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Foreign and Commonwealth Office

London SW1A 2AH

6 April, 1984

Dear John

Prime Minister's Visit to Portugal: 17-19 April

/ As requested, I enclose a steering brief for this visit in advance of the main briefing. The latter will cover the political scene in Portugal in greater detail and will include notes on the various people whom the Prime Minister may meet. The enclosed advance copy has not been seen by Ministers here. I shall be showing a copy to the Foreign Secretary this weekend.

Yours sincerely

Chris Brammer

(C J Brammer)
Assistant Private Secretary

A J Coles Esq
10 Downing Street

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VISIT OF PRIME MINISTER TO PORTUGAL 17-19 APRIL 1984

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+ UK non-participation in Lisbon International Trade Fair.

VISIT OF THE PRIME MINISTER TO PORTUGAL: 17-19 APRIL 1984

STEERING BRIEF

Introduction and Background

1. This visit is the first by a British Prime Minister for over 70 years. It falls ten years after the Portuguese Revolution (on 25 April 1974).
2. It takes place at a crucial time in the European Community enlargement negotiations (we hope for completion by September); the Portuguese are anxious there should be no delay and look for warm support from the Prime Minister to match that offered by Chancellor Kohl.
3. The Portuguese, our oldest allies (since 1373), want a close relationship with us. They traditionally look to us first for help and advice. In practice we can give them little tangible support, much less than they would like, and good bilateral relations are maintained by visits and political gestures which the Portuguese much appreciate. During the Falklands campaign the Portuguese helped us operationally (by allowing overflights of Madeira) and with political support, despite large numbers of Portuguese living in Argentina.
4. Other recent high level visitors to Portugal include M Mauroy (19-21 January), Herr Kohl (28-29 March), Sig Craxi is due to visit on 2-4 May. The most recent bilateral visits by senior ministers have been Mr Pym's to Lisbon in 1982 and Sr Gama's (Foreign Minister) to London in September 1983. Balsemao, then Prime Minister, visited London in December 1981.
5. Portugal is one of the least developed Western European countries (only Turkey, of OECD countries, has a lower GNP/capita). But her strategic position and that of her island groups, the Azores and Madeira, are important to NATO.

6. The 1974 revolution ended nearly 50 years of dictatorship. If not especially oppressive, the regimes of Salazar and Caetano were bureaucratic and tried to outlaw political activity. They discouraged social non-conformity and stifled initiative. The economy was closely controlled through state enterprises and 4 dominant conglomerates. The overseas territories (Ultramar) provided markets for Portuguese manufactures and sources of raw materials.

7. The dictatorship was overturned without bloodshed by middle ranking officers discontented with the regime and protracted colonial wars. President Eanes, then a Colonel, played a leading role and was instrumental in preventing a swing towards communism. Mario Soares was among the Portuguese politicians who returned from exile abroad. The military withdrew from the political scene only gradually, the final stage coming in 1982 with the abolition of the Council of Revolution.

8. The immediate concern was to sweep away all traces of the old regime; there was little agreement on how to replace it. 57 parties were formed (most have disappeared). Among these only the Portuguese Communist Party had real early influence, a result of the discipline and organisation developed during their clandestine activity.

Current scene

9. Democratic Portugal is fairer and more humane: editorship is abolished. The Portuguese are now sensitive to any restrictions on individual liberty. Election turn-outs are close to 80%. Portugal is back into the main stream of international comity.

10. But the debate about the nature of Portugal's political system continues. Eanes has shared power uneasily with 15 governments (mostly coalitions) and almost as many Prime Ministers. The media constantly explore theoretical political scenarios. With the possible exception of the charismatic

Sa Carneiro, killed in a plane crash in 1980, nobody has convinced the electorate that he has a sense of direction for Portugal. Successive governments have not had the mandate or the courage to make difficult decisions. Eanes has stood aloof from this political squabbling, although his obvious disapproval has often contributed to it. But he remains a popular and respected figure.

