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**PRIME MINISTER'S VISIT TO PORTUGAL**

1. FOLLOWING PROVIDES A BRIEF IMPRESSION OF THE COUNTRY THE PRIME MINISTER WILL BE VISITING.

**2. PORTUGAL: APRIL 1984.**

TEN YEARS AGO PORTUGAL STILL LIVED UNDER A DICTATORSHIP. ANTI-COLONIAL WARS DRAGGED ON AND OVER A QUARTER OF A MILLION YOUNG MEN WERE IN THE ARMED SERVICES IN AFRICA OUT OF A POPULATION OF 9 MILLION. A MILITARY STALEMATE HAD BEEN REACHED AND THIS LED YOUNG PROFESSIONAL OFFICERS TO MAKE THE REVOLUTION OF 25 APRIL 1974. MARXIST INFLUENCE SPREAD IN THE CHAOTIC AFTERMATH OF THE REVOLUTION. BY THE 'HOT SUMMER' OF 1975 PORTUGAL CAME VERY CLOSE TO EXCHANGING A RIGHT WING AUTHORITARIAN SYSTEM FOR A MARXIST AUTHORITARIAN SYSTEM UNDER BRIGADIER GONCALVES. THE ARMED SERVICES REACTED AGAINST THIS ON 25 NOVEMBER 1975. GENERAL EANES PLAYED A LEADING PART IN REASSERTING MILITARY DISCIPLINE, AND THE INNATE GOOD SENSE AND CONSERVATISM OF THE PORTUGUESE OPTED FIRMLY FOR A MOVE TOWARDS DEMOCRACY. THEY HAVE SINCE COME A LONG WAY IN THEIR SEARCH FOR DEMOCRATIC STABILITY.

**A SLOWLY EVOLVING DEMOCRATIC SYSTEM**

3. PARTY LABELS FIT LOOSELY AS A RESULT OF HAPHAZARD GROWTH AFTER 1974. THE STRONG PERSONAL APPEAL AND ENERGY OF FRANCISCO SA CARNEIRO (KILLED IN AN AIR CRASH IN DECEMBER 1980) DREW DIVERSE INDIVIDUALS INTO HIS SOCIAL DEMOCRATIC PARTY (PSD) AND INSPIRED THE FORMATION OF THE DEMOCRATIC ALLIANCE BETWEEN THE PSD AND THE (CONSERVATIVE) CENTRE DEMOCRATIC SOCIALISTS (CDS) WHICH CAME TO POWER IN 1980. THE PSD REMAINS A YEASTY, OFTEN UNRULY BUT SIGNIFICANT ELEMENT IN THE POLITICAL SCENERY. IDEOLOGICALLY MOST OF ITS MEMBERSHIP DIFFER LITTLE FROM MOST OF THE PRESENT SOCIALIST PARTY. THERE IS REALLY ONE PARTY TOO MANY IN THE SYSTEM BUT A MERGER IS NOT LIKELY AT PRESENT. NO ONE PARTY HAS YET SECURED A CLEAR MAJORITY AND PROPORTIONAL REPRESENTATION MAKES COALITION THE NORM.

4. DEMOCRATIC INSTITUTIONS ARE STILL EVOLVING. IN NOVEMBER 1982 THE DEMOCRATIC ALLIANCE EVENTUALLY ACHIEVED A LIMITED REVISION OF THE RADICAL 1976 CONSTITUTION. THE POWERS OF THE PRESIDENT WERE REDUCED IN FAVOUR OF THE GOVERNMENT, THE UNELECTED COUNCIL OF THE REVOLUTION WAS ABOLISHED, AND THE ARMED FORCES CAME UNDER CONTROL OF THE ELECTED MINISTER OF DEFENCE. BUT THE SYSTEM REMAINS PARTLY PRESIDENTIAL, AND SEEMS UNLIKELY TO ADVANCE QUICKLY TOWARDS FULL PARLIAMENTARY CONTROL. SINCE 1974 THERE HAVE BEEN FIFTEEN GOVERNMENTS AND GREATER CONTINUITY IN OFFICE IS BADLY NEEDED. MARIO SOARES'S FIRST PREMIERSHIP (1976-78) IS THE LONGEST SO FAR, FOLLOWED BY DR BALSEMAO (1980-82). THE NEXT POLITICAL HURDLE WILL BE THE PRESIDENTIAL ELECTIONS IN AUTUMN 1985 WHEN SOARES SEEMS ALMOST CERTAIN TO BE A CANDIDATE, AND LIKELY TO WIN.

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/DR MARIO.

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### DR MARIO SOARES

5. THE PRIME MINISTER'S HOST WILL HOPE FOR AN INVITATION TO VISIT BRITAIN. HE IS A SKILFUL INSTINCTIVE POLITICIAN. HE IS HOMELY, GENIAL AND MAKES THE PORTUGUESE FEEL COMFORTABLE AS HE SLIPS INTO AN ARMCHAIR. A QUITE DIFFERENT CHARACTER FROM THE ELECTRIC DR FRANCISCO SA CARNEIRO WHO AS PRIME MINISTER CAME TO SEE MRS THATCHER IN LONDON IN 1980. YET SOARES IS ALSO A MAN OF PERSONAL COURAGE, OFTEN DEMONSTRATED IN OPPOSITION TO DR SALAZAR'S DICTATORSHIP AND IN THE TEN YEARS SINCE 1974. HE IS DEEPLY ANTI-COMMUNIST, THE MORE SO BECAUSE OF A MOMENTARY FLIRTATION WITH THE PARTY AS A STUDENT. HE IS ALSO A CONVINCED EUROPEAN. ABROAD HE HAS USED HIS POSITION AS A VICE PRESIDENT OF THE SOCIALIST INTERNATIONAL TO INTEREST HIMSELF IN THE MIDDLE EAST AND LATIN AMERICA. AT HOME HE HAS MOVED IN EVER MORE REALISTIC DIRECTIONS, RE-OPENING SEVERAL NATIONALISED INDUSTRIES, INCLUDING BANKING, TO PRIVATE ENTERPRISE. PREFERS INTERNATIONAL ISSUES AND BROAD OUTLINES TO THE DETAIL OF ADMINISTRATION. HIS PERSONAL RELATIONS WITH PRESIDENT EANES ARE STRAINED.

### PRESIDENT EANES

6. AS HEAD OF STATE, FOR EIGHT OF THE TEN YEARS SINCE THE REVOLUTION HE HAS PROVIDED AN IMPORTANT STEADYING INFLUENCE OUTSIDE THE PARTY POLITICAL ARENA. HIS OWN POLITICAL POSITION IS ENIGMATIC - SOMETIMES DESCRIBED AS A CONSERVATIVE TO THE LEFT OF CENTRE. CANNOT STAND FOR A THIRD TERM AFTER 1985 WHEN HE WILL BE ONLY FIFTY. THE WAY IN WHICH HE FITS IN THEREAFTER WILL BE SIGNIFICANT. HE MIGHT CONCERN HIMSELF WITH AFRICA AND WAIT FOR THE 1990 PRESIDENTIAL ELECTIONS. AT ALL EVENTS HE SEEMS UNLIKELY TO FADE.

### THE ECONOMY

7. ECONOMICS ARE NOT SOARES'S FAVOURITE SUBJECT. BUT SO FAR HE HAS GIVEN STOUT SUPPORT TO HIS FINANCE MINISTER, ERNANI LOPES (AWAY DURING THE PRIME MINISTER'S VISIT) IN CONFRONTING THE ECONOMIC DIFFICULTIES THEY FOUND ON TAKING OFFICE. AN AUSTERITY PROGRAMME WAS IMMEDIATELY ADOPTED AND THE GOVERNMENT WENT TO THE IMF. THE POSITION HAS IMPROVED NOTICEABLY IN THE PAST NINE MONTHS. THE DEFICIT ON CURRENT ACCOUNT HAS BEEN REDUCED FROM DOLLARS US 3.2 BILLION AT THE END OF 1982 TO DOLLARS US 1.7 BILLION BY END 1983. EXPORTS HAVE INCREASED BY SOME 14 PER CENT AND IMPORTS ARE DOWN BUT MUCH REMAINS TO BE DONE.

