



MO 26/9/18

FOREIGN AND COMMONWEALTH SECRETARY

Thank you for your minute of the 29th October. ^{below} As you know the question of military aid to Portugal has been under consideration for some time. In considering this matter I am well aware of the value of our relationship with Portugal but I also have to bear in mind that, as a matter of policy, (and as is well known in the Alliance) the MOD does not have a military equipment aid budget.

2. I certainly would not seek to underplay the usefulness of the assistance which the Portuguese gave us during the Falklands campaign, for example permission to overfly Madeira. I believe, however, that this was no more than we were entitled to expect of an ally (notwithstanding her links with Latin America) when we were fighting in defence of the principles which the Alliance was established to uphold. You mention the possibility that, if we do nothing to help with the frigate/helicopter programme, the Portuguese may take steps to curtail assistance and co-operation in the future. While this would undoubtedly be inconvenient, I understand that it would not seriously impede our ability to support South Atlantic operations because most of our routes already avoid Portuguese territorial and controlled air space; and all of them could do so. For the Portuguese to deny all facilities for all purposes other than emergencies, including denial of staging for NATO exercises, would impose severe penalties and might involve our withdrawal from some exercises. But it is hard to see the Portuguese going this far in defiance of their direct obligations to NATO.



3. I accept that a grant would help UK/Portuguese relations; and would generally be seen as a positive signal to the Alliance. But it would be a departure from all precedent and would raise expectations of similar help to Greece and Turkey, which we would be hard pressed to deny, however much we tried to present a grant to Portugal as a special case.

4. I also have to consider the implications for the UK defence industry. The gift of two Lynx would be a direct subsidy to Westlands. Rolls Royce worked very hard, with our encouragement, to secure the order to supply the engines for the frigates, to the extent that their final offer was a loss-leader. They were unsuccessful, ostensibly because of the lower running costs of their competitors' engines but the lack of commitment by HMG to help with the Portuguese finance was also, no doubt, a factor. Rolls Royce would understandably look askance at an offer of such help with the Lynx. In any case I am far from certain that the Portuguese would feel particularly grateful for a gift of two helicopters. I understand that they are not satisfied with the German commitment to provide only half the funds for which the Portuguese are asking.

5. Westlands are keen to secure the order for the Lynx and I am sure that the Defence Sales Organisation will encourage them to offer the most competitive terms. Favourable ECGD credit terms should be available and MOD and the company should be able to arrange substantial assistance with training the Portuguese. I do not think we can go beyond this.

6. If the case for a gift is felt to be overwhelming I believe that it must be funded from outside the Defence Budget. There are precedents for this. The FCO funded aid for the Belize Defence Force worth about £6M. The package includes new equipment such as patrol boats and aircraft, and is not confined to equipment which is



surplus to our own needs. Another major gift was the £8M 'Kano' package for Zambia which was funded from the Central Contingency Reserve. In my judgement these examples are closely analogous to your proposal in the present case and I would prefer to proceed in this way rather than breaking our present policy.

7. I am copying this to the recipients of yours and to Patrick Jenkin.

J.W.

9th November 1982

Ministry of Defence