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Foreign and Commonwealth Office

London SW1A 2AH

12 April 1984

Prime Minister.

ALB  
4.

John Lehan

Prime Minister's Visit to Portugal: 17-18 April

The Embassy in Lisbon has learned that the Portuguese will raise with the Prime Minister the question of our non-participation in the Lisbon International Trade Fair to be held in May 1984.

/ I enclose eight copies of a self-explanatory brief on the subject.

Yours  
R B Bone

(R B Bone)  
Private Secretary

A J Coles Esq  
10 Downing Street

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AJC



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

UK PARTICIPATION IN LISBON INTERNATIONAL TRADE FAIR (FIL)

POINTS TO MAKE

1. Individual exporters decide whether or not to participate in international trade fairs. British Government Export Services will consider mounting a British stand if a minimum number of companies express interest. In 1983 and 1984 there were insufficient applications to warrant official involvement perhaps because of problems selling to Portugal. A small number of British manufacturers exhibit at the Lisbon fair in conjunction with their local agents.





## UK PARTICIPATION IN LISBON INTERNATIONAL TRADE FAIR (FIL)

## ESSENTIAL FACTS

1. UK firms traditionally participated in the Lisbon fair. Following difficulties encountered in 1982 in obtaining import licences for orders taken both at the fair and subsequently, few British companies expressed interest in participating in 1983. The Birmingham Chamber of Commerce who were acting as sponsors of a potential British group, contacted over 500 potential participants in the UK, but failed to obtain the minimum number (normally 10) required under Department of Trade rules for an officially sponsored stand. Department of Trade and Industry received no enquiries from British manufacturers for participation in 1984.
  
2. We understand that of our EC partners only the FRG will be represented this year. They have told us in confidence that they will be present only because Portugal mounted a substantial exhibit at the 1983 Hanover fair.
  
3. We cannot participate if British companies themselves are not interested. The increased costs of involvement in such events has required exporters to cut their cloth accordingly. Also, this fair traditionally caters for exporters of consumer goods and it has been difficult to sell consumer items in Portugal in recent years because of restrictions designed to protect local manufacturers.



Bi

Brief No. 3(b)(i)



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

TRADE POLICY

Points to make

1 Glad that long history of close trade relations between our countries continues. Pleased to see that Portugal recognizes value of maintaining an open trading policy in times of economic difficulty and is not following chimera of protectionism, which destroys the competitiveness of the industries it is designed to assist.





## TRADE POLICY

### Essential Facts

1 Trade relations with Portugal are at present very good. There are no major problems in either direction. The two aspects of Portuguese trade policy which have in the recent past given rise to difficulty have now improved:

(a) a reduction from 30 per cent to 10 per cent in the surcharge imposed on all imports has recently been announced; and

(b) the system of import licensing has been altered to reduce obstructions and delays.

2 These steps indicate that, despite the Portugal's formidable economic difficulties, she is not resorting to the false panacea of protectionism. She is indeed opening rather than closing her markets. Much of this is at the behest of the IMF, but the present Government is showing courage and determination in holding to its course.

European Commercial and Industrial Policy Division  
Department of Trade and Industry  
April 1984





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

TRADE BALANCE

POINTS TO MAKE

- 1 We regard Portugal as an important market and value our long established traditional trading links.
  
- 2 UK exports to Portugal have been somewhat disappointing over the last few years: UK firms are perhaps wary of doing business with Portugal in view of shortage of funds and some payments problems. This of course affects firms' attitude to investment in Portugal and collaborative ventures with Portuguese partners.
  
- 3 Climate for increasing bilateral trade is good: impending Portuguese accession to the EC and the subsequent dismantling of tariff barriers should act as a stimulus.
  
- 4 In order to cope with the increased competition which will result from EC membership Portugal will need to modernise much of her industry. The UK has much expertise and experience which would be of great benefit to Portugal, particularly in sectors such as energy conservation, nuclear power, food processing, micro-computers (particularly in education) and electronics and pollution control.



