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Prime Minister

The Foreign and Defence Secretaries are agreed that when the Portuguese Foreign Minister is here next week we should offer a £ 5 million grant towards the Portuguese frigate programme, tied to the purchase of initial equipment.

FCS/83/174

SECRETARY OF STATE FOR DEFENCE

A.S.C. 6/9

Portuguese Frigate Programme

1. Thank you for your minute of 9 September. I welcome the suggestion you have made about how assistance might be given to the Portuguese frigate programme. You will be aware of the importance we have attached to appearing as forthcoming as possible to the Portuguese. I very much share the Prime Minister's view that we ought to help Portugal, both for its own sake, and in the interests of NATO and the European Community.

2. I fully understand and accept the argument that, since you have no financial military aid programme, there is a good case for not using Defence Votes to assist the Portuguese in the frigate programme. As your officials are aware, there will be no money available in the FCO budget in the foreseeable future for this purpose. I am therefore grateful to you for agreeing to make available to us the £5 million when required by PESC adjustment and I agree that the grant should be made from FCO votes. I assume that the MOD will be prepared to administer the aid on our behalf without additional charge.

3. You say that a 22% discount by Rolls Royce and a waiver of the R & D levy could be worth an extra £5.7 million to the Portuguese. Welcome though this is, I believe that the main interest of the Portuguese at present is likely to be in our help over the provision of Lynx helicopters. As you point out, however, there is no need at this stage to be specific about equipment options.

/4. I agree

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4. I agree that our officials should now prepare a suitable brief covering the offer of £5 million assistance for our joint use in the meetings with Dr Gama next week.

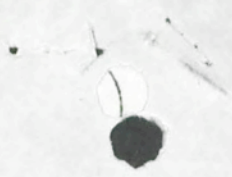
5. I am copying this minute to the Prime Minister, the Secretary of State for Trade and Industry, the Chief Secretary and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
16 September 1983

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MO 26/9/18

*Wait reply from FCS.*FOREIGN AND COMMONWEALTH SECRETARY*A.J.C. 12/19.*PORTUGUESE FRIGATE PROGRAMME

There was an exchange of views earlier in the year about the question of a subsidy to the Portuguese frigates programme. We need to decide on the line we should take on the issue during Dr Gama's visit later this month and I have therefore reviewed the part that MOD might play.

2. As you know, we have no military aid programme and there is a well-established principle that the Defence Budget should not be used for financial military aid. Any change of policy in favour of Portugal could risk creating an unfortunate precedent and lead to expectations from other NATO countries, such as Turkey, that we were now prepared to grant similar aid to them. In addition, UK companies might be led to expect financial subventions in support of their various sales activities. On the other hand, I acknowledge that there are foreign policy grounds for making a contribution and I recognise that a decision to stand aside from a collective NATO frigate project for Portugal could have unfortunate repercussions for our position within the Alliance and therefore for our defence interests.

3. On balance, I support the payment of a grant of £5M towards the frigate programme tied to the purchase of UK equipment. At this stage we do not need to be specific about the equipment options; the acquisition of Rolls Royce engines and Lynx helicopters are the major items which have been mentioned in the past but the re-appraisal of the precise nature of the frigate programme which



the Portuguese seem to be undertaking at present may yield other possibilities. Because of the possible implications for our standing in the Alliance if we were not to participate in this programme, I would be prepared to find the £5M required, provided that you can agree that the grant should be made from FCO votes. We would "reimburse" your costs by a PESC adjustment. Bearing the cost on your votes would be consistent with packages of military equipment funded by your Department in the past, for example, to Belize and Zambia on essentially foreign policy grounds, would help to emphasize the exceptional nature of the gift, and would avoid breaching the principle that the Defence Budget is not used for financial military aid. A subvention from defence votes would of course involve an opportunity cost to our own defence programme. But I am prepared to accept this.

4. A grant on these lines might also be combined with the offer by Rolls Royce of a discount of 22% (worth some £5M) on the purchase of engines for the three frigates and a waiver of the R & D levy, which could be worth as much as £ $\frac{3}{4}$ M. Concessions on the engine price would, of course, be a matter for the firm's commercial judgement and there could be no question of defence votes bearing the costs. We would also hope that ECGD would grant advantageous credit terms when the package is known.

5. If an approach on these lines is acceptable to you, I suggest that our officials should prepare a brief for our joint use in the forthcoming meetings with Dr Gama. Such a package should constitute a positive reaction on the part of HMG; the details of the equipment purchases to which the grant should be tied, and the precise phasing of payment, are, of course, matters that can be settled in much slower time and once the way ahead on the project is clear.

