



TELEPHONE CALL FROM DR SA CARNEIRO, 12 SEPTEMBER

PRE-ACCESSION AID FOR PORTUGAL

INTRODUCTION

A 1. Sa Carneiro's call follows a call on 10 September by the Portuguese Foreign Minister on the Lord Privy Seal (record attached), at which the Lord Privy Seal made plain that there was no question of Community agreement at the 15/16 September Council on a figure for pre-accession aid to Portugal on the scale proposed by the Commission. Our problem is over the UK share of the concessionary aid element which, following the meeting between the Prime Minister, Foreign Secretary and the Chancellor of the Exchequer on 18 July, will have to be found from the ODA contingency reserve. Portugal does not qualify for aid under our usual criteria and our agreement to any aid will therefore be based on solely political factors. The following brief is based on the line taken by the Lord Privy Seal with Freitas do Amaral.

POINTS TO MAKE

- B 1. As I said in my message of 25 July (copy attached) it was difficult for us to agree at the July Foreign Affairs Council to the principle of a pre-accession aid package for Portugal. We were reluctant to agree to the principle because we knew how little we would be able to contribute in practice. Our position has not changed and Ian Gilmour spoke frankly to Professor Freitas do Amaral when he passed through London on 10 September.
2. Understand Portuguese embarrassment over expectations that have been aroused by Commission proposals. Regrettable that Commission should have misled you in this way about what was possible.
3. (If necessary) In 1978 when accession negotiations with Portugal opened Community stated its readiness to 'examine' possibility of pre-accession aid. We never regarded this as a firm commitment. The UK commitment dates only from the agreement in principle at the July Council.
4. UK ready however to do its best to reach decision at next week's Council, even though this bound to be disappointing to Portugal. Best way of securing agreement on respectable total package will be to increase the proportion of European Investment Bank (EIB) lending, which I understand would be acceptable to you. This much easier for us than grant aid or soft loans since both latter are direct charge on aid budget. Going rate for EIB lending now about 10 percent which, when subsidised down by a couple of percentage points, is surely attractive to Portugal and would enable financing of kind of projects Portuguese have in mind.
5. But even if EIB element can be increased, total Community offer still likely to fall well short of the Commission proposal.
6. (If appropriate) Would like to mention UK interest in securing contract for Rolls Royce engines in three Tristars which Portuguese Airlines are considering buying as part of their re-equipment programme. Also would like to mention outstanding problem of compensation for ten British farms expropriated in the Alentejo.

ESSENTIAL FACTS

1. Commission proposal made in June is for total aid package of 350 mua, 115 mua of which would be in EIB loans and 235 mua in concessionary aid. This would be used to help prepare Portugal for Community membership in the following sectors:

- (a) Help to small and medium size industrial enterprises;
- (b) Regional assistance, including roads and schools;
- (c) Agriculture;
- (d) Vocational training.

2. Until July Council UK position remained reserved on principle of an aid package, and we argued that EIB finance should be enough. At July Council we accepted principle of a package, including both EIB lending and concessional aid element, with the details to be settled in the autumn in time to enable the aid to become operational by the end of this year. This did not specifically commit us to detailed decisions at the September Council. We had hoped that it might be possible to avoid decisions then, ie before the 5 October Portuguese parliamentary elections, since any decision would be likely to come as a disappointment to the Portuguese. But now clear that others want to settle next week and we shall not want to obstruct this.

3. Sa Carneiro may suggest an EIB interest rate subsidised down to 1 or 2 percent. This is not usual Community or EIB practice. Maximum interest rate subsidies on EIB lending normally payable are 3 percent, which would reduce cost to Portuguese from about 10 percent to about 7 percent. 'Special loans' (ie on very soft terms) not acceptable to us because equivalent to concessionary aid and could set precedent for Spain.

4. At next week's Council we believe French will suggest to start with total package of 200 mua (115 mua EIB and 85 mua concessionary aid) and be prepared to go up to about 250 mua. The Germans will propose a total of 300 mua (175 mua EIB and 125 mua concessionary aid). We shall support the Germans in arguing for an EIB figure of 175 mua and will be prepared to accept 2 or 3 percent interest rate subsidy on this, costing up to 35 mua in concessionary aid. But we shall only be able to accept a small amount of concessionary aid on top of this, say 25 mua. Our final

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position remains to be decided. Unless we can persuade others to agree to an EIB figure of 175 mua or something close to it, we shall have great difficulty in agreeing to enough concessionary aid to achieve what we (though probably not Sa Carneiro) would regard as a respectable total.

5. Bilateral issues on which we want something from the Portuguese, and which it might be appropriate to mention, are the possibility of selling Rolls Royce engines for three Tristars being considered by Portuguese Airlines, and compensation for the ten British farms in the Alentejo which remain expropriated.