5 It may be useful for a Minister in our Trade and Industry Department to visit Portugal later in the year to discuss the possibilities. [Mr Baker has an Autumn visit in mind, as a follow-up to a visit to the UK last November by the Portuguese Minister for Industry and Energy, Professor Veiga Simao].

6 Hope my visit will focus UK business attention on the opportunities for increased co-operation and business with Portugal, although subsequent follow-up must largely be a matter of commercial judgement for individual companies concerned.





## TRADE BALANCE

## ESSENTIAL FACTS

	<u>£ million</u>				
	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
UK Exports to Portugal	305	390	368	429	397
UK Imports from Portugal	<u>338</u>	<u>334</u>	<u>333</u>	<u>380</u>	<u>476</u>
Trade Balance	-33	+56	+35	+49	-79

(Source: Overseas Trade Statistics of the United Kingdom)

Main UK Exports (in order of importance). Road vehicles, petroleum and petroleum products, power generating machinery, machinery for specialised industries, office machines and automatic data processing equipment, general industrial machinery, organic chemicals, gas, textile yarn, medicinal and pharmaceutical products.

Main UK Imports (in order of importance). Textile yarn, articles of clothing, wood and cork (and manufactures thereof), pulp and waste paper, footwear, beverages.

1983 Bilateral Trade

The major factors which contributed to the turn-around in the bilateral trade balance last year were large decreases in UK exports of road vehicles





and industrial machinery, together with significant increases in imports of textile yarn and clothing. In fact Portugal was one of only two West European countries (the other being Norway) to which there was a decline in UK exports last year. This situation was probably brought about by the poor state of the Portuguese economy and the low priority given to the market by many UK manufacturers.

#### UK Export Performance in Portugal

Portugal is a relatively small market for the UK - 27th in order of importance of our export markets in 1983 - accounting for only just over 1% of our exports to Western Europe. However, it should be mentioned that Portugal buys more British goods than, for example, Austria, Brazil, China, Egypt, Greece and New Zealand.

The UK share of total Portuguese imports has fallen steadily from 10.1% in 1978 to 7.8% in 1982. Over this period West Germany and the USA have been Portugal's two leading suppliers, followed by the UK until 1982 when we were ousted from third place by France.

#### Portuguese Export Performance in the UK

Although the UK is Portugal's chief export market (taking 15% of total exports in 1982), she was only our 40th largest overseas supplier in 1983, accounting for just over 1% of our imports from Western Europe.





### UK Investment in Portugal

In 1983 the UK accounted for 11% (in value) of total foreign direct investment operations authorized by the Portuguese Foreign Investment Institute. The sum involved was around £9 million and we were equal second (with Switzerland) among foreign investors, behind France.

An encouraging development for 1984 is the recent decision by Austin Rover to increase their share-holding in Leyland Portugal from 20% to 95%. The value of the additional share-holding is around £1.25 million.

### Anglo/Portuguese Commercial and Industrial Cooperation

The idea of examining areas of potential Anglo/Portuguese collaboration arose - at the instigation of the Portuguese - out of Ministerial discussions early in 1982. A joint programme of discussions was subsequently agreed with the Portuguese authorities and in the Autumn of 1982 the UK sent expert teams to Portugal to survey the three selected sectors; electronics, automotive components and food processing.

Although there appeared to be some potential in food processing the results were generally disappointing, and no commercially attractive opportunities for joint venture operations were readily identifiable in the eyes of UK firms canvassed. Clearly by "co-operation" the Portuguese were looking for UK investment, and Portugal, plainly, is not a very attractive investment prospect at present.





BRIEF NO 3(b)(iii)

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

MAJOR PROJECTS

POINTS TO MAKE

System X

1 Glad to hear Dr Junqueiro has accepted Mr Baker's invitation to the UK. This is a valuable opportunity to see System X in operation and discuss its features with British Telecom.

2. Plessey have the full support of HMG and BT; the latter have shown their belief in System X by choosing it for the UK domestic market.