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8. THE GOVERNMENT FACE DIFFICULT POLITICAL/ECONOMIC DECISIONS. TAKE OFF THE BRAKES TOO SOON AND RISING INFLATION/BORROWING COULD LEAD TO A WORSE SITUATION THAN THAT WHICH THEY INHERITED: MAINTAIN THE SQUEEZE TOO LONG, AND EVEN THE PATIENCE OF ORDINARY PORTUGUESE PEOPLE MAY CRACK. THE ECONOMIC INDICATORS ARE SLOWLY IMPROVING AND A LITTLE RELAXATION MAY BE POSSIBLE BY THE LATE SUMMER. BUT LITTLE THOUGHT HAS YET BEEN GIVEN TO THE NEXT PHASE - ENCOURAGEMENT OF FRESH, MORE PRODUCTIVE ACTIVITY. STRUCTURES IN MOST INDUSTRIES ARE ANTIQUATED - PARTICULARLY AGRICULTURE. MEMBERSHIP OF THE EUROPEAN COMMUNITY WILL BRING AN ENORMOUS ECONOMIC CHALLENGE - MAKE OR BREAK IN MANY CASES. PORTUGUESE INDUSTRY ON THE WHOLE BELIEVES THE CHALLENGE IS INEVITABLE AND THE BALANCE OF ADVANTAGE POSITIVE. THE POLITICIANS STILL SEE ENTRY AS A POLITICAL IMPERATIVE FOR PORTUGUESE DEMOCRACY.

### THREATS TO STABILITY

9. INOCULATIVE MEMORIES OF THE REVOLUTION ARE STILL AT WORK BUT DEMOCRATIC STABILITY SHOULD NOT BE TAKEN FOR GRANTED. THE CHIEF THREATS ARE:-

I. MISHANDLING OF THE ECONOMY LEADING TO SUCH GENERAL EXASPERATION THAT THE COMMUNIST PARTY WERE ENABLED TO ENTER A COALITION - THEIR PRESENT AIM. BUT UNLESS AND UNTIL THEIR AGEING, RIGIDLY PRO-SOVIET LEADERSHIP CHANGES, THEY RISK LOSING GROUND AMONG THE RISING GENERATION. THEY HAVE PROVED UNABLE TO FULFILL THEIR THREAT OF STRIKES LAST WINTER AND ARE NOW SEEKING TO EXTEND THEIR INFLUENCE IN LOCAL GOVERNMENT.

II. DETACHMENT OF POLITICIANS FROM THE MAJORITY OF THE PEOPLE. SQUABBLES BETWEEN POLITICAL FIGURES SEEM UNREAL TO FAMILIES IN THE POOREST COUNTRY IN EUROPE WHOSE PURCHASING POWER IS SHRINKING. THIS COULD LEAD TO HANKERING FOR THE RETURN OF A STRONG MAN. THERE ARE FEW SIGNS SO FAR - BUT MANY YOUNG PEOPLE ARE APATHETIC AND ONE CANNOT QUITE IGNORE THE MILITARY.

### ENCOURAGEMENT NEEDED

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10. PORTUGAL IS AN ATLANTIC COUNTRY AND DISCOURAGEMENT SEEPS INTO THE GENERAL OUTLOOK LIKE THE ATLANTIC DAMP. AT MOMENTS OF FRUSTRATION THE PORTUGUESE LOOK MUCH TO THEIR FRIENDS AND THE PRIME MINISTER'S VISIT COMES AS A FLASH OF DETERMINED ENCOURAGEMENT AT A TIME OF UNCERTAINTY IN PORTUGAL - ABOUT EUROPE: ABOUT THE ECONOMY: ABOUT THEIR CHANCES OF FINDING A SATISFACTORY POST-IMPERIAL ROLE. THEY LOOK PARTICULARLY FOR CLEAR SUPPORT OVER ACCESSION AND RECOGNISE THAT WE ARE FIGHTING A BATTLE OF DIRECT RELEVANCE TO PORTUGAL OVER THE COMMUNITY BUDGET.

11. THE FIRST EVER VISIT OF A SERVING BRITISH PRIME MINISTER GIVES ESPECIAL REASSURANCE AND WILL PLAY AN IMPORTANT PART IN PROJECTING AN ANCIENT ALLIANCE INTO THE MODERN WORLD. WE STAND TO GAIN A USEFUL LIKE-MINDED PARTNER IN THE COMMUNITY. BRITISH BUSINESSMEN SHOULD ALSO BE ENCOURAGED TO LOOK AGAIN AT NEW WAYS OF DOING BUSINESS IN A MARKET (£400M IN 1983) IN WHICH THEY HAVE BEEN SLIPPING. READY ACCESS TO PORTUGUESE DEFENCE FACILITIES REMAINS IMPORTANT TO US AS THE FALKLANDS CONFLICT SHOWED.

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PRIME MINISTER'S VISIT TO PORTUGAL  
LIMITED

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PS/MR RIFKIND  
PS/MR RAISON  
PS/PUS  
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SIR C TICKELL  
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MR JENKINS  
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BRIEF NO. 3(a)

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

ANGLO-PORTUGUESE RELATIONS: POLITICAL

POINTS TO MAKE

Visits [for use only with Soares and Eanes]

1. Pleased that Queen will be visiting Portugal next year. Extend invitation to Soares to visit the UK in the autumn.

Aid

2. Glad we were able to offer disaster relief. Pleased to be able to offer additional £80,000 in technical co-operation funds for 1984/85.

Compensation

3. Welcome progress on claims which has enabled five of the eight farms expropriated to be returned.

4. Need to make progress on remaining claims. Would welcome suggestions for best way forward. Suggested to Dr Gama during his visit to London that inter-Ministerial arbitration committee might be set up, perhaps under MFA chairmanship, with full powers to negotiate final offers. Any progress in this direction? Hope we can achieve satisfactory solution quickly and remove this long standing irritant altogether.

Algarve: Gas Deaths

5. Appreciate way Portuguese authorities responded to the situation. There was much public and Parliamentary concern. How successful have the measures been in eradicating the problem?

Sea Disposal of Low-level Radio-active Waste [Defensive]

6. Recognise the extent of concern. But safety of UK's method of sea dumping is supported by extensive international and national scientific evidence collected over many years.



7. Review of evidence called for by London Dumping Convention at present in hand. Report due in 1985. If convincing scientific evidence is produced that sea disposal is harmful to the marine environment or to human health, we shall suspend our operations.

8. [If necessary] We have agreed with TUC to carry out separate independent review of disposal of radio-active waste at sea. HMG will not authorise any further sea dumping of radio-active waste pending the outcome of this review.

Air Services [Defensive]

9. Fully prepared to review TAP-air Portugal's capacity limitations at Heathrow. But it remains our current policy that any growth in capacity must be accommodated at a London airport other than Heathrow.

## ANGLO-PORTUGUESE RELATIONS: POLITICAL

## ESSENTIAL FACTS

1. Portugal and Britain have been allies since 1373 without a break (our oldest ally). The Portuguese still tend to turn to us first for help and advice in international affairs. In setting out the new Government's programme to the Assembly last year, Soares emphasised need to maintain traditional relationships and, intentionally, placed Britain at the head of a list of key countries. They are looking forward keenly to the Prime Minister's visit and look to her to emphasise that the links of the past will continue to be as firm in the future.

2. In a recent poll in a Portuguese magazine, Mrs Thatcher was voted second only to the Pope as the most popular international personality.

3. Approximately 7,000 British people live in Portugal. About 650,000 British tourists visited Algarve in 1983.

4. We are seldom able fully to meet Portuguese high expectations. Nonetheless relations are generally excellent; and are kept in good repair mainly by gestures and expressions of friendship. The Portuguese were helpful to us over the Falklands (by allowing overflights). We were able, exceptionally, to go some way (though not as far as they would like) to respond to their request for help over the NATO frigate construction project (see Brief No. 7).