5. I am copying this minute to the Prime Minister, the Secretary of State for Trade and Industry, the Chief Secretary and Sir Robert Armstrong.

[Handwritten signature]
Ministry of Defence

9th September 1983

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10 DOWNING STREET

From the Private Secretary

14 February, 1983

Frigates for Portugal

The Prime Minister has seen John Gieve's letter of 7 February conveying the view of the Chief Secretary that the arguments for financial aid in support of the Portuguese frigate programme do not justify an addition to existing expenditure programmes.

The Prime Minister has commented that this year's defence programme is underspent. She would accordingly be grateful for Mr. Heseltine's further views on whether, in the light of her wish that this matter should be re-examined (my letter of 31 January), financial assistance can be provided from the defence programme.

I am copying this letter to John Gieve (Chief Secretary's Office) and Brian Fall (Foreign and Commonwealth Office).

A. J. COLES

R. Mottram, Esq.,
Ministry of Defence

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PRIME MINISTER

FRIGATES FOR PORTUGAL

You will recall that the Foreign and Defence Secretaries decided earlier that they would have to return a negative answer to the Portuguese request for assistance in connection with their frigates programme. You asked that the matter should be re-examined in view of the importance of our relations with Portugal and Portugal's relations with NATO. I wrote accordingly on 31 January.

I now attach a letter setting out the Chief Secretary's views, stating that he cannot make new money available and that the Foreign and Defence Secretaries would have to meet the Portuguese request from within their existing programmes. This takes us full circle since Mr Pym and Mr Nott have said before that they cannot do this. 

How would you like to proceed? Do you want to indicate to the Chief Secretary that this matter is important enough to justify new money?

*But defence is
underspent -*

mf

A.S.C.

10 February, 1983

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Treasury Chambers, Parliament Street, SW1P 3AG

pps.

A J Coles Esq
Private Secretary
10 Downing Street
London SW1

7 February 1983

Dear Sir,

FRIGATES FOR PORTUGAL

The Chief Secretary has seen your letter of 31 January to Brian Fall.

He notes that in addition to the £5 million subsidy now proposed, the Government would directly or indirectly have to meet the cost of the Rolls Royce price subsidy, since Rolls Royce is 100 per cent Government owned; and that there must be a risk that the Portuguese will treat such an offer as an opening bid to be negotiated upwards.

We can make
it plain that
it is not.
A.J.C. 11.
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If, on reconsideration, the Foreign Secretary or the Defence Secretary decides to meet the Portuguese request from within their existing programmes, he would be content. However, while he accepts the force of the political arguments here, he doubts whether they are as compelling as in some other cases like the Falklands, Yugoslavia, and Namibia, and does not think they justify an addition to programmes.

I am sending copies of this letter to Brian Fall and Richard Mottram.

Yours sincerely

J.S. Gieve

JOHN GIEVE
Private Secretary

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Treasury Chamber, Parliament Street, SW1P 3AG



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DEFENCE -

10 DOWNING STREET

From the Private Secretary

31 January 1983

Frigates for Portugal

The Prime Minister has seen your letter of 24 January.

Mrs. Thatcher has noted that the Foreign and Commonwealth Secretary and the Defence Secretary are disposed to send a negative reply to the Portuguese requests for aid to fund the purchase of three helicopters and/or to subsidise the high fuel consumption of Rolls Royce engines for some frigates.

The Prime Minister has asked that this matter should be re-examined. She believes that we ought to help Portugal both for its own sake and in the interests of NATO and the European Economic Community. She regards the political considerations as much weightier than the £5 million which would be necessary to subsidise the package for Rolls Royce engines described on the final page of your letter.

I am copying this letter to Richard Mottram (Ministry of Defence) and also, in the light of the Prime Minister's views, to John Kerr (H.M. Treasury).

A. J. COLES

Brian Fall, Esq.,
Foreign and Commonwealth Office.

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B



Foreign and Commonwealth Office

London SW1A 2AH

24 January 1983

Prime Minister

*Content that the Portuguese
request should be turned
down?*

A.J.C. 25/1

*We must lead
a hand to Portugal
both for their sake and
for NATO's. The politics
more important than
£5m. - a lot more
to consider please
and*

Dear John,

Frigates for Portugal

You will recall that, when the then Portuguese Vice-Prime Minister called on the Prime Minister on 10 November, Professor Freitas do Amaral repeated the long-standing Portuguese request for military aid for the NATO programme to supply three frigates for the Portuguese Navy. The Foreign and Commonwealth Secretary has been in close consultation with the Defence Secretary about this request. He has concluded with great reluctance that it should be turned down. The Prime Minister may wish to be informed of the background to Mr Pym's conclusions and the options which were considered. The terms of this letter have been agreed with the Ministry of Defence.