11. Following the elections in April 1983, Soares' coalition government made a good start in tackling the serious problems of the balance of payments, rising overseas indebtedness and 25% inflation. The deflationary measures were exceptionally tough, satisfying the bankers and the IMF. But their full domestic impact is still to come, and since the autumn both the government's performance and image have been less convincing. 1984 will be a teting year. The government will be tempted to reflate the economy too soon, partly because Soares will probably wish to stand in the 1985 Presidential elections.

12. These elections will be important, and probably unsettling. The Constitution does not allow Eanes to stand again but he may sponsor another candidate. Soares, if he stands, would try to bring the office into the political mainstream. Portuguese politics will become more personalised as candidates declare themselves.

13. British objectives are:

- (a) to reinforce bilateral ties and highlight the current relevance of the ancient alliance;
- (b) to reaffirm British support for Portuguese accession to the EC;
- (c) to improve trade.

14. Portuguese objectives are likely to be:

- (a) to maintain Britain's goodwill;
- (b) to press for no delay in accession to the EC;
- (c) to seek greater British investment in Portugal;

- (d) to enlist Britain's participation in trilateral aid for Africa;
- (e) to enhance Soares' (the government's) reputation domestically.

Tactics

15. There will be no formal agenda for the talks with Soares: he prefers not to have one. But we have agreed with the Portuguese that the first session should cover bilateral and European Community matters and the second other international affairs. There will be ample opportunity to make the relatively few points of substance. Time will also allow for informal discussion. Soares, who sees himself as a world statesman, will favour broad-ranging exchanges on international issues, political ideas and economic management. It would be useful to know his views on the effects of the Government's austerity measures on the coalition; and the threat of the Communist party.

16. The speeches should lean heavily on an Anglo/Portuguese theme and our joint European future. The Portuguese will expect and welcome this. Soares was impressed by Chancellor Kohl's ideas about the long term future of Europe and his vision of political union.

17. Summary of Briefs

Brief No 1 Steering Brief with Statistical Annex.

Brief No 2(a) Portugal Internal: Political (including recent historical background and Personality Notes)

Ten months into its term of office new government's performance and image less convincing after initial determination to tackle difficult economic situation.

But recent evidence of proposed far reaching reforms suggests greater determination to get on with job. Worrying antipathy between Eanes and Soares. Run-up to Presidential elections a critical time.

Brief No 2(b) Portugal Internal: Economic

Last year was difficult. Courage needed to maintain momentum in face of rise of political unrest. Will need encouragement.

Brief No 3(a) Anglo/Portuguese Relations: Political

Generally excellent. But more progress needed on compensation for British farms. Aid programme to continue for further year. Queen to visit Portugal next February/March (NB not to be announced until the autumn).

Brief No 3(b) Anglo/Portuguese Relations: Commercial

(i) trade policy; (ii) trade balance; (iii) major projects; (iv) textiles and VRAS; (v) Export Credits; (vi) nuclear energy; (vii) micro-computers for schools.

Brief No 4 EC/Portugal

Recent outcome of European Council. Implications for Portugal of agreement on system of budgetary refunds. Reaffirm message in letter to Soares. Negotiations completed by 30 September. Accession by 1 January 1986.

Brief No 5(a) Southern Africa

Mozambique - Nkomati Accord important step forward. West must do it all can to support President Machel. Angola - Western interest to roll back Soviet influence and get Cubans out. What prospect of reconciliation between MPLA and UNITA? Taking of hostages damaged UNITA's image in Britain and the West.

Brief No 5(b) East Timor

Have not accepted Indonesian takeover. Would like to see amicable settlement. Prospects for talks?

Brief No 5(c) Macao

How do the Portuguese see the future?

Brief No 6 East/West Relations (including arms control)

Need for a consistent long term approach by West. Can describe our attitude towards dialogue with Soviet Union, emphasising continuing requirement for close co-ordination and consultation within Alliance.

Brief No 7 Portugal and NATO (including bilateral defence cooperation and sales)

Welcome use of Portuguese facilities. US bases negotiations successfully concluded. Portugal worried at effect of Spain's entry to NATO, particularly over command boundaries. £5m UK contribution to Portuguese frigate programme. Slight prospects for sale of Lynx Helicopters and possibly Off-shore Patrol Vessels.