3 (Defensive only) Any recriminations against Plessey's withdrawal from their local subsidiary should be viewed as history. Their current efforts clearly show their earnestness and good intentions towards maintaining links with Portugal.

Lisbon Sewerage Project

Stress the expertise and experience of the UK consortium (Lilley Construction, French Kier Construction, Simon-Hartley, Watson Hawksley, Lloyds Bank) which has our every confidence in undertaking a project of this nature.

International Computers Limited (ICL) : Bid for VAT contract

1 HMG supports ICL in this bid.

2 HM Customs have 10 years experience of operating a computerised VAT system on ICL computers. HMG has offered to make this experience available to the Portuguese Government if ICL is selected as supplier.





3 HMG, as a major customer, is impressed with progress and very pleased with ICL's performance on major contracts, eg computerisation of income tax. [ICL is now well past its earlier troubles under vigorous new management.]





Brief No 3(b)(iii)

## MAJOR PROJECTS

## ESSENTIAL FACTS

System X

1 System X is one of five systems for establishment of digital telephone switching capability which have been commended to Portuguese Ministers by a technical evaluation committee as suiting Portuguese requirements. The main competitors for this £50m project are ITT, Siemens, Ericssons and CIT Alcatel, each of whom has an advantage over Plessey, having local manufacture. (Plessey Telecommunications Limited (PTL) sold out their Portuguese subsidiary amid some acrimony in 1980). Competition has been fierce, with allegations by Plessey's competitors about British Telecom's lack of commitment to System X.





2 Dr Raul Junqueiro, Portuguese Minister of State for Telecommunications, has accepted Mr Baker's invitation to visit the UK to see System X in operation and hold talks with manufacturers and BT. It is hoped this will allay any doubts the Portuguese may have concerning the viability of System X.

3 As regards the sale of their subsidiary, Plessey are keen for this to be viewed as past history and more attention given to their present efforts to secure the contract (including a free rural exchange currently on trial with the Portuguese P and T). In this they have the full support of BT and HMG.

#### Lisbon Sewerage Project

1 A UK consortium consisting of Lilley Construction, French Kier Construction, Simon-Hartley, Watson Hawksley and Lloyds Bank operating in Joint-Venture with a Portuguese contractor have submitted a bid for the Lisbon Sewerage Project in response to a tender call by the Lisbon Municipality.

2 The project covers the design and construction of a system for the treatment and final disposal of sewage for the City of Lisbon. The UK bid has covered a range of schemes with different technical solutions with price levels varying between £40m and £65m, and these prices are fully competitive with competing bids.





3 It is hoped that the successful tenderer will also be well placed to obtain additional contracts for similar treatment systems in other nearby towns. Adjudication of the tenders is expected in April 1984.

International Computers Limited (ICL) : Bid for VAT contract

1 ICL has tendered to the Ministry of Finance to supply a computer system worth £1m for the administration of VAT, which Portugal has to introduce in preparation for accession to the EC. The Ministry's specification is closely modelled on the UK system (which runs on ICL computers), which has impressed the Portuguese.

2 HM Customs and Excise are willing to allow the software they have developed to be licenced to the Portuguese through ICL if it is appropriate. They have also offered to provide technical assistance, and to make one or two key personnel available for short periods to advise. The Portuguese have welcomed this offer but have so far made no move to take it up. They are currently evaluating the tenders.





3 A number of US and European companies are in the competition, but IBM are believed to be the most strongly placed. It is very unlikely that any of the equipment offered by ICL's competitors would be UK-made. (ICL is the only major UK-owned computer manufacturer).

Lisbon Metro Extension [For background only - no specific points to make]

A British consortium consisting of GEC, Mowlem, Laing, Freeman Fox and Kennedy & Donkin are pursuing a £150m project (potential UK content £60m) to construct a Southern extension to the Lisbon Metro. Competition comes from France and West Germany who both have close links with the Metropolitano. The British group has submitted proposals to undertake a study of this work to the Metropolitano but the Portuguese Government does not regard this as a high priority project. This is therefore a long-term opportunity.