Background

The programme for supplying modern frigates for the Portuguese Navy has been under discussion in NATO for several years. Because Portugal cannot afford the full cost of the frigates, the programme envisages that aid would be given by those countries supplying the equipment purchased by the Portuguese. Many members of the Alliance, notably the US, FRG and the Netherlands have promised substantial grants or credits. The UK, as a matter of longstanding policy, has no programme of financial military aid but was involved in the discussions from the start as a result of Rolls Royce's interest in providing main propulsion engines. (Although Rolls Royce had offered engines at less than cost price, their offer was not subsidised by any form of military aid or public funds, apart from ECGD credit cover on favourable terms.) HMG's involvement was therefore limited to providing good offices and encouraging the Portuguese to take up Rolls Royce's offer. However, last May the Portuguese made it known that they had opted for a combination of US and German engines, the Rolls Royce offer having lapsed earlier in the year.

/Portuguese

A J Coles Esq
Private Secretary
10 Downing Street



Portuguese Requests

Having turned down Rolls Royce's offer, the Portuguese subsequently showed an interest in buying Lynx helicopters for the frigates, provided they had financial assistance from the UK. Professor Freitas do Amaral left two proposals with Mr Nott during his call on 10 November. The first was for HMG to provide \$48 m. to fund the purchase of three helicopters and a number of other items. The second proposal was for the UK to subsidise what the Portuguese claimed to be the relatively high fuel consumption of Rolls Royce engines. This subsidy would amount to about \$52 m. over the 22 year life of the frigates. The Portuguese appeared to assume, in addition, that the lapsed Rolls Royce offer for engines would be revived.

Options

Since we have no military aid programme, the Ministry of Defence has from the beginning done nothing to raise Portuguese expectations of financial assistance (apart from ECGD credit cover, together with good offices and possible training assistance) in the provision of British equipment. In view of the political and operational support which the Portuguese gave us over the Falklands operation, however, Mr Pym felt that the possibility that we could go some way to meet the Portuguese request should be re-examined sympathetically. In addition to the political arguments in favour of helping our oldest ally, there appeared in Mr Pym's view, to be good defence reasons to do so: the programme is in the defence interest of NATO and of the UK in particular because of our major maritime role in the Eastern Atlantic. If we did nothing to help, the Portuguese could become unco-operative over our use of military facilities in Portugal.

Against this background, Mr Pym and Mr Nott carefully considered the possible options. It was agreed at the outset that any financial assistance to Portugal would require new funds to be made available since none were available in either the FCO or Defence Votes. In Mr Nott's view there was no defence case for financial support for the project: access to Portuguese facilities during the Falklands campaign had been useful, but no more than we might reasonably expect from an ally, and if it were now to be withdrawn (in response to the UK not making a grant to the frigate programme, for example) it would still be possible to sustain operations in the South Atlantic. Moreover, there were important considerations of precedent. Not only would other allies look to the UK for similar

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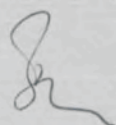


assistance, but UK defence equipment firms might expect their overseas sales to be similarly subsidised by MOD. In the circumstances he was not prepared to allow Defence Votes to be used for this purpose even if new funds were available. Mr Nott was however prepared to support an approach by Mr Pym to the Chancellor for additional funds, primarily on foreign policy grounds, in support of a specific package for Rolls Royce engines involving a Government subsidy of £5 m. and subject to a Portuguese acceptance of a new Rolls Royce offer (which the firm said would be rather less generous than the one they had previously turned down). Mr Pym considers however that it would not be practicable for a defence-related package of this kind to be administered through the FCO vote; nor would it be right for the FCO to ask for new funds on the FCO vote for such a purpose. In these circumstances he has reluctantly concluded that the Portuguese request must be turned down.

In the light of this conclusion, the next step must be to inform the Portuguese finally that, as a result of our long-standing policy that we have no military aid programme, we are unable to meet their request. Further delay in answering the Portuguese request is likely to raise false hopes. If, however, the Portuguese show an interest in buying equipment on a commercial basis, I understand that the MOD Defence Sales Fund may be able to help in the provision of training. This would be mentioned in the reply.

The Defence Secretary would propose to write to his Portuguese counterpart on these lines as soon as possible. The impact of this negative response may be slightly softened by the delivery to Portugal last month of a gift of surplus UK military equipment, including Ferret Scout Cars, tank ammunition and aircraft spares, worth about £700,000, and by the MOD's determination urgently to refurbish a number of armoured cars included in an earlier gift.

I am copying this letter to Richard Mottram in the Ministry of Defence.

Yours ever,


(B J P Fall)
Private Secretary

24 JAN 1963

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