Brief No 8(a) Other International Issues: Gibraltar

Contrive to seek earliest possible normalisation of relations between Spain and Gibraltar. (If necessary: bilateral problem. No mediation required).

Brief No 8(b) Other International Issues:

(i) Latin America

(ii) Argentina/Falklands

Soares has shown interest in acting as mediator with Argentina. Update on steps taken through Protecting Powers to normalise relations.

Brief No 8(c) Other International Issues: Iran/Iraq

UK wish to see early end to war and to prevent escalation. Support any realistic mediation efforts.

Brief No 8(d) Other International Issues: The Future of Hong Kong

(Defensive Only) Interest in Hong Kong understood given significance for Macao. Talks useful and constructive. Aiming to see ways in which stability and prosperity might be preserved. No overall timetable for talks. Grounds for confidence in satisfactory conclusion. In no-one's interest to see Hong Kong collapse.

Brief No 8(e) Other International Issues: Namibia

What are the prospects for a Namibia settlement?

Brief No 8(f) Other International Issues: World economy
(including Economic Summit)

London Economic Summit workmanlike occasion, building on foundations at Williamsburg. Stage set for next phase of international economic recovery.

Brief No 8(g) Other International Issues: Central America

We support Contadora peace initiative. US security concerns should be recognised. But we deplore mining of Nicaraguan parts.

PORTUGAL: MAIN STATISTICS

1. <u>Land Area and Population</u>		(UK)
Land Area (inc Azores and Madeira)	92,082km ²	(244,046km ²)
Population (1982)	10.06m	(56.0m)
Growth (1977-82)	0.6% pa	(1% pa)
2. <u>Employment</u> (1982)		
Total civilian	4.3m	(21.2m)
of which: agriculture, mining, forestry, fishing:	27.3%	(3.2%)
manufacturing industries	36.8%	(32.1%)
services	35.9%	(64.1%)
3. <u>Unemployment</u> (1983)	450,000/10%	(3.1m/13%)
4. <u>Gross National Product</u> (1982)	\$23 bn	(\$510.6 bn)
5. <u>Inflation</u> (December 1983)	32%	(5%)
6. <u>Foreign Trade</u> (1982)		
Current account	(minus) \$3.25bn	(+\$9.24 bn)
Gross Official Reserves	\$447m	(\$12,397m)
Principal Exports (1982)	Textiles & clothing 28%	
	Wood, cork, paper and pulp products 15.7%	
	Agricultural products 11.5%; Machinery 9.9%	
	Mineral products 8.4%	
Principal Imports (1982)	Mineral products 28.6%	
	Machinery & appliances 17.2%; agricultural products 14.3%;	



chemicals & related
products 10.8%;
transport equipment 8.7%

Main Import Sources (1982)

(UK)

FRG	11.8%	(FRG, 13.0%)
US	10.8%	(US, 11.7%)
France	8.6%	(France, 7.5%)
UK	7.6%	

7. <u>Trade with UK (£m)</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Exports to UK	334.4	333.4	379.9	476.0
Imports from UK	390.0	368.1	430.7	397.0
Position on UK Export League Table (of 197)	25	27	25	27

Foreign and Commonwealth Office
April 1984

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VISIT OF THE PRIME MINISTER TO PORTUGAL: 17-19 APRIL 1984

ARGENTINA/FALKLANDS

POINTS TO MAKE

1. We have now responded to the Argentine Government's reply to our proposals for talks about the normalisation of bilateral relations. We have made public the fact of our response, but not its content. Continue to believe that patient and discreet diplomacy through the Protecting Powers is best approach to normalisation of relations.
2. Our response reflects the realism which we believe should be the basis of the work for improved relations between Britain and Argentina.
3. Hope the Argentine Government will agree that our gradual, step-by-step approach is most realistic way forward. Foreign Minister Caputo himself has indicated publicly that sovereignty could be left aside. We have stated consistently from the outset that sovereignty cannot be discussed.
4. We shall continue to keep you informed of developments. Most helpful if you could reaffirm to Argentine Government the need to concentrate on areas where early progress should be feasible, thereby leading to the re-establishment of a climate of confidence. Commercial relations the natural starting point.