ECD(E)

11 September 1980

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CALL BY PORTUGUESE FOREIGN MINISTER ON LORD PRIVY SEAL - 10 SEPTEMBER 1980

Present

Sir Ian Gilmour
Mr FitzHerbert
Mr Gomersall
Miss McComb

Prof Freitas do Amaral
Sr Freitas Cruz, Portuguese
Ambassador
Sr Corte Real

1. The Lord Privy Seal welcomed Prof Freitas do Amaral, who responded that he was pleased to have this opportunity to discuss the question of pre-accession aid. Prof Freitas do Amaral began by stressing the importance to the Portuguese Government of having a decision on the amount of pre-accession aid at the September Council. He knew that this was likely to cause difficulties for the UK, but the timing had very important electoral and non-electoral implications in Portugal. The Government's policy towards EC accession had already been dealt a blow by President Giscard d'Estaing's statements and they now needed to be able to show some concrete results to the electorate. It would be no easier to have a decision after the general elections on 5 October, since, with the Presidential elections following shortly afterwards, there would be no easing of pressure on the Government. Quite apart from these political considerations, it was also desirable to have a decision in September in order that the projects envisaged could begin before the end of the year. Prof Freitas do Amaral said he believed that nearly all the other Community members were ready to take a decision on amounts next week.
2. Sir Ian Gilmour, after enquiring about the health of Dr Sa Carneiro went on to say that if the other members were indeed ready to reach a decision, the UK would not wish to stand in the way. But he had doubts about their readiness. The UK's difficulty was not so much when to take a decision but how much? The aid programme was under a great deal of pressure. We were not the only member state with doubts about

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the amount. He had thought that a decision for an amount much smaller than the Commission's proposals would be damaging for the Portuguese Government if it came before the elections. Prof Freitas do Amaral affirmed that a decision for smaller amount would indeed be very damaging but he hoped it would not turn out like that. He had several proposals to make on the amount of aid. The important thing was that the full amount should be retained. However, they could perhaps accept a different allocation of funds within that amount. He proposed that all profit-making projects could be financed by loans, and all non-profit making projects (mostly roads and schools) by grants. According to Portuguese calculations this would reduce the grant element to some 154 MUA. Could the Lord Privy Seal agree to this idea?

3. Sir Ian Gilmour acknowledged that an increased EIB proportion in the package loans would be easier for the UK. But the Portuguese could still not expect the full 350 MUA; other countries besides the UK would have difficulty in accepting this. He felt that the Commission had raised Portuguese hopes unduly, without proper consultation with member states. The UK would press for an increase in EIB lending, but would still have great difficulty with the grant element.

Prof Freitas do Amaral said that a bad decision would be more damaging than a deferred decision. Any total figure below 300 MUA would constitute a bad decision. The Portuguese could not understand the UK's argument that this was UK money; to them it is Community money. And after all, it was the Community which had suggested pre-accession aid. Sir Ian Gilmour acknowledged that our position was regrettable in view of both the strong Party and traditional links which exist. In answer to a query on loans, Mr FitzHerbert responded that the UK would be ready to support a higher figure for EID lending, but that it was for the Bank's Governors to take a final decision on this. Special loans by contrast were difficult for the UK because these would have to come from the aid programme.

4. Prof Freitas do Amaral said that this was all very disappointing news, but he was optimistic that some solution could be found. Sir Ian Gilmour said that the UK was not alone in finding the

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Commission's proposals difficult, but others might seek to hide behind us.

5. He then went on to ask about the Portuguese election campaign. Prof Freitas do Amaral remarked that the campaign was proving tough but he was confident. The opinion polls showed good results for the Government. In answer to a question by the Lord Privy Seal, he said that the Government was not supporting President Eanes' reelection because of his links with the Communists. He hoped this would prove a stumbling block for the Socialists also. The Government were delighted to see the candidature of Otelo de Carvalho, since he could be relied upon to split the Communist vote.

6. Sir Ian Gilmour thanked Prof Freitas do Amaral for their frank discussion. The Portuguese party left to catch their plane to Dublin.

Southern European Department

11 September 1980

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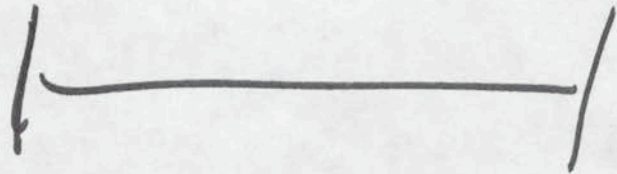
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10 DOWNING STREET

Prime Minister

The Portuguese Prime Minister
had wished to speak to you on
the telephone this afternoon from
Heathrow (he was on his way home
from Dublin). Unfortunately you
were at Harwell. He therefore
intends to ring you at 11.30 am
to-morrow.

This preoccupation will
undoubtedly be with pre-accession
aid for his country.

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Foreign and Commonwealth Office

London SW1A 2AH

11 September 1980

Dear Michael,

PRE-ACCESSION AID TO PORTUGAL

I enclose as requested a brief for the Prime Minister's telephone conversation tomorrow morning with the Portuguese Prime Minister.

*Yours ever
S J Gomersall.*

S J Gomersall
Private Secretary to the
Lord Privy Seal

M O'D B Alexander Esq
10 Downing Street

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11 SEP 1980

