugal and Spain, especially agriculture and own resources. If the Mandate were completed by next Spring, an accession treaty could still be signed by the end of next year, leaving 1983 for ratification. The budget chapter is also important to Portugal which, as substantial food importer from outside existing Community would, under present rules, become net contributor to Community budget.

Spain and Portugal

9. Portuguese emphasise separateness from Spain. They believe Community's problems with Spain could slow down their own accession negotiations and would therefore like Community to commit itself to separate timetables. However, it is impractical to separate Portuguese and Spanish negotiations, which are at present proceeding in parallel. Portuguese should be encouraged to see for themselves that separation only politically possible if Spain falls by the wayside.

Progress of Negotiations

10. Meeting at official level in Brussels on 1 December and probably

CONFIDENTIAL

/a



CONFIDENTIAL

a further meeting on 15 December. Some progress in negotiations during UK Presidency. Community reached agreement on several major papers which were presented to Portuguese (customs union, social affairs, agriculture, ECSC, Euratom). However agriculture declaration went less far than some delegations would have wished, because of French and Italian fears about prejudicing internal reforms. Also social affairs and customs union papers contained elements unwelcome to Portugal. At behest of several Member States, including but not mainly the UK, social affairs declaration foresaw long suspension of free movement of labour after accession. (Portugal already major exporter of labour and wants immediate free movement at least for existing expatriates.) Customs Union paper at French insistence demanded formal restrictions on Portuguese textiles after accession. Portuguese have rejected this.

Textiles

11. Portuguese especially concerned about textiles, which in 1980 accounted for about 20% of their manufacturing industry and 30% of their exports. They want greater access to UK market. However UK unable to show much flexibility. UK already takes up to 50% of Portuguese exports to the Community and Portugal is second largest low cost supplier after Hong Kong. Essential for us to maintain voluntary restraint on Portuguese textiles up to accession. Have therefore declined Portuguese requests for greater access in 1981 above earlier agreed levels. This issue was discussed in some detail by Mr Biffen with Portuguese Minister for Industry, Energy and Exports, Senhor Bayao Horta, on 12 November and should not need to be laboured further.

12. Unlike French, UK not seeking formal post-accession controls, which are anathema to Portuguese, but has instead arranged with Commission that latter would authorise safeguard action after accession if Portuguese exports of certain textiles were to grow by more than 15% per annum in the first three years after accession. Portuguese not a party to this arrangement but they know of it.

CONFIDENTIAL

*Embaxada de Portugal
em
Londres*

ANNEX 1

M E S S A G E

Dear Prime Minister,

The meeting of the European Council to be held in London is of the highest importance for the future of Europe. Thus, it is only natural that Portugal, a country that is negotiating its accession, follow this summit with great attention and interest.

I think this is an appropriate occasion to, once more, underline my Government's desire to conclude the negotiations concerning our accession, in the shortest delay and in any case before the end of 1982.

This will be the logical outcome of a process initiated in March 1977 with the formal request by Portugal to join the Communities and which had been pursued for the last four years with firm determination.

This commitment to join the Communities has had, from the beginning, the full support of all Portuguese democratic parties, as it translates the idea that Portugal belongs in Europe and that the EEC, according to the spirit of the Treaty of Rome, does not fully attain its goals, unless it accepts those countries that, like Portugal, want to contribute to the construction of a free and democratic Europe.

This was the reason which led my predecessor, Mr. Francisco Sa Carneiro, to maintain close contact with the leaders of the EEC countries. This is also the reason why my Government and myself have tried to reaffirm our position along this year.

I feel sure that in the London summit talks the question of Portugal's accession to the Communities will be considered and merit your valuable support.

Yours sincerely,

Francisco Pinto Balsemão
Prime Minister.

24th November, 1981

EUROPEAN COUNCIL : CONCLUSIONS ON PORTUGAL AND SPAIN

The European Council recalled that the member states of the Community decided to open negotiations for the accession of Portugal and Spain in the knowledge that all the objectives of the Community, as set out in the preamble to the EEC Treaty, were shared by the democratic governments and by the peoples of the two countries concerned.

