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Foreign and Commonwealth Office

London SW1A 2AH

9 November 1982

See Tsk

Visit of Portugese Vice Prime Minister

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Flag A*

As requested I enclose a brief for the Prime Minister's use in her talks with Professor Freitas do Amaral on 10 November. You will be receiving a separate note from MOD on UK/Portugal Defence Relations which will cover the question of the supply of Lynx helicopters to the Portugese.

As is mentioned in paragraph 8 of the Steering Brief, we particularly hope that the Prime Minister will feel able to raise briefly the question of compensation for British farmers.

*Yours
R B Bone*

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

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10 DOWNING STREET

John

I put the attached in the PM's meeting Role with a note saying that the Deputy PM Portugal intends to raise the subject of aid with the Portuguese regime project and that this had been covered in the briefing for tomorrow's meeting.

Logie

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10 DOWNING STREET

Premi Minister

Profemas da Amoral will raise
the question of aid with the
Portugese Frigate Project. This
has been covered in the briefing
for your meeting with him tomorrow.

A. C. G.
Judy Clark

9.11.82

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VISIT OF THE PORTUGUESE VICE-PRIME MINISTER: 10 NOVEMBER 1982

Steering Brief

UK OBJECTIVES

1. a) Strengthen personal relations with the leaders of the Portuguese Government.
- b) Reaffirm support for Portuguese accession to the EC.
- c) Explain that response to Portuguese request for help over NATO frigates programme is still under consideration.

LIKELY PORTUGUESE OBJECTIVES

2. a) Secure British commitment to supply Lynx helicopters for NATO frigates programme.
- b) Obtain publicity in the context of Portuguese regional elections (due in December) and Freitas do Amaral's probable aspirations for the Presidency of Portugal (elections due in 1985).
- c) Obtain UK support for East Timor resolution.

BACKGROUND AND TACTICS

3. Professor Freitas do Amaral is also Minister of Defence, President of the Portuguese Centre Social Democrat Party (CDS) and President of the European Union of Christian Democrats. The call is at his request. He is seeing the Secretary of State for Defence earlier in the day at 9.00am and, in the evening, is Guest of Honour at the Anglo/Portuguese Society Annual Dinner: Mr Cecil Parkinson is the main British guest.



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4. Professor Freitas do Amaral last called on the Prime Minister in May 1980 when, as Foreign Minister, he accompanied the then Prime Minister, Dr Sa Carneiro, on a visit to London (Dr Sa Carneiro was unable to come to the meeting owing to an injury received in a car crash on the way to London. He was subsequently killed in an air crash in December 1980).

5. Professor Freitas do Amaral's party, the CDS, currently has differences with its partner in the Democratic Alliance (AD) coalition, the Social Democratic Party (PSD), under the leadership of the Prime Minister, Dr Pinto Balsemao. Professor Freitas do Amaral is keen to project himself on the international as well as domestic scene. Regional elections take place in December. General Elections must take place in 1984 at the latest but, with economic difficulties and considerable political confusion, they could well be brought forward.

6. Frank discussion should be possible. Professor Freitas do Amaral speaks good English. Although sometimes prickly, he is knowledgeable and aspires to be treated seriously by leaders of the main Western democracies. He has good links with the Conservative Party.

Agenda

7. Separate briefs are provided on:

- a) UK/Portugal Defence Relations (MOD brief)
- b) EC/Portugal
- c) East Timor

8. The Prime Minister should also press for settlement of claims for compensation for British farmers whose property was expropriated in 1975. Nine claims are outstanding. The matter was not raised during the Portuguese Prime Minister's visit to London last December and the Portuguese consequently sought to use this as evidence that we attached little importance to these claims.



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9. Professor Freitas do Amaral may express concern about Spain's entry to NATO (Portugal is worried about being overshadowed by Spain). Portuguese have said that they will not accept any Portuguese forces under Spanish command or vice-versa. Position is well understood in Alliance which should be able to find a satisfactory solution.

Bilateral Relations

10. Portugal and England have been allies without a break since 1373 (our oldest allies). Portugal was also a founder member of NATO. The Portuguese are inclined to look to the UK for support and advice on international matters and help with their own problems : their expectations are often greater than our ability to meet them, particularly when they require financial assistance.

11. Relations are generally excellent, visits in both directions are frequent. Dr Pinto Balsemao called on the Prime Minister in London in December 1981.