AidBilateral Aid

5. In 1978 Portuguese Government signed loan agreement with HMG for £5m. Three years later none of the sum available had been committed. It was decided not to extend period of commitment; instead to offer increased programme of technical co-operation for 1981/82 1983/84. In the event no expenditure was incurred in 1981/82 and the programme has been extended exceptionally into

1984/85 and increased to provide about £80,000 for new commitments.

#### Disaster Relief

6. Following severe floods in Greater Lisbon area in November 1983, HMG provided grants totalling £9,000 to be used to provide shelter, bedding, stores requisites, cooking utensils and gas for the homeless.

#### Scholarships and Awards

7. In February 1983 HMG announced new measures costing £46m over next three years to expand support to selected overseas students. As part of these measures £40,000 available to Portugal in 1984/85.

#### Visits

8. The Queen will visit Portugal in February/March 1985 (dates to be decided). The visit is yet to be announced - the announcement will probably be made in the autumn. Of senior members of the Portuguese Government (only Eanes, Soares, Gama, and Mota Pinto(?) know.

9. Eanes paid a State Visit to London in 1978 and also attended the Royal Wedding in 1981. Balsemao, then Prime Minister, visited the UK in December 1981. Freitas do Amaral then Deputy Prime Minister and Defence Minister, came to London in November 1982 and Gama, Foreign Minister, was in London for talks with Sir Geoffrey Howe in September.

10. No British Prime Minister has made a visit in their official capacity to Portugal for over 70 years. The most recent visits by senior members of the Government have been Mr Atkins' (then Lord Privy Seal) in November 1981 and Mr Pym's in June 1982.

#### Compensation

11. The Portuguese need to be reminded of our continued concern over outstanding claims for compensation for farm properties expropriated in 1975 during the extremist phase of the revolution. A persistent irritant in Anglo-Portuguese relations over the last ten years. After years of prevarication the Portuguese Government agreed last year formally to revoke expropriation order on five of



the eight farms on which claims were outstanding. Four of the five have now been handed back. The fifth is in process.

12. During Foreign Minister Gama's call on Mrs Thatcher in September 1983 the Prime Minister asked that a commission be established to negotiate settlement of outstanding British claims.

13. These are three cases outstanding:

- (a) Galveias Farms
- (b) Monte da Contenda
- (c) Monte de Ribeira

The satisfactory return of other claimants' properties likely to cause owners in case (a) to press claims for settlement;

14. [Not for use] In case (b) the owners recently evicted smallholders in illegal possession of part of Monte da Contenda and have regained possession of whole property. This unorthodox return of the land made without reference to Portuguese authorities will probably be allowed to stand, but might reduce amount of compensation being claimed.

15. [Not for use] In case (c) the owner is on verge of bankruptcy. He owes Portuguese Government considerably more than he is claiming in compensation.

#### Algarve: Gas Deaths

16. There was public outcry in the UK last year over deaths in tourist accommodation from gas heating and cooking appliances. Tourists to Algarve are mainly British. Partly in response to our representations the Portuguese Government approved a new decree law in September last year covering safety measures and managers' responsibilities. There have been no further reports of deaths caused by gas appliances.

#### Sea Disposal of Low-level Radioactive Waste

17. The Portuguese protested formally in July 1983 to the UK dumping operation proposed for 1983. Gama, the Foreign Minister,

whose constituency is in the Azores where feeling among the fishing community runs high, also raised the matter when he met Sir Geoffrey Howe in September.

18. The UK has disposed of low-level radioactive waste at sea since 1949. Our disposal operations are in accordance with international law and follow detailed procedures and guidelines laid down under the mechanism of the Organisation for Economic Cooperation and Development.

19. Contracting Parties to the London Dumping convention (LDC) agreed in February 1983 to set up an ad hoc group to study the question of dumping of low-level radioactive waste at sea. They will report to the next consultative meeting of the LDC in September 1985. A Spanish resolution calling for the suspension of dumping pending the outcome of the review was adopted by a large majority at LDC in 1983. It is however non-binding (unsupported by any scientific case). The UK voted against.

20. Proposed disposal operation in 1983 was blocked by industrial action by National Union of Seamen and other transport unions. TUC have now taken up offer made by Secretary of State for Environment in December 1983 for independent review of disposal of radioactive waste at sea. Pending outcome of review, HMG will not authorise any further sea dumping. [Not for use] No progress on issue of trade union opposition to sea dumping is expected before autumn 1984.

#### Air Services [Defensive]

21. British Airways Iberian Peninsula services all operate from Gatwick. TAP-Air Portugal's capacity at Heathrow is limited under the terms of the UK/Portugal Confidential Memorandum of Understanding (CMU) of 19 November 1980, to specified levels. The CMU specifies that any growth in capacity must be accommodated at airports other than Heathrow.

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22. As permitted under the CMU, the Portuguese have sought to review the Heathrow limitations. Formal negotiations have not yet proved necessary.

Southern European Department  
Foreign and Commonwealth Office  
April 1984

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BRIEF NO 2(b)

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

PORTUGAL INTERNAL: ECONOMIC

## POINTS TO MAKE

- (i) Congratulate Portuguese authorities on the firm action which they have taken since June 1983 to reverse the deterioration of the economy. Welcome the involvement of the IMF, and support the government's resolve to stick to its difficult task.
- (ii) Agree that responsible monetary and fiscal policies must form the basis for a recovery in medium-term growth prospects, but observe that major structural adjustments are also necessary. Do the Portuguese authorities intend to draw on the expertise of the World Bank in this area?
- (iii) Welcome the improved current account position, which owes much to the flexible exchange rate policy. It is of vital importance to maintain this progress in order to prevent further growth of Portugal's heavy foreign debt.
- (iv) Encourage the authorities to maintain their efforts to cut the public sector budget deficit, which has been a major destabilising factor.
- (v) Note that the inflationary impulse caused by the depreciation of the escudo and reduction of many consumer subsidies may fuel large wage rises; our experience is that it is critical that this pressure be resisted.

## PORTUGAL INTERNAL: ECONOMIC

## ESSENTIAL FACTS

1. Portugal has been living beyond her means for a number of years. The problems caused by the abrupt change in economic structures following the 1974 revolution have been exacerbated by a series of inappropriate policy decisions; only in 1977/78 was some attempt made to address the growing difficulties, but economic policy was relaxed once more in 1980. Serious disequilibria emerged, notably increasing inflation, an excessive public sector deficit, and a deteriorating external balance. In June 1983 the newly-elected socialist government introduced a comprehensive series of measures, concentrating on deflating domestic demand, reducing the budget deficit and improving external competitiveness, which have been supported by the October 1983 agreement with the IMF for a \$730 million stand-by arrangement and compensatory financing facility.

2. For almost a decade Portugal's growth rate has exceeded that of most OECD countries. The measures introduced last summer reduced GDP growth in 1983 to only 0.75% compared with 3.5% in 1982; a 2% fall is expected in 1984. All components of domestic demand have been adversely affected, with increases in private consumption and investment being transformed into cuts and the growth in government expenditure likely to be halted in 1984. Destocking is expected to have a strong negative impact on output, but improved competitiveness and Portugal's cyclical position should lead to a strong positive contribution from the foreign trade sector.

3. Consumer price inflation was some 23% in 1982. The effects of the 12% depreciation of the escudo in June 1983, and the removal of many consumer subsidies, drove the year-on-year rate of inflation up to 34% in December 1983, but the annual average rate in both 1983 and 1984 is likely to remain unchanged at around 23%. Wage increases in 1983 were held to some 20%; as the rate of inflation should begin to decline from mid-1984 it is crucially important that pressure is maintained on this front.

4. Recorded unemployment has stayed virtually stable at some 8% since 1977, but considerable disguised unemployment is thought to exist and the true total is probably considerably higher. Very restrictive labour legislation has contributed to great inflexibility of labour markets, but laws concerning dismissals are now being relaxed. The changes should improve the position of firms in the medium-term, but will inevitably cause unemployment to rise in the short-term. Although the population appears prepared to make some sacrifices, the poor social security system may lead to unrest.