The European Council confirmed the political commitment which was the basis for that decision and emphasised the determination of the Community to bring the negotiations to a successful conclusion and stressed the importance of continuing progress. It recalled the acceptance by the applicant countries that they will accede on the basis of the Community treaties and subordinate legislation in force on the date of accession, subject only to such transitional arrangements as may be agreed. It emphasised the need for both the Community and the acceding countries to make good use of the period until accession for careful preparations for the Community's further enlargement by introducing the necessary reforms so that the potential benefits for both sides can be realised. The Council agreed that in the Community's deliberations on its internal development, regard would need to be paid to the importance of the accession of Portugal and Spain. It also agreed on the importance of the contacts established between the Ten and the applicant countries in the framework of political co-operation and confirmed that it is their intention to continue to keep Portugal and Spain closely informed about developments in political co-operation. It looks forward to the day when the leaders of those two countries will take their places in the European Council as full and equal members.



CONFIDENTIAL

PRIME MINISTER'S MEETING WITH THE PRIME MINISTER OF PORTUGAL

9 DECEMBER 1981

BRIEF NO 4

INTERNATIONAL ISSUES

POINTS TO MAKE

East/West and Poland

1. We have impression that, despite polemics, the Russians feel isolated and on the defensive and are anxious to establish working relations with the Reagan Administration and to improve relations with Western Europe.
2. Russians beset by problems: Poland, Afghanistan, economy and agriculture. We must continue to insist on Soviet restraint and on strict reciprocity.
3. Important to counter Soviet propaganda.
4. Internal situation in Poland less tense. Government and Solidarity have resumed talks; Russians are waiting to see whether Jaruzelski adopts tougher approach. No evidence of Soviet intention to intervene militarily.

TNF:Arms Control

5. Reagan's arms control speech and offer of zero level in LRTNF missiles cut ground from under Brezhnev's feet. Helps give NATO upper hand in public debate. But longer term problem of maintaining public support during lengthy negotiations.

Brezhnev visit to Bonn

6. Welcome visit (22-25 November). Attach great importance to East/West communication. Schmidt robust in explaining shared Western policies on security and international issues.

Arab/Israel

7. HMG supports Mubarak and the continuation of the Israeli withdrawal from Sinai. The Ten still remain committed to the Venice Declaration as the best basis for a negotiated settlement. There is no prospect of success in the Camp David autonomy talks; but it is clearly vital to remain alongside the United States. The question of mutual recognition of Israel and the PLO remains central.

/Africa

CONFIDENTIAL



CONFIDENTIAL

Africa

8. Hope Portuguese will continue to use their links with African countries (especially Angola and Mozambique) to give support to the Namibia Five and to encourage the Front Line states and SWAPO to respond positively and flexibly. Interested to hear in due course about President Eanes's recent visit to Mozambique, Tanzania and Zambia.

Spain/NATO

9. Too early to talk of possible Spanish Commands but Portuguese concerns are well understood: it should not be very difficult to work out satisfactory arrangements (after Spanish accession to NATO).

BACKGROUND

TNF Arms Control

10. The Portuguese take a robust line on TNF modernisation and arms control. Following President Reagan's announcement of the American position for the negotiations, they offered the Americans wholehearted support.

Arab/Israel

11. The Portuguese see themselves as having a special role in the Middle East as a bridge between Western Europe and the Arab world. They are heavily dependent on Arab oil and thus take a more openly pro-Arab line. They have no Ambassador in Israel. In private the Portuguese views appear to be quite close to our own.

Africa

12. Portugal retains quite close links with Angola and Mozambique following the decolonisation in 1975. The Portuguese experience and expertise is of value. As agreed during the Lord Privy Seal's visit to Portugal last month, senior officials have recently briefed the Portuguese Ambassador about progress of the Five's renewed initiative on Namibia.

13. President Eanes and the Portuguese Foreign Minister will have completed a tour of Mozambique, Tanzania and Zambia on 6 December.