12. On the Falklands the Portuguese supported SCR 502, made public statements in support of the UK, and were helpful over military operations in allowing numerous overflights of Madeira airspace and the use of Lajes air base in the Azores (although in practice we made little use of this). They abstained on the latest General Assembly resolution.

International Affairs

13. The Portuguese retain considerable knowledge of and interest in Southern Africa, particularly the ex-Portuguese territories of Angola and Mozambique with which they are attempting to renew links. They have a residual interest in East Timor (taken over by Indonesia in 1975) and are embarking on a new diplomatic initiative aimed at reaching a face-saving settlement with Indonesia. Portugal has continuing responsibility for Macau and therefore is interested in UK/China/Hong Kong. The Chinese are generally cooperative over Macau and there are no particular current problems. In other areas, Portuguese knowledge of world affairs is limited and Portugal counts for little.


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Internal Affairs

14. Since 1979 the Portuguese Government have been formed by the Centre Right Democratic Alliance (AD) Coalition. This consists of the Social Democratic Party (PSD), the Centre Social Democrats (CDS) and the tiny monarchist party (PPM). Dr Pinto Balsemao (PSD) took over as Prime Minister in December 1980 after the death of Dr Sa Carneiro. General Eanes was reelected President for a second five-year term soon afterwards.

15. Balsemao is not a popular leader. There are major strains both within his party and with the CDS. But, as yet, he has no challenger. Although a much smaller party, the CDS is more coherent than either the PSD or the Socialists. There are rumours that Professor Freitas do Amaral is thinking of launching a new political grouping on the Right.

16. The Socialist Party are making little impact as an oppositon and show no signs of wanting to assume Government while the economic situation is so poor. The Socialist Party leader, Mario Soares, (as well as Professor Freitas do Amaral himself) aspires to be President in 1985.

17. Revisions of the Constitution recently agreed by Parliament, abolished the armed forces' Council of the Revolution, pruned the powers of the President and toned down much of the original constitution's Socialist-inspired language.

18. President Eanes has a low opinion of Portuguese party politicians. He is unhappy about the reduction of his powers; he may decide to lead a new party. As a modern Portuguese hero he has considerable popular appeal. But his habit of commenting publicly on the political situation infuriates Party leaders.

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19. The economy is in a bad state and prospects are bleak. Inflation is expected to reach 22% this year. The growth rate has fallen (1.7% GDP growth in 1981) and external debt is high and rising. There are substantial trade and current account deficits. Government action has so far been limited and largely ineffective. In the longer term, the Portuguese may be stimulated to make necessary structural changes by membership of the European Community.

PRIME MINISTERIAL VISIT

20. There is an outstanding invitation to the Prime Minister to visit Portugal soon (the Portuguese would like a visit in 1983) to which a temporising reply has been given. They have also invited the Queen to pay a State Visit; no definite answer has been returned.

Southern European Department
FOREIGN AND COMMONWEALTH OFFICE

9 November 1982

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VISIT BY THE PORTUGUESE VICE-PRIME MINISTER:10 NOVEMBER 1982UK/Portugal Defence RelationsLine to take

1. Value our defence relations with Portugal and use of Portuguese facilities. Particularly grateful for assistance during Falklands campaign.
2. Wish to see frigate project prosper. Disappointed Rolls Royce engines not chosen, but hope Lynx will be. Careful consideration is still being given to Portuguese request for UK Government grant. I cannot anticipate the outcome.
3. Important for Portugal to talk to Westlands about Lynx. MOD will assist in talks. Confident preferential credit terms (comparable to those ECGD offered on RR engines) and substantial training assistance can certainly be made available.
4. We should be able to help Portuguese defence by gifting surplus military equipment. Planning a new package including Ferret scout cars for delivery later this year, subject to Parliamentary approval. Estimated value more than £1M. Also looking at ways to remedy problems with Saladins already delivered.

Background

1. Relations between the armed forces of the two countries have been good. RN ship visits are frequent, and since 1980 British Army units have trained regularly at Santa Margarida. The RAF uses a number of Portuguese airfields, but this year ceased to contribute to operating costs for two of them because of reduced usage. The UK Military Training Assistance Scheme funds

Portuguese attendance on a range of UK courses. With the exception of BLOWPIPE, where orders of up to £30M are hoped for, immediate prospects of sales to Portugal are not good.