5. Portugal's business cycle is out of phase with those of most of her trading partners; this has meant that the austerity programme has rapidly improved the current account deficit, which fell from \$3.3bn in 1982 to \$1.7bn in 1983, and which might fall further (in line with IMF targets) to \$1.3bn in 1984. Nonetheless, the deficit continues to add to Portugal's heavy external debt, which rose from \$9.0bn in 1980 (40% GDP) to \$14.5bn (77% GDP) in 1983; over the same period the debt service ratio

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rose from 15% to 28%. IMF performance criteria require that the increase in foreign debt be held to \$1.2bn in 1984.

6. Fiscal policy has been sharply tightened; the authorities aim to reduce the general government deficit from 12.6% of GDP in 1982 to around 6% of GDP in 1984. Many measures have already been implemented; for the first time in many years there are signs of a genuine effort to cut the level of public spending in relation to GDP. Total expenditure, excluding the Supply Fund, is targetted to fall from 43.5% of GDP in 1982 to under 41% in 1984, mainly as a result of restraining the wage bill and reducing transfers. Measures are also in hand to improve the efficiency of the tax system. Monetary policy has also been tightened, and interest rates have risen to positive real levels.

7. The tightening of short-term policy has been an essential step in halting Portugal's economic decline and restoring international confidence. In the medium-term, much remains to be done, particularly in reforming the public sector, restructuring industry and modernising agriculture. It is vital that appropriate measures are introduced simultaneously with the short-term stabilisation programme; Portugal's accession to the EC provides a further reason for making rapid progress.

Economic Advisers  
Foreign & Commonwealth Office

9 April 1984

MINISTÉRIO DAS FINANÇAS E DO PLANO

GABINETE DO MINISTRO

London Chamber of Commerce and Industry

April, 11th, 1984

Address by the Portuguese Finance Minister,  
Ernâni Rodrigues Lopes





MINISTÉRIO DAS FINANÇAS E DO PLANO

GABINETE DO MINISTRO

Mr. Chairman, Ladies and Gentlemen,

*and Industry*

It is very kind of the London Chamber of Commerce to allow me to address to such a distinguished audience about some relevant questions, concerning the present situation and the development of the portuguese economy in the near future.

As you all know, since the present government took office, in June 1983, the portuguese economic policy has been based upon an essential target: the control of the external unbalance of the

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MINISTÉRIO DAS FINANÇAS E DO PLANO

CABINETE DO MINISTRO

economy, reflected in the excessive current deficits and the growing pace of external indebtedness, accumulated along recent years.

The immediate answers to this situation were elaborated by means of a serious and consistent stabilization policy, adopted last summer and materialized through an 18 month "Short Term Emergency Program", that has received the support from the International Monetary Fund. This Program, still in force, involves a set of policy measures and instruments covering monetary, fiscal and budgetary areas.

Last year, the portuguese external financial situation has been characterized, basically, by a clear improvement in what concerns the current account deficit and a marked change in the way it was financed, implying a smaller contribution from non-monetary capital and a slight increase in the use of reserve.

Consequently, the pace of external indebtedness of the country was strongly curbed. There has been a certain loss of foreign exchange, but reserves stay quite comfortable, amounting to more than 9.8 billion dollars, in the end of 1983 with gold valued at the latest three months average of market prices.



## MINISTÉRIO DAS FINANÇAS E DO PLANO

GABINETE DO MINISTRO

In 1983, the current account deficit was kept well below the 2 billion dollars target of the IMF agreement, reaching 1.68 billion dollars, that is to say, roughly, 50% less comparing with the previous year.

The improvement experienced by the current account was essentially the result of a significant curb in the trade deficit and, in a smaller scale, a consequence of a reduction in what concerns the debt service. Unfortunately, the evolution of the receipts from tourism and workers remittances was not fully satisfactory.

The trade deficit for 1983 shows an improvement of some 1.7 million dollars, with a clear reduction in imports (8.8%) and a sharp rise in exports, which have grown 20% in volume; meanwhile, the terms of trade deterioration was not very significant.

This evolution can be favourable compared with a 6.4% growth of imports in 1982, accompanied by an already important expansion of sales abroad - 11.8%, in volume terms.

The more active exchange rate policy adopted along 1983 - with discreet devaluations (of 3% in March and 12% in June) - explains, of course, a good part of this expansion of exports, being also responsible for a complementary reduction of global expenditure,



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through a re-orientation of sales from the internal to the external market; the better international environment has certainly helped this transfer, even if its improvement appears to be well behind the first expectations.

Mr. Chairman, Ladies and Gentlemen,

This bird's eye view over the recent evolution of the portuguese economy shows that the execution of the stabilization policy went quite well in 1983. For almost all relevant indicators we made clearly better than the program agreed with the IMF. This is true not only for the current account, the external debt and the evolution of credit, but also in what concerns the control of the budget deficit, which was curbed from 12% of GDP in 1982 to 7.8% last year - that is to say, well below the 10% target previously announced.

Having said that, it wouldn't be fair to hide from you, on the other hand, two matters of concern that have come along with this positive response of the economy. I'm referring to the global recession reflected in the 0.5% negative growth in GDP and to an inflationary slippage reaching 25.5% along the year, in average terms, and nearly 34% in last December, comparing with the same month in 1982.

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MINISTERIO DAS FINANÇAS E DO PLANO

GABINETE DO MINISTRO

The figures for the first three months of this year give place for the expected deceleration in the retail prices index, although there has been, in January, a new increase in oil products.

We do not intend, by any means, to accommodate to a high rate of inflation. Its control and reduction will remain, along 1984, one of the main goals of economic policy in Portugal. The generally good results of 1983 will encourage us to pursue, in parallel, the stabilization effort announced and programmed last summer, aiming at three basic targets:

- a) a new reduction in the current account deficit, to 1.25 billion dollars;
- b) the consequent control of the net growth of external debt, reaching only 900 million dollars;
- c) finally, an important cut back in the deficit of the General Government Budget, planned to come down to 6.5% of GDP.

To be consistent, these goals will imply, inevitably, a clear containment of domestic demand, well expressed in the most significant estimates inscribed in the basic options of the Plan for 1984.

This is, of course, the price to pay for the vital need to control and start correcting the financial disequilibria of the economy, both domestically and externally.

MINISTÉRIO DAS FINANÇAS E DO PLANO

GABINETE DO MINISTRO

Since 1973, for a series of reasons, basically linked to the political evolution that followed the restoring of democracy and the decolonization process, Portugal had to adjourn the necessary adjustment of its economy to a new crucial fact: the balance of payments, traditionally in surplus until then, was inaugurating a period of structural unbalance. This situation can only be interceded through deep and lasting reforms, aiming at a significant change in the pattern of specialization of the economy.

The alternative to this desirable and expected evolution could only be a more or less slow process of impoverishment of the country, induced by a preverted stop and go cycle, guided by the balance of payments evolution and the pace of external indebtedness.

The previous assessment, stated in very schematic terms, is the basis for two important points that I would like to make clear:

- on one hand, it allows me to stress again the absolutely imperative nature of the effort we are doing now, to keep the situation under control and to make the conditions for a stable reversal of recent trends;
- on the other hand, it implies that stabilization is a necessary but not sufficient pre-condition for the success of a stable solution, that is to say, the economic policy must materialize a consistent articulation between

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CABINETE DO MINISTRO

short-term requirements and deeper actions, oriented towards a medium-term structural change.

That is a basic concept of the policy led by the present Government. And that is why we intend to announce by the end of June a set of guidelines and interventions organized in the framework of a "Financial and Economic Recovery Program", that is designed to back up a cautious and selective reflation of the economy, during the second half of the year.