[If raised]

SUGGESTIONS THAT HEADS OF GOVERNMENT OF THIRD NATIONS COULD ACT AS INTERMEDIARIES

5. We are of course grateful for the expressions of willingness we have had from Portugal and other friendly governments to assist in the development of better bilateral relations between Britain and Argentina. But we continue to regard the Protecting Powers as the correct channels for any communication between ourselves and the Argentines.

[If raised]

LIFTING OF FALKLAND ISLANDS PROTECTION ZONE

6. Do not envisage keeping the Protection Zone indefinitely, but cannot be rushed into lifting it prematurely. Need to be fully satisfied that Argentina renounces the future use of force. Formal declaration of cessation of hostilities would be helpful, though it would not necessarily commit Britain to any particular step in return. We have noted several statements by the Argentine Government that they intend to pursue their claim by peaceful means.

[If raised]

MILITARY DISPOSITIONS ON THE FALKLAND ISLANDS

7. Regret that President Alfonsin should have condemned as a serious threat to the security of the whole region our military dispositions on the Islands. We have made these to ensure that the tragic events of 1982 do not recur. They have no wider purpose.

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[If raised]

ALLEGATIONS OF A "NUCLEAR FORTRESS" ON THE ISLANDS

8. It is nonsense to speak of a "nuclear fortress" in the Islands. At the time of the conflict we made it quite clear that there was no question whatever of nuclear weapons being used. This remains the position. It should be self-evident that we have no interest in threatening Argentina with nuclear weapons.

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ARGENTINA/FALKLANDS

ESSENTIAL FACTS

- A 1. On 6 April the Swiss conveyed to Foreign Minister Caputo our response to the Argentine message of 17 February. His first
- B reactions are reported in Berne telegram no 113. Shortly afterwards, Dr Caputo left for the United States: he only had time to transmit to President Alfonsin the text of the speaking note. The Swiss do not expect any further development until after Dr Caputo's return to Buenos Aires on 13 April.
2. We have kept the Portugese generally informed of the steps we have taken to normalise our relations with Argentina. Dr Soares was given the details of the proposals we put to the Argentine Government on 26 January. He expressed gratitude for being taken into our confidence. When it became clear that the Argentines were giving our friends and Allies copies of their reply of 17 February, Lisbon was among the posts given discretion to make our translation of the Argentine reply available to their official contacts or to confirm its content on a strictly confidential basis.
3. We have not had any indication of current Portugese attitudes. The points to make cover the three items which the Argentines have sought to add to the agenda. It may also be appropriate to remind the Portugese that it is we who have made the running in seeking to restore bilateral relations with Argentina, and to dampen any exaggerated expectations the Portugese may have formed

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about the speed with which progress towards normalisation can be achieved.

4. In the past, Dr Soares has displayed an inclination to act in some way as intermediary in our relations with Argentina. Following his attendance at the inauguration of President Alfonsin in December, we learned that President Alfonsin had suggested supplying Dr Soares with some material, and possibly a message, to present to the Prime Minister when she visited Portugal. We instructed HM Ambassador in Lisbon to express our gratitude to Dr Soares for his interest in improving Anglo-Argentine relations, but to discourage him politely from pursuing his efforts further. On a subsequent occasion, HM Ambassador told him of the Prime Minister's statement during the Anglo-Italian Summit in Rome at the end of January that we did not envisage any role for Italian "mediation" between ourselves and Argentina. There remains, however, the possibility that Dr Soares may seek to revert to this matter. If so, it will be important to make clear to him our intention to continue to work directly through the Protecting Powers in any communication with the Argentine Government.