Projects and Export Policy and Information Technology Divisions  
Department of Trade and Industry  
April 1984





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

TEXTILES AND VRAS

POINTS TO MAKE

- 1) Understand the importance of textile export earnings for Portugal's economic recovery and, indeed, dealt sympathetically with Portuguese requests last year in the Community context.
- 2) Norman Tebbit told Snr. Barreto, the Portuguese Minister of Commerce, at their meeting last year that whilst the UK is already Portugal's largest market for textiles the UK domestic textile industry has been going through a very tough period. Since 1979 1 job in 3 has been lost, over 700 firms have closed, production down 25%.
- 3) Welcome Portuguese co-operation in operating the VRA. But VRA levels agreed for 1984 and 1985 were difficult for us to defend to our industry which regarded them as unduly generous, so we must look for responsible Portuguese approach to their management.





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

## TEXTILES AND VRAS

### ESSENTIAL FACTS

1) The UK textile and clothing industries continue to face difficulties - over 250,000 jobs lost since 1979, over 700 firms have closed and production has decreased by more than 25%. After Hong Kong, Portugal is the UK's second largest supplier of low-cost textiles and clothing. The industry holds an important position in the Portuguese economy accounting for around 30% of exports and employment. 50% of its exports to the EC are destined for the UK market.

2) Portuguese exports of textiles and clothing to the Community are restrained under voluntary restraint arrangements (VRAS) which have existed since the mid-seventies. The new VRA, to run until the end of 1985, was agreed last year between the EC and Portugal and provides generous growth rates as does the already agreed post-accession arrangement which is expected to run for the following four years.

3) Norman Tebbit reminded Snr Barreto, Portuguese Minister of Commerce of this when they met in November last year to discuss





Portuguese requests for even greater access this year and their reasons for their consistent overshipments above agreed levels. With difficulty the UK made a number of concessions in order to secure the extension of the agreements for 1984 and 1985. This now represents the maximum the UK can give. We have great difficulty in defending the agreement to our industry and therefore expect the Portuguese to honour the agreed levels. The EC Commission will meet the Portuguese in April to discuss 1983 overshipments.

4) In 1983 Portugal enjoyed a surplus of £196.5m in its overall trade in textiles and clothing with the UK (UK imports: £220.4m; UK exports: £23.9m).

Chemicals and Textiles Division/1B  
Department of Trade and Industry

4 April 1984



BRIEF NO. 3(b)(v)

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

EXPORT CREDITS

POINTS TO MAKE (IF SUBJECT IS RAISED)

ECGD has to operate under commercial terms of reference and while credit for the normal flow of exports to Portugal presents no problems, ECGD support for any exceptionally large commitment clearly needs to be given specific consideration, as is usual in such circumstances.



RESTRICTED

EXPORT CREDITS  
ESSENTIAL FACTS

BRIEF NO.  
3(b)(v)

ECGD's exposure on Portugal at present stands at nearly £250m, while the combined market limits for Sections 1 and 2 accounts currently total £350m. However £56m of cover is earmarked for a possible Airbus sale, leaving less than £50m available for other new business.

A very large new capital goods contract - such as the proposed UK participation in the nuclear power project - could not therefore be supported at present. However, given that this project is not imminent, there is a reasonable chance that Portugal's IMF - guided economic recovery will be sufficiently advanced in time for an offer of cover to be made when detailed financing proposals have to be formulated.

The Portuguese do not seem likely to press the issue of ECGD cover strongly at present: they are aware that ECGD's risk rating of Portugal is likely to have been affected by the prospect of paying claims to British Leyland totalling £5.7m arising from the financial difficulties of UTIC, a public sector vehicle assembly company in Portugal.