This Program plays a key role in the implementation of our economic strategy. It must be the linking element between stabilization constraints and modernisation exigences, preparing a change in the pattern of growth and trying to dominate financial, economic and institutional problems arising in areas that we consider crucial for the preparation of a sound development process, conceived in the context of the portuguese accession to the EEC. The actions envisaged will involve, namely:

- a) The reorganization of the banking and financial systems, which was initiated in February, with the publication of the decree that embodies the system of establishment and the operating rules of commercial and investment banks, to be applied for by private initiative; as you all certainly know, this decree stipulates that the access to banking activity is permitted with no discrimination



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between wholly portuguese-owned and foreign-owned companies, being also envisaged the opening in Portugal of branches of banks with a head office abroad;

- b) The second axis of intervention is to be the progressive restructuring of the public enterprises sector, in order to restore its financial and economic equilibria, considering not only its impact at the level of budgetary control but also the need to integrate those firms in the context of a global reassessment of industrial policies;
- c) The preparation of legislation aiming at a coherent regional development policy is the third area to be considered, having in mind the new conditions coming from EEC full membership. This choice may seem, to some of you, a bit strange, but it just covers an essential perspective to adapt the nature of Portuguese development blockages to the limits and constraints imposed by the exhaustion of the growth model of the sixties. Regional Development is perhaps the only way to allow for a modernisation process of agriculture and industry, consistent with the need to control increasing tensions in the labour market and to avoid supplementary pressures over the limited zones that have sustained (and benefited from) economic development in the last decades.



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This approach to the regional problem implies, of course, an integrated view of the questions involved: in fact, far from being limited to strict economic preoccupations, what is at stake here goes directly into the heart of basic options in what concerns the social and administrative organization of the territory;

There is no need to tell you that there are no instantaneous or miraculous solutions to the kind of situations and problems we are dealing with, in the framework of the Financial and Economic Recovery Program. Nevertheless, it <sup>was</sup> essential to start. The economy is asking guidelines for those crucial areas and, more than that, it is expecting the first sets of measures to confirm that there is no difference between words and facts.

That is why we are facing the preparation of this program as a necessary step towards the definition of the third component of our strategy, materialized in a program for the modernization of the portuguese economy, to be announced by the end of the year. It will not be neither a plan in the classical assessment of the concept, nor an econometric speculation exercise, but simply a selection of sectors, products and innovative ideas in conditions to be elected for specific support, in the framework of a clear set of priorities for the re-orientation of investment.

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## MINISTÉRIO DAS FINANÇAS E DO PLANO

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The preparation of structural reforms and the modernisation effort will have as basic reference the need to deepen the international integration of the portuguese economy, keeping as primary option the full accession to the European Communities, that we hope will take place in January 1986.

Choosing Europe is not for us just a matter of searching a way to safer external markets or new financial resources and support. That is a basic choice for a model of economic and social organization and a clear indication of the patterns the country will tend to follow in the years to come.

Mr. Chairman, Ladies and Gentlemen,

I think we can conclude, from what has been said, that the portuguese economic policy is far from being limited to a strict short-term view, in what concerns its fundamentals, instruments and targets.

Underestimating the immediate problems and its rigorous management would be, nevertheless, such a big mistake as forgetting the structural nature of our economic problems and the need to conceive and implement the reforms required to overtake the deep blockages installed in our society.

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In today's Portugal, stabilization and development are not opposite concepts or strategies. On the contrary, they are complementary approaches, mutually implied and interdependent; one does not make sense without the other.

As I have tried to tell you today, the management of the portuguese economy's external aspects and the execution of persistent and rigorous answers to public finance problems are crucial premises of any political project intending to create conditions for development.

We must not doubt that any concession to easy-going approaches, in what concerns financial management, could definitely compromise, in a short period, any attempt to prepare significant changes in the economic system as a whole.

In this context, the short term emergency policy must not be seen as any ephemeral prescription to fight against what some have tended to see as a mere cash flow difficulty last year. The roots of the problems are much deeper: some key questions of our economic management are in front of us and that is why the end of the emergency period and the reflation of the economy, that we intend to stimulate throughout the second half of the year, must be not confused with the abandon of rigour. The reason is simple: we want a stable and sustained growth, and not a cosmetic recovery that would certainly lead to more serious and difficult problems in a couple of years.



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The need for a gradual and progressive answer is one more reason for not losing time. And here lies also, after all, the basic foundations of the Financial and Economic Recovery Program conceived to be the short-term policies' indispensable complement and the logical linking element with the actions aiming at the modernization of the portuguese economy.

This means four essential things:

- 1 - During the current year, we have to launch the bulk of the answer to the crisis and to value the changing and modernizing potential of difficult situations in industrial societies.
- 2 - We need to break the medium-term stop and go cycle of the economy, conducted by the evolution of external payments, keeping a rigorous stance on global financial management and creating conditions for a moderate but sustained reflation from the beginning of next year.
- 3 - We must select carefully the priorities of investment policies and use the necessary instruments to fulfill them both in what concerns the public sector and

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private initiative. In a more concrete way, we will abandon the temptation of big projects, based upon premises that are not, most of the times, linked to its economic rationality, mainly in what concerns the international integration of the portuguese economy in the near future. We don't need and we don't want more white elephants.

- 4 - Finally, we have to make a persistent effort oriented towards a clarification of the economic institutional framework. This means, simultaneously, a growing transparency and flexibility of the system and more efficient and simpler regulations, required to stimulate productive investment and to deter speculative alternatives. That's a long and patient work that we intend to start from now on, fighting State paternalism and stressing the basic principle of private initiative as a source of wealth and employment.

This fourth point is obviously linked to the global need for a persistent action, designed to introduce greater rationality and coherence in the current flow of economic activity, distorted by years of unclarified rules and political instability.

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Economically and socially speaking, crisis are certainly costly. But they are also unique opportunities for deep changes in societies and consequently, for those who understand risk and innovation as basic concepts of economic activity.

The portuguese economy can certainly offer a very interesting growth potential in what concerns the launching of new sectors of activity and the opportunities arising from the restructuring actions, both in agricultural and industry, in close link with the accession to EEC. The same applies, obviously, to the new prospects that can be developed with the improvement of our relations with Africa, specially with the portuguese speaking countries.

The Government wants to introduce in the economic system an increasing transparency and flexibility, enabling the renewal and the strenghtning of private entrepreneurship. We are quite aware of many unnecessary difficulties and obstacles raised by State bureaucracy to the normal flow of economic activity.

And there are already some concrete evidences of our will to go into the right direction: the opening of the banking sector to private activity or the lay-off decree passed by this Government can certainly be presented as good examples.

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SECRETARIA DE ECONOMIA

None of you would take me seriously if I would say that we can change administrative blockages overnight; but I easily understand that some positive steps are to be made in a short-term period, particularly in what concerns the conditions for investment, including, obviously, foreign investment.

I am quite aware of the relevant importance that administrative procedures represent when one considers the conditions for investment. The experience of foreign investment in Portugal is there to testify that this is perhaps the main area where we must improve our performance, since there is no doubt about the existence of good basic conditions, well evidenced in the success of the great majority of foreign investment operations - even those which had to go through the difficult circumstances emerging from the 1974 revolution.

After the deep political and social changes that succeeded to the fall of a long-lasting dictatorship and a sudden decolonization process, Portugal has passed through the ups and downs that always characterize the organisation of a solid democratic State.

The recent years of the portuguese political life were not particularly favourable to the definition of coherent guidelines for the economic policy. The Government, supported by a large parliamentary majority, based upon the most representative

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forces of democratic socialism and social-democracy, has inherited the essential task of defining a clear and stable medium-term policy, starting from the solution of an emergency financial situation to the creation of conditions for structural change, absolutely vital to the recovery and reshaping of the portuguese economy.

Step by step, things are moving positively. New ideas make its appearance in the political scene, new bridges for dialogue and consensus have been open through the recently created Permanent Negotiating Council for Social Affairs, an institution where unions, industrialists and government are represented on a tripartite basis.

Recent developments in the political and economic fields demonstrate that the regeneration of the portuguese economy is certainly possible.

We must understand the word crisis as what it really means: a point of decision, a pressure for change, an opportunity to develop new concepts and introduce bold reforms in society.