Falkland Islands Department
Foreign and Commonwealth Office
9 April 1984

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TEXT OF SPEAKING NOTE GIVEN TO THE ARGENTINE FOREIGN
MINISTER BY THE SWISS AMBASSADOR IN BUENOS AIRES ON
6 APRIL 1984

1. The British Government have asked the Swiss Protecting Power to convey to the Government of Argentina the British Government's view on the next steps towards the progressive normalisation of relations between the two countries.
2. The British Government have studied with care the message from the Argentine Foreign Minister, received through the Protecting Powers on 17 February, containing the Argentine Government's reply to the British proposals put to them by the Swiss Protecting Power on 26 January.
3. The British Government note that this reply characterizes the British initiative of 26 January as a 'positive step'. They welcome the assurance of the importance which the Argentine Government attach to the definitive normalisation of relations between the Argentine Republic and the United Kingdom, and the Argentine Foreign Minister's acknowledgement that the six items proposed by Britain for discussion in official talks merit examination in depth.
4. The British Government note that the Argentine Foreign Minister's message also looks forward to substantive negotiations about sovereignty. The British Government have made clear that sovereignty can not (not) be discussed, but that any discussions about the progressive normalisation of relations should be without prejudice to the positions of the United Kingdom and Argentina respectively on the question of sovereignty over the Falkland Islands, South Georgia and South Sandwich Islands. The British Government remain ready for talks with Argentina aimed at normalising relations between the two countries. The aim of such talks should be to establish a renewed climate of mutual confidence in which UK-Argentine relations can be developed in a practical and productive way. The question of sovereignty must, however, be excluded from the talks.

5. Dr Caputo's message proposes the addition of three other subjects to the Agenda. The British Government's view is that these are matters which fall within the United Kingdom's responsibilities for the security of the Falkland Islands and the well-being of their inhabitants. As such they do not consider them to be subjects which it would be appropriate to include in an agreed Agenda for talks having the purpose already described. The British Government hope that the Argentine Government will on reflection agree that to open up a discussion of the two countries' military dispositions in the region would not be helpful to talks which, as was indicated in the British proposals of 26 January, should deal with matters on which it is realistic to expect early progress.
6. The British Government would welcome an early meeting between British and Argentine officials on the basis set out in the preceding paragraphs. In the British view it would be acceptable to take up the good offices offered by the Protecting Powers to convoke the initial meeting between the two sides.
7. With regard to public presentation, the British Government intend to confirm, in reply to questions, that this message has been conveyed to the Argentine Government through the Swiss Protecting Power. But the British Government consider that it will continue to be in the interests of the two parties to keep the details of these exchanges confidential. They have noted that the Argentine Government have so far shared this view, and hope they will continue to do so.

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FM BERNE 071616Z

D FCO 071645Z

TO IMMEDIATE DESKBY FCO

TELNO 113 OF 07 APRIL

INFO DESKBY UKMIS NEW YORK WASHINGTON 071715Z

PRIORITY BRASILIA PORT STANLEY EC POSTS

MY TELNO 112: RELATIONS WITH ARGENTINA

SUMMARY

1. REPORT BY SWISS AMBASSADOR AT BUENOS AIRES OF CAPUTO'S REACTIONS TO BRITISH GOVERNMENT'S COMMUNICATION. CAPUTO DRAWS DISTINCTION BETWEEN DISCUSSIONS AND NEGOTIATIONS. HE WISHES TO PROCEED WITH DISCUSSIONS WITHOUT PRECONDITIONS OR FIXED AGENDA. ALFONSI'S REACTIONS NOT YET KNOWN. NO PUBLICITY TO BE GIVEN TO BRITISH COMMUNICATION PENDING FURTHER ADVICE.

DETAIL

2. STATE SECRETARY INVITED ME TO CALL THIS AFTERNOON (7 APRIL) IN ORDER TO HEAR KEUSCH'S REPORT ON HIS MEETING YESTERDAY WITH CAPUTO WHICH STARTED AT APPROXIMATELY 1645 LOCAL TIME AND LASTED ABOUT ONE HOUR. KEUSCH HANDED OVER THE TEXT IN YOUR TELNO 63 AND HAD WITH HIM BUT DID NOT HAND OVER THE BOUT DE PAPIER WHICH I GAVE TO BRUNNER BASED ON YOUR TELNO 62. HIS COVERING INSTRUCTIONS WILL HAVE BEEN BASED ON MY ORAL COMMUNICATION OF YOUR TELNO 61.

