

CONFIDENTIAL  
FM LISBON  
TO IMMEDIATE FCO  
TELNO 171  
OF 201031Z JUNE 89  
INFO PRIORITY MADRID, UKREP BRUSSELS  
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## MADRID EUROPEAN COUNCIL: PORTUGUESE SCENE

## SUMMARY

1. GOVERNMENT MOVING AHEAD WITH MODERNIZATION PROGRAMME, BUT BACKLASH HAS RESULTED IN POOR SHOWING AT EUROPEAN ELECTIONS, WHICH IS LIKELY TO MAKE CAVACO QUERULOUS AND KEEN TO GET MORE MONEY OUT OF COMMUNITY.

## DETAIL

2. THE MODERNISATION OF PORTUGAL HAS MOVED FORWARD IN THE FIRST HALF OF 1989. THE AGREEMENT ON REVISION OF THE CONSTITUTION WAS COMPLETED AT THE END OF MAY THOUGH WILL NOT COME INTO EFFECT UNTIL THE AUTUMN, IT REMOVES MUCH OF THE MARXIST CONTENT OF THE POST-REVOLUTIONARY CONSTITUTION. NEW LABOUR LAWS, ALTHOUGH WEAKER THAN THE GOVERNMENT HAD WANTED, CAME INTO FORCE ON 27 MAY. THE FIRST 49 PER CENT PRIVATISATION TOOK PLACE IN APRIL AND FOUR MORE ARE TO FOLLOW BY THE END OF THE YEAR. THE CONSTITUTIONAL REVISION WILL ALLOW 100 PER CENT PRIVATISATION.

3. MEANWHILE HOWEVER OVERHEATING OF THE ECONOMY HAS GIVEN CAUSE FOR CONCERN AS INFLATION ROSE BACK INTO DOUBLE FIGURES. A CREDIT SQUEEZE ANNOUNCED IN MARCH IS BEGINNING TO TAKE EFFECT, AND INFLATION IN MAY WAS DOWN TO THE LOWEST LEVEL FOR 23 MONTHS. BUT THERE HAVE BEEN A NUMBER OF DISRUPTIVE STRIKES, WHICH TOGETHER WITH AN UGLY CONFRONTATION WITH THE POLICE IN APRIL AND CORRUPTION SCANDALS AFFECTING TWO SENIOR MINISTERS HAVE ENGENDERED A GENERAL ATMOSPHERE OF DISSATISFACTION. THIS WAS REFLECTED IN THE EUROPEAN ELECTION RESULTS, WHICH WERE BAD FOR CAVACO. (HIS PSD PARTY VOTE WENT DOWN FROM 50 PER CENT IN THE 1987 NATIONAL ELECTIONS AND 37.4 PER CENT IN THE SIMULTANEOUS EUROPEAN ELECTIONS TO ABOUT 33 PER CENT.) HIS FIRST REACTION WAS TO BLAME THE ELECTORATE FOR NOT UNDERSTANDING HIS REFORM PROGRAMME. HE IS LIKELY TO BE IN A QUERULOUS MOOD AT MADRID AND KEEN TO GET MORE MONEY OUT OF THE COMMUNITY.

ISSUES AT MADRID

4. SOCIAL DIMENSION: PORTUGUESE APPROACH TO THE SOCIAL DIMENSION OF THE INTERNAL MARKET HAS TWO THEMES: COHESION AND CULTURE. THE FIRST ARISES FROM A CONCERN THAT THE EC COUNTRIES ECONOMICALLY SHOULD COME TO FORM SOMETHING LIKE A UNIT, AND NOT A CORE WITH PERIPHERY. THE CULTURAL ASPECT IS IMPORTANT TO THE PORTUGUESE WHO HAVE A STRONG SENSE OF NATIONAL IDENTITY AND FEEL THAT CULTURALLY THEY HAVE SOMETHING TO OFFER AS WELL AS TO GAIN FROM THE EC. THERE WILL BE SUPPORT FOR A CHARTER BUT WE HAVE HEARD NO COMMENTS ON THE EXISTING COMMISSION TEXT.

5. EMU: PORTUGUESE RESPONSE TO THE DELORS REPORT HAS BEEN CAUTIOUSLY POSITIVE BUT HAS EMPHASISED THAT EXISTING STRUCTURAL OBSTACLES (INFLATION, CONTINUING DEVALUATION AND THE GRADUAL REFORM OF THE PORTUGUESE FINANCIAL SECTOR) WILL MAKE IT HARD FOR PORTUGAL TO ACT QUICKLY. CAVACO AND OTHERS HAVE HIGHLIGHTED THE PROVISIONS OF THE DELORS REPORT THAT PROVIDE FOR FINANCIAL HELP DURING MOVES TOWARDS MONETARY UNION. PORTUGAL JOINS THE ECU BASKET THIS SEPTEMBER BUT IS UNSURE WHEN IT WILL BE ABLE TO ADHERE TO THE ERM.

6. FRONTIERS: THE PORTUGUESE ARE COMMITTED TO EASIER MOVEMENT OF PERSONS BUT SEEM TO HAVE KEPT A LOW PROFILE IN BRUSSELS DISCUSSIONS. THEY HAVE NOT BEEN UNSYMPATHETIC TO OUR POSITION, BUT THEIR OWN CONCERN HAS BEEN THAT THE EC SHOULD CONTRIBUTE TOWARDS THE COST OF RAISING THE STANDARDS OF PORTUGUESE BORDER SECURITY TO A LEVEL ACCEPTABLE TO THEIR PARTNERS.

7. OWN CONCERNS: THE PORTUGUESE ARE WORRIED BY THE THREAT TO THEIR TEXTILE INTERESTS POSED BY THE URUGUAY ROUND OF GATT. THEY FEAR THAT TOO FAST AN OPENING UP OF THE EC MARKET, ESPECIALLY WITHOUT SOME FORM OF CONTROL OVER UNFAIR PRACTICES BY COMPETITORS, WILL BE DISASTROUS, SINCE THEIR TEXTILE INDUSTRY CONTRIBUTES ONE THIRD OF THEIR VISIBLE EXPORTS. CAVACO MAY ALSO REFER AGAIN TO THE PROBLEMS OF MADEIRA AND THE AZORES AND RAISE THE PROBLEM OF THE TRANSPORT OF FRENCH ELECTRICITY TO PORTUGAL THROUGH SPAIN.

DRACE-FRANCIS

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