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There is no need to stress this point before the british business community, who has always demonstrated a good knowledge of the portuguese realities and a clear ability to cooperate with us in a joint effort towards development.

Pessimism does not pay bills and will not mislead our action. And the best prescription to cope with the problems of our economies is certainly hard work, creativity and confidence.

BRIEF NO 2(a)

## PORTUGAL INTERNAL: POLITICAL (INCLUDING RECENT HISTORICAL BACKGROUND AND PERSONALITY NOTES)

## ESSENTIAL FACTS

1. The present Government (formed in June 1983) is a socialist (PS)/Social Democratic (PSD) coalition. The PS led by Mario Soares is of Social Democrat, pro-EC, pro-NATO nature. The PSD led by Mota Pinto are right wing Social Democrats in favour of opening public sector enterprises to private initiative and are also pro-NATO, pro-EC. The major figures in Government are:

<u>Mario Soares</u> (PS)	-	<u>Prime Minister</u>
<u>Mota Pinto</u> (PSD)	-	<u>Vice Prime Minister and</u> <u>Defence Minister</u>
<u>Erani Lopes</u> (PSD)	-	<u>Finance Minister</u>
<u>Jaime Gama</u> (PS)	-	<u>Foreign Minister</u>

2. Despite an unconstructive role in opposition, Soares' administration has taken tough measures, especially on the economy, and the country has been braced for a (long overdue) period of austerity. The expected social unrest promised by the Left has still not materialised.

3. Although there are strains in the coalition and there is unruliness in the parties as a whole, the senior ministerial team is effective. Recent evidence that Government is planning a number of far reaching reforms and not merely concentrating on austerity. Legislation is being prepared in the following areas:

- (a) Liberalising rent laws;
- (b) Rationalising some of the more hopeless enterprises in the public sector;
- (c) Revising labour laws (particularly the strike law and law on dismissals);
- (d) Introducing a new intelligence service (previously inhibited by memories of Salazar's Secret Police).

/These

These proposed reforms help convey impression of an administration with constructive plans beyond short term emergency programmes.

#### Presidential Elections 1985

4. Although not due until October 1985 already the focus of political attention. No candidates have yet declared themselves. Only candidate virtually certain to stand is Soares. Eanes is constitutionally barred from standing. PSD have postponed choice of candidate. The Centre Democrats (CDS) seem likely to go for Freitas do Amaral, but have not yet done so. The Communists will probably back a figure of non-Communist left; they will be wary of becoming directly associated with candidate for fear of scaring the voters.

5. Soares' sights have been fixed on Presidency for several years. He now has good public image as leader of team taking tough but necessary measure. Uncertain how long this image will hold. Much will depend on the fortunes of his Government.

#### Political Parties

##### (a) Socialist Party (PS)

Party had over 36% of the vote in the 1983 elections. In the expectation that Soares will give up leadership of party to run for Presidency, manoeuvring for positions is influencing actions of leading figures. Still not clear who would succeed Soares. Meanwhile the party is not particularly enjoying being in Government. It remains rather undynamic and amorphous and badly needs injection of new blood and ideas. Without Soares it is likely to become a rather different animal.

##### (b) Social Democratic Party (PSD)

PSD polled 27% of vote in 1983 elections. Their lack of clearly defined ideology, loss of their dominating leader, Sa Carneiro (killed in a plane crash in 1980), and their strong local roots make them lack cohesion. Present leader's (Mota Pinto) inability to assert his personality has led to Party becoming even more fragmented, although at recent Party

/Congress

Congress he achieved some measure of support for his leadership. The Congress reinforced the unity of the PSD/PS coalition. But no decisions were taken on how the PSD would contest the Presidential elections.

(c) Centre Social Democrats (CDS)

CDS polled 12% of vote in 1983 elections and struggles to make much impact. Party still hardly exists in parts of the country and at national level lacks full time politicians and funds. They are trying to appeal to rightist-inclined section of electorate who up to now have voted PSD.

(d) Communist Party (PCP)

With just over 18% of vote in 1983 elections, PCP maintains strong conventional presence. The Party has readily assumed the guise of the only representative of the left against an encroaching new capitalist establishment. They do not call for another revolution, only that the 1974 revolution's victories be defended. Their presence in Portugal is well entrenched. The Party's machine, especially at local level, is kept well oiled. They consistently poll higher at local level than at national elections. The leader, Alvaro Cunhal, retained prestige deriving from era of dictatorship. He is now 70, but there is no sign of his imminent departure.

SOUTHERN EUROPEAN DEPARTMENT  
FOREIGN AND COMMONWEALTH OFFICE

APRIL 1984

## HISTORICAL BACKGROUND

1. Following the death of Dr Salazar and the overthrow of Dr Caetano in the 1974 revolution, a Communist takeover was narrowly averted in 1975, largely due to the action of a group of senior officers, among whom General (now President) Eanes was prominent.
2. The Socialists formed the core of the first two constitutional governments in 1976-78 under the leadership of Dr Mario Soares. Soares' Government was dissolved by President Eanes in August 1978 following the break-up of his coalition with the centre-right CDS party. This was followed by a series of 'technocrat' and left wing government. Between December 1979 and April 1983 the Government was formed by the centre right 'Democratic Alliance' coalition (AD), comprising the Social Democratic Party (PSD), the Centre Social Democrats (CDS) and the Monarchists (PPM). Following the death of the PSD leader Dr Sa Carneiro in December 1980, Dr Pinto Balsemao (PSD) took over as Prime Minister. Eanes was reelected President for a five year term shortly afterwards. Balsemao lacked the charisma of his predecessor and was not a strong leader. His administration was largely ineffective in dealing with Portugal's increasing problems. He resigned in December 1982 after lengthy bickering between the CDS and the PSD and within the PSD. This led to the break-up of the coalition and early elections.

3. In these elections, held in April 1983, the Socialists (PS) led by Soares won 101 of the 250 seats, and the PSD, led by Mota Pinto, 75. The United People's Alliance, the Moscow orientated Communist party led by Alvaro Cunhal, won 44 seats (18.2% of the vote). Soares formed a coalition PS/PSD Government in June 1983 after protracted negotiations to agree on policies.

## PERSONALITY NOTES ON:

<u>Name</u>	<u>Position</u>
ABECASSIS, Nuno Krus	Mayor of Lisbon
BALSEMAO, Dr Franciso	Former Prime Minister (1981-82)
BARRETO, Eng Alvaro	Minister for Commerce and Tourism
CUNHAL, Dr Alvaro	Secretary General of Communist Party
EANES, Gen Antonio	President of the Republic
FREITAS DO AMARAL, Prof Diogo	Former <u>Vice Prime Minister</u> , Former <u>President of Central Social Democrats (CDS)</u>
GAMA, Dr Jaime	Foreign Minister
LUCAS PIRES, Dr Franceso	President of Centre Social Democrats (CDS)
MARQUES, Dr Paulo	International Secretary of Centre Social Democrats (CDS)
MOTA PINTO, Prof Carlos	Vice Prime Minister, Minister of Defence and Leader of Social Democratic Party (PSD)
NUNES, Prof Manuel	Governor of Bank of Portugal and Honorary President of British-Portuguese Chamber of Commerce
PERDIGAO, Dr Jose	President of Gulbenkian Foundation
SOARES, Dr Mario	Prime Minister and Secretary General of Socialist Party (PS)
THEMIDO, Ambassador Joao	Ambassador to London
TITO DE MORAIS, Eng Manuel	President of the Assembly
VALLADA, Eng Paulo	Mayor of Oporto
VEIGA SIMAO, Prof Jose	Minister for Industry

ABECASSIS, NUNO KRUS

MAYOR OF LISBON

Born in 1929 in Faro. Civil Engineering graduate. He worked as an engineer in Portugal and in Angola and Mozambique. Joined the Centre Social Democratic Party (CDS) after the Revolution and became Vice President of the CDS Parliamentary Group. In 1979 he was elected CDS Mayor of Lisbon. He was re-elected in 1982 local elections, but without an overall majority.

