

CONFIDENTIAL

SAVING TELEGRAM

AMENDED DISTRIBUTION 13 NOVEMBER 1984

FM LISBON 081000Z NOV 84

TO FCO

CONFIDENTIAL

TO FCO SAVING TELEGRAM NO 5 OF 8 NOVEMBER 1984

VISIT TO LONDON BY PORTUGUESE PRIME MINISTER 20 - 23 NOVEMBER:
ECONOMIC BACKGROUND

PORTUGAL: EEC

1. Last month, the Government faced growing disenchantment over the slow pace of the accession negotiations. The signature in Dublin on 24 October of a "Constat d'Accord" brought relief, and gave Soares a chance to reassure the public and congratulate himself. But there is now an awareness that serious problems remain, including particularly fisheries, sugar, wine and tomato products, and Portugal awaits sight of the Community's package. The underlying unhappiness that the pace of their own accession is tied to that of Spain has not disappeared.

PORTUGAL: THE ECONOMY

2. The austerity measures introduced last year have continued throughout 1984. Most of the criteria agreed with the Fund have been surpassed, particularly on the external side where the current account deficit was halved in 1983 and will be close to the \$ 1.25bn target for 1984. Confidence has been reestablished in international capital markets, and a \$ 400m loan was easily negotiated with 27 banks in August 1984,

/3.

CONFIDENTIAL

2.

3. Stringent ceilings on domestic and external financing and high interest rates (real rates are in the region of 40 %) have produced a sharp decline in real wages and purchasing power, so that consumer demand and business activity have fallen. Imports are down 8 - 10% in 1984 compared to the previous year, but exports are up 16 - 18%. The textile, clothing and footwear sectors are particularly active. Overall, GDP is expected to contract 1.5% this year.

4. Continuing areas of concern are the rate of inflation at about 30% and the very high domestic arrears of the public sector enterprises. The country's debt servicing burden remains high but is now better controlled with regular Central Bank monitoring of borrowing by the public enterprises. Total external debt at end 1983 stood at some \$ 14.4bn and is targetted to remain below \$ 15.5bn by the end of the year.

5. The country is at present facing an internal wrangle between the Ministry of Finance and the Bank of Portugal over the budget for the present financial year. An unacceptably large deficit has emerged, in part because the Ministry expected the Bank to sell gold and to remit the proceeds to the central budget, whereas the Bank decided not to do so because of the fall in the price of gold. The size of the budgetary deficit is causing the Government some embarrassment, particularly with the IMF in the wings. The budget for 1985 is soon to be unveiled.

6. A financial and economic recovery programme was announced in mid-1984 to liberalise the financial sector, recuperate public enterprises and reorganise fiscal policy. For the first time since 1974, 2 foreign banks have been allowed to begin operations and others (including Barclays) hope to follow in the near future. LBI (established here for 120 years) have been able to expand their activities,

/7.

7. The third stage of the Government's three part Economic Plan, a Programme for the Modernization of the Portuguese Economy, designed to prepare industry for full Accession to the EC, is to be announced by the end of 1984.

8. Unemployment statistics are unreliable and there is almost certainly a substantial amount of disguised under-employment. The rate of unemployment is nevertheless estimated to have increased to some 12% (7.4% in 1982). Further problems have been created in the labour market by acute cash flow problems of both private and public sector companies, resulting in the inability of many to pay salaries in full.

UK MARKET SHARE

9. The United Kingdom market share in the first nine months of 1984 was 7.03% (1983 - 7.64%; 1982 - 7.78%; 1981 - 8.1%). The UK is in 4th position behind the US (14% - much of it cereals), Germany (11.2%) and France (8.15%). The UK remains Portugal's largest market (14.83% in 1983) followed by France (13.5%) and Germany (13.4%).

INVESTMENT

10. Several important fresh British investments are being negotiated. If all goes well these could amount to around £150 million by the end of 1984 as follows:

i. Somincor

A copper mine in the Alentejo region boasting one of the richest ore bodies in the world. Contracts for equipment in the region of \$ 50/60m being tendered for over the next 12 months. The Rio Tinto Zinc Minerals (UK) have negotiated to purchase 49% of Somincor's equity from 2 French mining companies, subject to Portuguese Government consents.

/The Portuguese

The Portuguese are trying to commit RTZ to building a smelter. The negotiations over consents continue.

ii. Soporcel

A major woodpulp plant at Figueira da Foz largely owned by various nationalised banks. Wiggins Teape are in the final stages of negotiating the purchase of 45% of equity. Subject to production targets being met, Wiggins Teape will agree to the construction of an integrated paper-making plant on the same site.

iii. Sugar

Tate & Lyle have taken control of Sidul, a Portuguese sugar refiner and are interested in further expansion in the sugar market.

MAJOR CONTRACTS OF INTEREST TO BRITAIN

11. The following are being pursued:-

i. Nuclear Power

A number of British companies, including NEI, are in contact with the Portuguese authorities and Electricidade de Portugal over Portuguese plans for the introduction of nuclear power in the late 1990s.

ii. Computers for Schools

Sinclair UK are in touch with the Portuguese education authorities and hope to work with them to develop a programme for the use of computers in schools.

/iii.

CONFIDENTIAL

5.

iii. Telecommunications

Plessey and GEC are interested in a contract for the replacement of switching equipment in the Portuguese telecommunication system and will offer System X in a tender expected some time in 1985.

iv. Viewdata

GEC and Tandata Marketing will be bidding for the supply of Prestel equipment for the Portuguese Posts and Telegraphs (CTT) some time in 1985.

v. Shipping

The Portuguese merchant marine is to be reorganised and re-equipped and up to 55 ships will be required over the next 10 years. Harland and Wolff are in touch with Soponata (a State-owned tanker company) over the supply of 7 tankers.

12. FCO Please pass to DTI; Bank of England; ECGD.
BYATT

STANDARD(PALACE)
SED
ECD(E)
ECONOMIC ADVISERS
MAED
MR J C THOMAS

COPIES TO:-
DTI
B/ENGLAND
ECGD

COPIES SENT TO
No. 10 DOWNING STREET

CONFIDENTIAL