3. CAPUTO ASKED KEUSCH NOT TO INFORM THE PRESS OF DELIVERY OF YOUR MESSAGE UNTIL HE HEARD FURTHER FROM ELSA KELLY WHO WAS PRESENT AND WAS DUE TO DISCUSS DETAILED POINTS LATER WITH ALFONSI, TO WHOM CAPUTO ONLY HAD TIME TO TRANSMIT THE BASIC DOCUMENT BEFORE LEAVING TO CATCH HIS FLIGHT TO NEW YORK. BRUNNER WAS STILL WAITING TO HEAR FROM KEUSCH ABOUT ANY PUBLICITY ARRANGEMENTS AND SUGGESTED THAT MEANWHILE IT WOULD BE BETTER TO MAKE NO ANNOUNCEMENT.

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/4.

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4. KEUSCH REPORTED CAPUTO'S OBSERVATIONS ON HIS COMMUNICATION UNDER NINE HEADS:-

- I. THE BRITISH ANSWER WAS MAINLY A REPETITION OF FUNDAMENTAL POINTS SET OUT IN OUR PROPOSAL OF 26 JANUARY.
- II. CAPUTO SHARES FROM THE OPPOSITE SIDE MANY OF THE SAME DIFFICULTIES EXPRESSED IN OUR LATEST COMMUNICATION PARTICULARLY AS CONCERNS THE PROBLEM OF SOVEREIGNTY AFTER ALL THAT HAPPENED IN 1982. HE FEELS THAT THE ARGENTINE GOVERNMENT AND THE RADICAL PARTY HAVE GONE A VERY LONG WAY IN THE DIRECTION OF REALISM.
- III. HE UNDERSTOOD THE DIFFICULTIES ENCOUNTERED BY EACH SIDE IN ENDEAVOURING TO EXPLAIN ITS POSITION TO THE OTHER BUT AT THE SAME TIME FELT THAT EXCHANGING NOTES AT INTERVALS OF MORE THAN ONE MONTH WAS NOT A VERY HELPFUL METHOD OF PROCEEDING.
- IV. FOR CAPUTO THERE IS A CLEAR AND FUNDAMENTAL DISTINCTION BETWEEN DISCUSSION AND NEGOTIATION. WE MUST TOGETHER SEEK TO FIND WAYS FOR FUTURE NEGOTIATION.
- V. ARGENTINA SEEKS ONLY DISCUSSION FOR THE TIME BEING WITH THE PURPOSE OF ASCERTAINING IF WAYS FOR FUTURE NEGOTIATIONS CAN BE FOUND.
- VI. THESE DISCUSSIONS SHOULD BE FACE TO FACE WITHOUT CONDITIONS AND IN THIS CONTEXT (DANS CETTE OPTIQUE) THERE IS NO PLACE FOR PRIOR DECLARATIONS.
- VII. THE AGENDA FOR DISCUSSIONS SHOULD BE OPEN AND UNCONDITIONAL (SANS PREALABLES). IF SOVEREIGNTY OR ANY OTHER UNACCEPTABLE QUESTIONS WERE RAISED IT WOULD BE FOR EITHER SIDE TO BREAK THE DISCUSSIONS IF THEY FELT IT NECESSARY.
- VIII. TO ILLUSTRATE HIS DISTINCTION BETWEEN DISCUSSION AND NEGOTIATION CAPUTO GAVE AS AN EXAMPLE THAT BEFORE 1982 GREAT BRITAIN WAS NEGOTIATING WITH ARGENTINA. HE DOES NOT WISH TO COME BACK TO THAT POINT AND CONSIDERS THE TERM NEGOTIATION RISKS CREATING FALSE PERSPECTIVES AND THAT ITS USE SHOULD BE AVOIDED.
- IV. HE IS EAGER TO KNOW IF THE BRITISH GOVERNMENT HAS REALLY GRASPED HIS DISTINCTION BETWEEN DISCUSSION AND NEGOTIATION AND ACCEPTS THAT WHAT ARGENTINA REALLY (VERITABLEMENT) DESIRES IS A DISCUSSION.