He paid a sponsored visit to the UK in October 1983.

He is tough and far from diplomatic, but has charm and has gained some popularity as a man who gets things done. He is married with six children. He speaks reasonable English.



VALLADA, ENG PAULO

MAYOR OF OPORTO

Born 1932. Graduated in Civil Engineering at University of Oporto. Went to Mozambique as young man. Returned to Oporto in 1975 and has since made alot of money in property development. Appointed President of Oporto Industrial Association 1979. Elected Mayor of Oporto in December 1982. Paid a sponsored visit to UK in February this year.

He is strongly pro-British and talks ardently of the need to rebuild trading links between Britain and northern Portugal - "where the work gets done". He is particularly keen to attract fresh investment in new technologies. Hard working. A great talker, but also a doer and generally respected. Energetic and ambitious.

Speaks little English. Prefers French. A widower with two children.

BALSEMAO, DR FRANCESCO DE CASTRO DE PEREIRA PINTO

FORMER PRIME MINISTER

Born 1937. A law graduate from Lisbon University. He founded the weekly newspaper Expreso, modelled on the Sunday Times. Thanks to Balsemao Expreso became, and remains, the foremost quality newspaper in Portugal.

A founder member of the Popular Democratic Party (later renamed Social Democratic Party (PSD)) after the overthrow of the Caetano regime in April 1974. Elected to the Constituent Assembly, of which he was Vice President, in April 1975. In November 1979 together with Sa Carneiro (Prime Minister), Freitas do Amaral (Foreign Minister) and other members of the Democratic Alliance (the then coalition government) he visited London for talks with Mrs Thatcher and Lord Carrington. He personally prepared the Douro project for which the Government used British aid money.

Elected President of the PSD and Prime Minister following the death of Sa Carneiro in December 1980. After disappointing results in the December 1982 local elections, Balsemao came under increasing criticism and he resigned that month, although his caretaker government continued into 1983. At the 1983 PSD congress he was replaced as leader by

Mota Pinto (QV). He has now returned to Expreso. Considers himself a possible presidential candidate.

Balsemao speaks fluent English. He has visited Britain often, and attended a Wilton Park conference in 1969. He had talks with Mrs Thatcher in London in December 1981. Rather vain, wealthy and widely travelled.

Married with two children.

BARRETO, ENG ALVARO ROQUE DE PINTO BISSIAI

MINISTER FOR COMMERCE AND TOURISM

Born 1936. Graduate in civil engineering. In 1967 he was Superintending Engineer in charge of the building of LISNAVE, the major ship repairing firm in the Tagus opposite Lisbon. he was appointed Minister of Industry and Technology in 1978. Briefly President of national airline, TAP, in 1979. Minister for Industry and Energy, 1980/81 and Minister for European Integration, 1981.

Visited London in 1983 for talks with Secretary of State for Trade (Mr Tebbit) on textiles. He played at Wimbledon in 1952 (beaten in first round). Speaks fluent English, as well as French and Spanish.

Married with three children.

CUNHAL, DR ALVARO BARREIRINHAS

SECRETARY GENERAL OF THE COMMUNIST PARTY (PCP)

Born 1913 of middle class parents. He became an active member of the Communist Party in 1934 whilst a law student at the University of Lisbon. In 1936 he became a member of the central committee of the Communist Party and went underground. Arrested in March 1949, he spent 11 years in prison, 8 of them in solitary confinement. Escaped spectacularly from fortress prison at Peniche in 1960 and spent 14 years in exile, mainly in the Soviet Union and Czechoslovakia.

Returned to Portugal in 1974. He was Minister without portfolio in the first four provisional governments (1974/75). Elected to the Constituent Assembly in April 1975, but renounced his seat in order to retain his Ministerial position. Also elected to Assembly of the Republic in April 1976, but in early 1977 requested leave in order to devote more time to Party affairs.

An effective orator at rallies with great personal magnetism. He represents a Stalinist brand of hard line communism and has little time for Euro-communism. He stands head and shoulders above the rest of his Communist colleagues in Portugal. Talking to him is unrewarding. He is a practised

controversialist. Under his leadership PCP discipline provides a favourable contrast to the unruliness of the other political parties. As long as he remains the PCP will continue to be a hard line Stalinist party with all debate taking place behind closed doors. Reportedly sick, and when he does go the PCP will have to change.

He has a daughter, but the existence of his second Polish wife is not acknowledged. Little is known about his private life. Understands English, speaks and French and Russian fluently.

EANES, GENERAL ANTONIO DOS SANTOS RAMALHO, GCB

PRESIDENT OF THE REPUBLIC

Born 25 January 1935 in fairly humble circumstances. Joined the army (infantry) in October 1953. Served in Goa, Macao, Mozambique, Guinea and Angola (where he was on 25 April 1974). Much decorated. After the coup, he was appointed to the military ad hoc committee in charge of TV programming, and later, as President of RTP (Radio Televisao Portuguesa).

In 1975 he was put in charge of the group of officers which began laying plans secretly to neutralise communist influence in the armed forces. These were put into force on 25 November 1975 when the left wing paratroop rebellion was swiftly suppressed. Eanes took over as Chief of Army Staff on 27 November 1975. With the backing of all the non-communist parties he was elected President of the Republic in June 1976 and re-elected in December 1980. He is Commander-in-Chief of the Armed Forces. As President he has travelled extensively. A successful state visit to Britain in November 1978 (during the visit he was awarded the GCB).

Eanes plays a very important role in Portuguese politics, where the semi-presidential system leads to an uneasy balance between the President and the Government. He threatened to resign in 1982 if his powers were reduced by constitutional revision, and start his own party. He did not resign, and his

(Embossed Seal)

powers were reduced, but his influence remains strong. He is barred from standing for re-election in 1985 (although he can stand again in 1990), and is looking for a political role. He seems unlikely to start his own party and may have to retire to Alcans (his home town in central Portugal) and wait to be called back, in the manner of de Gaulle.

He is a shy man of few words with an austere, rather wooden public image whose speech is clipped and rapid and often difficult to follow. He does not appear to enjoy ceremonial occasions; he is a serious and somewhat mysterious man, but a human one with a (carefully disciplined) sense of humour. He likes poetry and is said to be fascinated by psychology. He reads English and follows a conversation, but is reluctant to speak.

Married with two young sons.



FREITAS DO AMARAL, PROFESSOR DIOGO

FORMER VICE PRESIDENT. FORMER PRESIDENT OF THE CENTRE SOCIAL DEMOCRATS (CDS)

Born July 1941 of a wealthy family. He was a brilliant student gaining a law degree with distinction in 1963, and receiving a doctorate in 1967. Immediately after the coup in 1974 he and Veiga Simao (QV) tried jointly to prevent the formation of more than one centre party, but this was unsuccessful. He formed his own party, the CDS, in May. At first the party had a fairly rough time as its opponents claimed that it was a continuation of the fascist past and it was harried by communist thugs.

Freitas do Amaral became a member of the Council of State in 1975. In April of that year he was elected to the Constituent Assembly and in April 1976 a member of the Assembly of the Republic. He was responsible for bringing down Balsemao's coalition government in 1978 when he decided that the CDS personalities should be withdrawn from it. He did this from pressure from his rank and file who argued that the CDS were being damaged by the coalition with the Socialists.

In 1979 a new alliance gained a Parliamentary majority and Freitas do Amaral was appointed Vice Prime Minister and

Foreign Minister. He soon stamped his personality on foreign affairs though many felt he had taken on too much and was failing to do any of his three jobs properly. During a visit to London in May 1980 he had talks with Mrs Thatcher and the Foreign Secretary. Along with Sa Carneiro (Prime Minister) he was openly hostile to President Eanes. After the latter's re-election and the former's death in 1980 Freitas do Amaral carried out his threat to resign from the Government. As head of the minority CDS Party he could not have been Prime Minister, but equally it was thought would not accept a more junior position or return to the back benches. However, in 1981 he agreed to join Balsemao's second government as Vice Prime Minister and Minister of Defence. He visited the UK in October 1982 and had talks with Mrs Thatcher.