2. Portugal depends on aid from her more prosperous allies for the modernisation of her armed forces. Many members of the Alliance, notably the US, FRG and the Netherlands, have offered financial aid to the NATO project to help Portugal acquire 3 new frigates. The UK has made no commitment to provide comparable aid, but Portuguese Ministers have made it clear that this is expected. In September, Freitas do Amaral formally requested a grant of \$49M to buy 6 Lynx helicopters, and has yet to receive a reply.

3. The Portuguese have implied that the grant would be a quid pro quo for their assistance during the Falklands campaign. Their support, both politically and, for example, permitting overflight of Madeira, was valuable, but arguably no more than might be expected of an ally, notwithstanding that she has 50,000 nationals in Argentina. The MOD does not consider that Portuguese assistance was such as to warrant a departure from its well established policy of not having a financial military aid programme. Such a departure could well repercuss not only with other countries, in NATO and elsewhere, demanding aid, but also with UK firms, and especially Rolls Royce (for history of UK commercial interest in the project and of military aid, see Annex A) regarding aid as a means of subsidising defence sales. The risk of the Portuguese withholding access to their facilities if a grant is not made has been assessed. The consequences would be inconvenient, but manageable.

4. Following the FCS's letter dated 29 October to Mr Nott and the Defence Secretary's conclusion that the Defence Budget could not fund a Lynx purchase, but that the possibility of some FCO funding or call on the Central Contingency Reserve might be considered, the FCS wishes to discuss this further with Mr Nott and it is not therefore possible to reach an agreed view on a

grant in advance of Freitas do Amaral's visit. The Portuguese Minister will have to be told that the request is still receiving careful consideration, without being encouraged to expect a positive outcome.

MILITARY AID TO PORTUGAL

1. The UK's own main interest in the frigate project lay originally in the hope that Rolls Royce engines would be chosen, but in spite of very attractive commercial offers by the company plus favourable ECGD credit terms, the Portuguese have opted for a combination of US and German engines. However, the Portuguese are interested in acquiring Lynx helicopters (and certain other UK equipment) and MOD has offered to use its good offices in commercial negotiations between Portugal and Westlands. Westlands is keen to do business and recently offered to hold the price quoted in September 1981 until the end of this year. It should be possible to arrange favourable ECGD credit terms, and MOD and Westlands should be able to provide substantial assistance with Lynx training. Whether the Portuguese will choose Lynx when it becomes clear that there will be no UK grant to finance the purchase remains to be seen. The principal competitor is an Italian helicopter and Italy is not participating in the frigate aid programme.

2. UK military equipment aid to Portugal has been relatively modest in scope, being confined to two gifts of surplus equipment. The first was generally well received, but the Portuguese have been bitterly disappointed with the age and condition of the Saladin Armoured Cars which were the main component of the second gift. MOD is determined to do everything possible to improve these vehicles' condition. £360K has been allocated to refurbishing the 10 Saladins that remain to be delivered; ways to repair the 20 Saladins already in Portugal are being urgently examined. A third gift is being prepared, comprising Ferret Scout Cars, tank ammunition and aircraft spares, and subject to Parliamentary approval it is planned to deliver this by the end of the year. Its estimated value, including £360K for Saladin refurbishment is £1,061,000.



VISIT BY THE PORTUGUESE VICE PRIME MINISTER:

10 NOVEMBER 1982

EC/PORTUGAL

LINE TO TAKE

1. Excellent progress in accession negotiations. Pleased that able to resolve question of textiles régime satisfactorily, which involve as you will know, considerable concessions by UK.
2. See no major problems ahead in further negotiations. Glad we are able to be helpful to Portugal in current discussions, eg on question of VAT zero rating of foodstuffs.
3. Unlinking Want Portugal in EC as soon as possible. Quite understand that Portugal will not wish to be held back indefinitely if Spanish negotiations protracted. First thing is to get Portuguese accession negotiations completed. See no reason why this should not be done during 1983, even though complicated questions to resolve, particularly on agriculture and community finances. Can then see whether the Spanish negotiations show signs of moving to completion within



the 12/18 months which Portugal has said she is prepared to wait before acceding to the Community.

BACKGROUND

4. A substantial part of the Portuguese accession negotiations has now been completed. A Ministerial Conference with the Portuguese in the margins of the September Foreign Affairs Council finally settled the customs union chapter including the problem of a régime governing access by Portuguese textiles to the EC both pre- and post-accession. While the UK took a very tough line in the negotiations on textiles for the pre-accession period, we had always made it clear to the Portuguese that this would be a problem area (it was included in the Prime Minister's letter to Thorn on the inventory of problems). The Portuguese recognise that we made great efforts to meet their concerns and have now accepted that the régime is the best they could achieve.