5. KEUSCH OFFERED THE COMMENT THAT THIS LATEST DISCUSSION WITH CAPUTO HAD PROVIDED A MUCH CLEARER VIEW OF THE TRUE ARGENTINE POSITION THAN THAT CONTAINED IN THEIR COMMUNICATION OF 16 FEBRUARY.

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6. IN RESPONSE TO MY QUESTION BRUNNER SAID THAT THERE HAD BEEN NO DISCUSSION OF THE PLACE, FORM OR TIMING OF THE DISCUSSIONS. ONCE THE PRINCIPLE HAD BEEN ACCEPTED THIS QUESTION SHOULD BE EASY TO SETTLE. BRUNNER ADDED THAT AS HE SAW IT THE ARGENTINIANS WERE EAGER TO SIT DOWN IN AN INFORMAL WAY AND TALK BETWEEN RESPONSIBLE OFFICIALS ABOUT THE WHOLE PROBLEM OF THEIR RELATIONS WITH THE UNITED KINGDOM. HE SUGGESTED THE PRIMARY OBJECTIVE WOULD BE TO FIND OUT WHETHER AND HOW THIS COULD LEAD TO SOMETHING CONCRETE IN THE DIRECTION OF YOUR SIX POINTS. THE RENEWAL OF CONTACT WAS THE FIRST ESSENTIAL STEP AFTER WHICH IT WOULD BE POSSIBLE TO DISCOVER HOW THE QUESTIONS FOR DISCUSSION COULD BEST BE HANDLED.

7. IN REPLY TO MY FURTHER QUESTION BRUNNER SAID THAT THE REACTION OF ALFONSIN WAS SO FAR UNKNOWN. HE SAID IT WAS ALSO NOT YET CLEAR WHETHER A FURTHER MORE FORMAL REPLY TO YOUR LATEST MESSAGE SHOULD BE EXPECTED OR WHETHER THE REPORT HE HAD NOW GIVEN TO ME OF ITSELF CONSTITUTED A SUFFICIENT ANSWER. CLARIFICATION OF THESE POINTS WOULD AWAIT CONSULTATIONS BETWEEN ALFONSIN AND CAPUTO. KEUSCH DID NOT EXPECT ANY FURTHER DEVELOPMENT IN BUENOS AIRES UNTIL AFTER THE LATTER'S RETURN ON 13 APRIL.

8. WHEN I RETURNED TO THE QUESTION OF MODALITIES BRUNNER SAID THAT THERE WAS ALREADY A LARGE MEASURE OF AGREEMENT AND REFERRED TO OUR CONVERSATION REPORTED IN MY TELNO 103. IT DID NOT APPEAR FROM KEUSCH'S REPORT THAT THERE HAD BEEN ANY FURTHER DEVELOPMENT YESTERDAY.

POWELL-JONES

FALKLAND ISLANDS GENERAL
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VISIT OF THE PRIME MINISTER TO PORTUGAL: 17-19 APRIL 1984

WORLD ECONOMY (INCLUDING ECONOMIC SUMMIT)

Points to Make

LONDON ECONOMIC SUMMIT

1. Looking forward to relaxed, workmanlike Summit building on progress at Williamsburg. Focus of discussion will be policies needed to consolidate and broaden recovery and to strengthen the international trade and financial systems. Important to register realistic progress on rollback. Will also be discussion of international debt problem and the difficulties faced by developing countries.
2. As hosts, aware of need to keep non-participants informed of proceedings. Have already started this process in OECD.