ECGD  
APRIL 1984



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

NUCLEAR POWER PROGRAMME

POINTS TO MAKE

1. Understand that Portugal is giving serious consideration to developing nuclear power programme.
2. Mr Giles Shaw's mission in March presented the UK's wide ranging capabilities in the nuclear field. UK industry is willing and able to work with the Portuguese in many different areas of nuclear technology.
3. Hope that full consideration will be given to any proposals put forward by British firms as a result of these initial contacts, including the Anglo Canadian proposals put forward by Wimpey's and NEI of the UK and AECL of Canada.
4. UK and Canadian firms have established excellent working relationships on building Candu reactors.
5. (Defensive on financing) Finance would need to be considered when we had a clearer idea of project cost. We would do our best to put forward a competitive proposal.





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Brief 3(b)(vi)

## NUCLEAR POWER PROGRAMME

### ESSENTIAL FACTS

1. The Portuguese are considering developing a nuclear programme and envisage putting such a programme to their Parliament this summer. At present they depend heavily on imported oil for their energy needs.
2. A decision on type of reactor is unlikely before 1985.
3. Mr Giles Shaw, PUSS, Department of Energy, headed a presentation in Lisbon on UK nuclear capabilities in March. The Portuguese seemed impressed by the breadth of UK nuclear expertise. In his bilateral with the Portuguese Energy Minister Mr Shaw offered to send an invitation to the junior Portuguese Energy Minister for a return visit. A formal invitation will be made shortly.
4. The Portuguese appear to be focussing on a French PWR as the front runner, though Candu is also a possibility; but they will wish to maximise local content. The French Prime Minister pressed hard for French involvement when he visited Lisbon in January, and we regard it as important to make a similar effort on behalf of UK industry.
5. The Canadians are pressing the UK at Ministerial level for substantial UK participation in and political support for the Candu proposal which would involve NEI and Wimpeys as well as Atomic Energy of Canada Ltd (AECL). The total value of the first station would be about £700 m. But since project is still some way off, ECGD cover is currently restricted, and local content is not yet known firm financing arrangements have not yet been agreed.





6. The principal advantages of Candu are that it offers a proven reactor design; an established and successful working relationship between NEI and AECL; and it operates on indigenous low-grade uranium.

7. The Portuguese President, whom the Prime Minister will be meeting, will just have returned from a visit to Canada, where he will have been lobbied on the Candu proposal.

MEE Division  
Department of Trade and Industry  
AE Division  
Department of Energy

10 April 1984



COVERING CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

13 April 1984

*Joe John,*

*Duty Clerk*

*pl. put in folder when  
it arrives. A-t.C. 1/2.*

Prime Minister's visit to Portugal:  
Briefing

/ I enclose a copy of a self-explanatory letter which has been sent to us by the Department of Trade and Industry. We shall send you a revised version of Brief number 3(b)(vi) (Points to Make), incorporating the additional point, first thing on Monday 16 April.

(R B Bone)  
Private Secretary

A J Coles Esq  
10 Downing Street

COVERING CONFIDENTIAL



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Keith Harris Esq.,  
SED  
FCO  
Room W105  
Downing Street West

13 April, 1984

*Dear Keith*

PRIME MINISTER'S VISIT TO PORTUGAL

We spoke this morning about Mr Channon's meeting with Wimpey's on the nuclear power project.

I explained that Mr Channon had told Wimpey's that if the subject arose the Prime Minister would say that financing for the project would need to be considered at a later stage but we would do what we could.

I have therefore agreed with Mr Twyford of ECGD the following defensive addition to the points to make on this brief: -

"(Defensive on financing) Finance would need to be considered when we had a clearer idea of project cost. We would do our best to put forward a competitive proposal".

Background on the financing point is covered in paragraph 5 of the essential facts.

I should be grateful if you could pass this on to No: 10. I am copying this letter to David Vincent (Dept of Energy) and Don Twyford (ECGD).

*Yours,*

*John Alty*

J ALTY

V 5715





VISIT OF THE PRIME MINISTER TO PORTUGAL: 17-19 APRIL 1984  
MICRO-COMPUTERS IN SCHOOLS

Points to Make

- 1 Very happy to make available a number of\* sets of Sinclair Spectrum computers and associated equipment and some appropriate sample software.
  