Spain/NATO

14. It is possible that the accession protocol to the NATO treaty will be signed at the December NATO Ministerial meeting on 10

/December

CONFIDENTIAL



CONFIDENTIAL

December (but slippage is possible due to difficulties in Netherlands and Greece). It must then be ratified by existing members. Possible that Spanish accession could be as early as summer 1982 NATO Ministerial meeting.

15. Portuguese (a founder member of the Atlantic Alliance) favour Spanish membership but fear for their own position. Portuguese forces under Spanish command unacceptable. Portuguese made a public statement in September rejecting a Spanish suggestion of a unified Iberian command. NATO is unlikely to consider Spanish commands until accession is complete: important to avoid any preconditions on either side. A carve-up satisfactory to the Portuguese should be possible.

France (Background only)

16. President Mitterand is due to pay an official visit to Portugal on 11-12 December.

CONFIDENTIAL

MR COLES
MR INGHAM
MR KYDD
MR RYLANDS
MR TAYLOR
DETECTIVES
FRONT DOOR

We have three photocalls tomorrow - Prime Minister of Portugal, President Mobutu and Secretary Weinberger. The names of photographers for the first two are given below and a separate list will be circulated on Wednesday for the third.

PRIME MINISTER OF PORTUGAL: 0915 for 0930

C.O.I.	-	Peter Boyce
Financial Times	-	A. Ashwood
U.P.I.	-	J. Eggatt
Visnews (Eng)	-	Leo Walker John Brunswick Keith Ward

PRESIDENT MOBUTU OF ZAIRE: 1530 for 1545

C.O.I	-	Peter Boyce
Financial Times	-	A. Ashwood
A.P.	-	P Kemp

PETER EWING

8 December 1981

File

88

Portugal

10 November 1981

This is to confirm that the Prime Minister will be happy to receive the Portuguese Prime Minister at 0930 hours for 45 minutes on Wednesday 9 December. She is quite happy for the Lord Privy Seal to give him lunch. Could your brief please reach us by close of play on Friday 4 December.

wf

Francis Richards, Esq.,
Foreign and Commonwealth Office.

ds.

E.R.

PRIME MINISTER

You are seeing the Portuguese Prime Minister at 0930 on Wednesday 9 December. It is the day we are due to have a farewell lunch for Michael Alexander and the Lord Privy Seal will be giving lunch to Dr. Balsemao. If you were thinking that you would like to give the Portuguese lunch it is not terribly convenient as you will be presenting prizes for children's designs at the Royal Institution and are not due back until 1300.

Happy to proceed with the original plan of a 0930 courtesy call?

Yes not

S.

Thanks are not pressing for lunch but you'd be aware of the plans.

9 November 1981

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

6 November 1981

Dear Michael,

Visit of the Portuguese Prime Minister

The Portuguese have been pressing very strongly for a visit by the Portuguese Prime Minister, Dr Balsemao, to London during the British Presidency of the European Community. They have reacted with disappointment to our initial response that a visit this year would not be possible but that we would welcome a visit early in the New Year. The Portuguese have now asked us to look again for a date for a very brief visit. Dr Balsemao is anxious about delays in negotiations for Portuguese accession to the European Community and wishes to make his views known personally.

The Portuguese have been particularly persistent over this request and it would probably cause considerable offence if we insisted that we were unable to accommodate it. Dr Balsemao evidently attaches great importance, in the contexts of the internal debate over Community accession and disquiet at the prospect of Spanish entry to NATO, to being seen to have been received in London before the end of the year. The Portuguese have stressed that a short "in-and-out" visit would suffice.

The Foreign and Commonwealth Secretary recommends that we should accede to the Portuguese request. I understand that the Prime Minister might be able to fit in a meeting lasting three-quarters of an hour at 0930 on 9 December but that she could not offer Dr Balsemao lunch. In that case, the Lord Privy Seal would give lunch, as the senior Foreign and Commonwealth Office Minister in the country on that day. Other appointments would be offered if Dr Balsemao wished, for example, to call on any Departmental Minister.

Yours ever,
Francis Richards
(F N Richards)

M O'D B Alexander Esq
10 Downing Street

CONFIDENTIAL