WORLD ECONOMY

3. Recovery now well under way and becoming more broadly established. Growth in OECD countries in 1983 was better than expected. Growth should continue in 1984. Investment likely to contribute more to recovery in future. Effect of large US budget deficits a continuing source of concern. Have made our views known to the Americans.
4. Case-by-case approach has coped well with immediate problems of major debtors but need for continuing adjustment by debtor nations and more stable medium-term pattern of financial flows.
5. Welcome Portuguese decision to join IDA and hope Portugal will participate in future replenishments. Important to pass IDA 7 agreement quickly. [Have noted the outcome of the Council of Europe Parliamentary Assembly Conference in Lisbon on 'North/South: Europe's Role']

WORLD ECONOMY (INCLUDING ECONOMIC SUMMIT)

Essential Facts

1. OECD sees growth in 1984 picking up to 3.75%. Growth of 4-5% expected in US and Japan but only 1.5% in Europe. Consumer price inflation in OECD countries has fallen from over 12% in 1980 to 5.5% in year to January 1984.
2. US Federal Budget for fiscal year 1985 foresees budget deficit of \$180bn or 4.6% of GNP (1984: \$184bn = 5.2% of GNP). US interest rates have risen recently: three-month CD rate now over 10.5%; longer term rates about 12½%. US dollar climbed to record effective rate of 132.5 on 12 January. It has since fallen by over 5.5%. US merchandise trade deficit was \$69.4bn in 1983. The size of the US trade deficit suggests that some further depreciation of the dollar can be expected.
3. Official creditors agreed 16 reschedulings in 1983 totalling just over \$10bn of debt (cf 6 countries, \$639m in 1982), but rate of new bank lending fell considerably. World economic recovery has already benefitted debtor nations in terms of commodity prices and improved terms of trade. But much of the improvement in their current account balances has been achieved by import cut-backs. In the longer term higher levels of imports will be necessary to restore growth and increase debtors capacity to service their debts.
4. OECD North/South group on 22-23 March agreed cautious line on the informal consultations on Global Negotiations being conducted in New York and gave broad support to a recent US initiative seeking to reform UNCTAD procedures. Portugal has attended IDA7 negotiations as an observer and has announced its intention to finalise formal membership details. Its contribution would be 0.06% (as for IDA6). The Parliamentary Assembly of the Council of Europe held a conference on 'North/South: Europe's Role' in Lisbon on 9-11 April. [Reference to conference outcome].



LONDON ECONOMIC SUMMIT (7-9 June)

5. We can expect that Portugal will be interested in how preparations for the Summit are progressing. At the OECD Executive Committee in Special Session in January, the UK representative explained the approach to the Summit at a dinner where the Portuguese were present. This was greatly appreciated. Expect to repeat this at the next ECSS meeting on 26 April.

ECONOMIC RELATIONS DEPARTMENT
FOREIGN AND COMMONWEALTH OFFICE
10 April 1984

1) Mrs Ryder 2) CF

Cabinet Office are averaging and
will give us a list of names.

MR. BARCLAY

I think we have yet to arrange attendance at the
Prime Minister's briefing on 12 April for the visit to
Portugal.

JMB
9/4

Could you please invite:

Mr. Rifkind
Sir J. Bullard
Sir C. Tickell

and then either a Minister or a senior official from

MOD
DTI
D/Energy
ODA.

A.F.C.

9 April 1984

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Foreign and Commonwealth Office

London SW1A 2AH

Sir Antony Acland KCMG KCVO
Permanent Under-Secretary of State

8 February 1984

R P Hatfield Esq
CABINET OFFICE

Dear Richard,

A.S.C. 1/2
h.a.

PRIME MINISTER'S VISIT TO PORTUGAL:
17-19 APRIL

We spoke on the telephone about the briefing for the Prime Minister's visit to Portugal in April and you agreed that there was no objection to the Foreign and Commonwealth Office coordinating the briefs. This is simply to confirm that we shall do this.

Yours ever,
Michael Jay

M H Jay
Private Secretary

cc: ✓ A J Coles Esq, No 10 Downing St
R B Bone Esq, FCO