- 2 Britain leads the rest of the world in the application of micro-computers in schools. Our expertise could be of great benefit if Portugal were to decide to develop her own programme.
  
- 3 The Sinclair computers in question are assembled in Portugal and this is a good example of existing Anglo-Portuguese cooperation in the micro-electronics sector. I would like to see this cooperation broadened and developed to cover the whole field of the use of micro-computers in education. To that end I suggest my Minister of State responsible for information technology at the Department of Trade and Industry, Mr Kenneth Baker, visits Portugal in the Autumn to discuss prospects for cooperation in more detail.

\* Final details to be confirmed later





BRIEF NO 3(b)(vii)

MICRO-COMPUTERS IN SCHOOLS

ESSENTIAL FACTS

During his visit to the United Kingdom in November 1983 the Portuguese Minister of Industry, Professor Veiga Simao, met our Minister of State for Industry and Information Technology, Mr Kenneth Baker, and expressed keen interest in the use of micro-computers in schools.

Since then two officials from the Portuguese Ministry of Education have paid a visit to the UK, under the COI/FCO Visits Scheme, during which this subject was covered.

Although at present Portugal has no funds to purchase equipment for schools there is a possibility of World Bank funding for a project.

Our Ambassador in Lisbon felt that it would be an imaginative gesture for the Prime Minister to donate some school computers during her stay in Portugal. This could be effective, both immediately - in terms of the visit - and in the longer time-scale in relation to sales prospects (both the USA and France are also showing interest in selling micro-computers to Portugal). We have accordingly spoken to Sinclair Research Ltd who have agreed to supply, free of charge, a number of\* sets of Spectrum ZX computers with supporting microdrives and software for the Prime Minister to give to the Portuguese.

Exports to Europe Branch  
Department of Trade and Industry  
April 1984

\* final details to be confirmed later.



Bviii



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

RECENT TRADE DEVELOPMENTS

Points to Make

- 1 Pleased that industrial items in the accession negotiations are largely resolved.
- 2 Concerned to hear that Portugal has raised two problems in recent weeks, potentially of great political sensitivity.
- 3 Recognise the importance (for all concerned) of satisfactory settlement on textiles in the run up to accession and subsequently. Would be very difficult to reopen settlement now which has been as difficult for us to present to our industry-as we can understand it has been for Portugal.
- 4 Concerned to learn Portugal is seeking an extension of quotas on imports of cars to Portugal. Major export interest for us in the Portuguese market. The main beneficiary would appear to be Renault. Politically unthinkable that we should accept continuing restraint for BL and Ford to the advantage of one of their competitors.
- 5 Hope that Portugal will not start unpicking areas of negotiation already settled.





## RECENT TRADE DEVELOPMENTS

### Essential Facts

Textiles After many years of negotiation Portugal and the Community have reached a detailed settlement on levels of Portuguese exports to Member States both pre accession and post accession, see brief no 3(b)(iv). The signals are that in meetings with the Commission this month Portugal will seek at least some pre accession flexibility.

Cars BL\* exports more to Portugal than to Spain. Unlike other major European Community manufacturers she has no local capacity. Ford also exports direct from the United Kingdom. Quota arrangements under the existing trade agreement between Portugal and the Community are due to run out at the end of this year. It has already been agreed that Portugal will not retain any import quotas for manufactures from the Community as from accession. She now wishes to extend the existing arrangements until 1989, but perhaps on a different pattern and at different levels. There will be a temptation to buy off other Member States by more generous arrangements for assembly kits which is of no interest to BL. France is of course likely to be particularly malleable because of the interests of Renault.

This proposal is at an early stage. It could perhaps be nipped in the bud by urging upon the Portuguese government

\* 1983  
To Portugal 4,334 units  
To Spain 2,739 units



the risks of reopening closed areas of the negotiations and of picking a particularly sensitive area to do so, especially given the traditional safeguard provision in accession treaties if serious difficulties arise during the transition period.

European Commercial and Industrial Policy Division  
Department of Trade and Industry

11 April 1984