5. Discussions are now under way in Brussels on social affairs and agriculture. Neither of these will present special problems for the UK, although they do for some of our partners (particularly the French and Germans) on freedom of movement. One point is also outstanding on taxation, where we have stoutly defended the Portuguese request to VAT zero-rate foodstuffs. No



final decision has yet been reached in the Community, but at the September Foreign Affairs Council all Member States but France could accept UK proposal.

6. Unlinking The Portuguese are not at present pressing their case to join the Community earlier than Spain. They have realised that by doing so, they would have to accept inter alia the unbalanced EC/Spain 1970 Agreement, which is even more rigorous than their own present trade régime with Spain (a matter of domestic controversy because of a surge in Spanish imports to Portugal). During recent discussions with British officials, the Minister of Finance (Salgueiro) who is responsible for Portuguese accession negotiations said that Portugal would like to have a Treaty completed in 1983 and would then be prepared to "wait for a few months" to see how the Spanish negotiations were going. Mr Freitas Do Amaral himself is reported as specifying 12/18 months (Lisbon tel 193 at Annex).

7. We wish to see both sets of negotiations move forward and to promote the ideas of unlinking in the near future would merely reduce the pressure on other Community members (especially France) to make this possible, as well as sending the wrong signal to the new Spanish Government. There is in any case no need to address the problem now.



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VISIT OF THE PORTUGUESE VICE PRIME MINISTER: 10 NOVEMBER 1982

EAST TIMOR

LINE TO TAKE

1. Agree draft resolution a good deal better in tone than those of previous years.
2. But it still presents a number of textual difficulties. For example, it still seems to equate self-determination with independence. Portuguese surely don't expect or want an independent East Timor under Fretilin?
3. Expect EC partners (except Greece) to abstain. If confirmed, we shall instruct our delegation to do likewise and to make an explanation of vote which recognises that sponsors have made a genuine effort to break away from the sterile character of past UN exchanges and expresses hope resolution will advance prospects of solution acceptable to all parties concerned.

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BACKGROUND

1. Indonesia took over the Portuguese colony of East Timor in 1975, following its effective abandonment by the Portuguese. The Portuguese accept that they face a fait accompli but they have not formally ceded sovereignty. We have not given even de facto recognition of Indonesia's absorption of East Timor - unlike the United States, Australia and some others. Following the invasion we supported Security Council resolutions condemning Indonesia. But we have abstained at the UN since 1976, in common with all of the Ten but Greece, since to vote for or against must offend either Portugal or Indonesia, both of whom are friends.

2. The Portuguese are co-sponsoring in the UN a draft resolution in an effort to find a face-saving compromise. The tone of the draft is less confrontational than that of resolutions on which we have abstained. But the Indonesians will dislike the references to Portugal as an administering power (one cannot anyway claim that this is accurate) and to the right of the people of East Timor to self-determination (the Indonesians claim that a valid act of self-determination has already taken place) and independence. We do not like the implication that self-determination must lead inexorably to independence. Nor does it square with Portuguese assurances that they only want a legitimation of the status quo (the alternative being a radical left wing independence movement (Fretilin) bred in the same stable as those now in power in Angola and Mozambique). The Portuguese have asked us to support 'their' resolution, arguing that others of the Ten are disposed to do so. Latest information from UKMIS New York suggests this is not in fact so and that the Ten's voting pattern is likely to be unchanged. The vote is not expected before the end of the week. The Portuguese will be pleased by our explanation of vote which meets a request made earlier by the Portuguese Ambassador.



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4. The Portuguese Vice Prime Minister may point to a parallel with the Falklands. But clear differences between East Timor and Falklands include:

- a) Portuguese colonisers in East Timor always distinct from local people; accounted for less than 1% of the population;
- b) The Portuguese had set decolonisation under way before invasion;
- c) No wish in East Timor to remain Portuguese territory;
- d) Indonesia invaded only after breakdown of law and order.

5. The only viable solution is for recognition that East Timor is now part of Indonesia. That requires direct discussion between Indonesia and Portugal. We hope the new draft resolution will make this more likely, but have to be sceptical.

Foreign and Commonwealth Office
9 November 1982

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