After the parties of the Alliance government did badly in local elections at the end of 1982 he resigned precipitately from all his political offices in 1983, causing a vacuum in his party, and giving the President an excuse to call for general elections. He may stand as a Presidential candidate in 1985 drawing on broad centre right support.

He speaks fluent English. He went to London as a young man and has visited often, once as a guest of the Conservative Party, with which the CDS keep in touch. He addressed the Conservative Party conference in 1978, the first foreigner to



be so honoured. He plays the piano and rides. Married with three small children.

GAMA, DR JAIME JOSE MATOS DE

Foreign Minister and Member of the Permanent Commission of the PS.

Born in 1947 in Azores. Son of a Junior Army Officer. Took a degree in philosophy from Lisbon University. Active in student politics. Trained as a teacher, but turned to journalism and wrote for 'Republica'. He stood as an opposition candidate in the 1969 elections and was arrested by PIDE. Elected Assistant Secretary General of Socialist Party (ASP, later PS) in clandestinity, after Soares was sent into exile.

Elected to the PS Secretariat in 1974, and to the Constitutional Assembly (1975) and the Assembly of the Republic (1976) for the Azores. Vice President of the PS Parliamentary Group in 1976. Minister of Internal Administration in 1978 Government. Following December 1979 election defeat quarrelled with Soares and resigned from the Party Secretariat. Masterminded the 1983 PS election campaign, and seen increasingly as the heir apparent to the Party leadership.

Concentrated on defence issues and hoped to be Defence Minister. When that portfolio was taken by Mota Pinto, he managed to slip into the Government as Foreign Minister. As a Minister he has enjoyed a remarkable degree of press coverage, and his dramatic gestures towards the EC and Portuguese speaking Africa were in contrast to his two independent predecessors. However he may come to regret some of his more dramatic policies. Concentrating on his image as an effective Minister, and dissociating himself from internal party matters and from the Government's austerity policies.

Effective and intelligent speaker but ponderous. Considered 'Machiavellian' within party and has many enemies. Visited Romania twice, but on the right of the party and pro-American. Visited UK in 1983 for talks with Sir Geoffrey Howe, and met Mrs Thatcher.

Married with one child. He speaks English.

LUCAS PIRES, DR FRANCESCO ANTONIO

PRESIDENT OF THE CENTRE SOCIAL DEMOCRATIC PARTY (CDS)

Born 1944. He graduated in law and later studied political and economic science. He was elected CDS deputy for Oporto in the 1976 elections and became Vice President of the Party and Vice President of the Parliamentary Group at the Party Congress held in 1978.

He has pressed for a more radical approach in removing left wing influence in Portuguese institutions. He was made President of the CDS executive committee and in effect given responsibility for managing the party machine while the party's leading figures concentrated on government. He agreed to enter the government after pressure applied by Freitas do Amaral (QV).

Won the leadership in the fifth congress of the CDS in February 1983. His victory was a surprise but it is generally agreed that he achieved a better result for the CDS in the April 1983 elections than had seemed likely before the congress.

A likeable and cultured man, he is an admirer of President Eanes and respected by all sections of political opinion. A

soccer fanatic; stood unsuccessfully for president of Benfica (recently knocked out of the European cup by Liverpool). A good speaker. Rather disorganised and usually late. Speaks some English but happiest in French and German. Married with two children.

MARQUES, DR PAULO LOWNDES

INTERNATIONAL SECRETARY OF CENTRE SOCIAL DEMOCRATS (CDS)

Born 1941. His mother is English and he is the great-nephew of Hilaire Belloc. Graduated in law in 1965. Until 1975 was Secretary General of the Cabinda Gulf Oil Company and legal adviser to Plessey in London until 1978.

A founding member of the CDS, President of the Party's Commission on international relations and assistant secretary general of the European Union of Christian Democrats (UEDC). Was appointed Secretary of State for Foreign Affairs in the previous government. An efficient Secretary of State, he visited Angola and the Far East. Kept on as International Secretary of the CDS by Lucas Pires (QV).

Very well disposed to the United Kingdom. An active member of the British Historical Society of Portugal. Married with two children.

MOTA PINTO, PROFESSOR CARLOS ALBERTO


VICE PRIME MINISTER, MINISTER OF DEFENCE AND LEADER OF THE SOCIAL DEMOCRATIC PARTY (PSD)

Born in 1936 in Pombal. Studied law at Coimbra University. After the overthrow of the Caetano regime, he was elected a member of the directive council of Coimbra University, and for a time was vice rector as well (1974-75).

A founder member of the Popular Democratic Party (later re-christened the Social Democratic Party), and a member of its national political committee. Elected to the Constituent Assembly in April 1975 as the Deputy for Coimbra. Brought into the Government by Soares, but reputedly at the instigation of President Eanes, in March 1977 as Minister for Foreign Trade and tourism. He was dropped from Soares' second government.

Appointed Prime Minister in November 1978. As Prime Minister he took a tough stand against those who sought to disrupt the economic recovery of the country. He adopted a particularly hard line against the communists. He was replaced as Prime Minister by Maria Lourdes de Pintasilgo, and returned to academic life. Rejoined the PSD in 1981.





When Balsemao (QV) resigned in 1982, he refused the offer of the premiership, and instead launched his bid for the leadership of the party. Was successful in the 1983 congress, and fought a good election campaign. After long negotiations with the socialists (PS), agreed to form a coalition government, and became Vice Prime Minister and Minister of Defence. As junior coalition partner he has been in danger of being eclipsed by Mario Soares. Defence suffered at first. But his assurance has been growing. The latest PSD congress (23-25 March) strengthened his position as leader.

An able and agreeable man; regarded as a bit provincial. Married with two small children.

NUNES, PROFESSOR MANUEL JACINTO

Governor of the Bank of Portugal and Honorary President of British Portuguese Chamber of Commerce.

Born 1926. Degree in Economics and Finance from Lisbon University. He then embarked on an academic career. Economic consultant to the Ministry of Economy during the Salazar era and Under Secretary of State for the Treasury in Salazar's Government from August 1958 to 1959, when he resigned. He was appointed a deputy-governor of the Bank of Portugal in 1960. After the overthrow of Caetano régime, he was in effective charge of Bank of Portugal until formally appointed Governor late in 1974. Appointed Chairman of the National Savings Bank by Soares in 1976.

A non-party man. Held in high regard by Eanes. Appointed Vice-Prime Minister for Economic Affairs and European Integration in November 1978. Displayed a professional approach to dealing with Portugal's economic difficulties. Returned to the Presidency of the National Savings Bank in August 1979, where he remained until re-appointed Governor of the Bank of Portugal in January 1980. For many years he has been Honorary President of the British-Portuguese Chamber of Commerce, in which he has been friendly and helpful. Also a President of the Portuguese Academy of Sciences. He led a delegation of Portuguese financiers on a visit to London in 1982. Prominent in negotiations with the IMF.

Speaks fractured English, but better French. Something of a Portuguese Vicar of Bray.

PERDIGAO, DR JOSE DE AZEREDO, KBE

PRESIDENT OF THE GULBENKIAN FOUNDATION

Born about 1897. After a brilliant career in law at Coimbra University, he was appointed Land Registrar in Lisbon, which he combined with private practice. Became legal adviser to the late Calouster Gulbenkian, who appointed him a Trustee of the Gulbenkian Foundation, which now controls the bulk of the Gulbenkian fortune. It was he who persuaded Gulbenkian to bring his treasures to Portugal. He has written a book about him. Awarded an honorary KBE in June 1964. Appointed a member of the Council of State by Spínola after the overthrow of Caetano in April 1974.

As President of the Foundation, he exercises enormous influence over all aspects of Portugal's cultural life. He enjoys arranging for the Government to meet visiting Arab dignitaries under his auspices. Understands and knows a good deal about pictures. Astonishingly vigorous for his age, but is expected to step down soon.

A brilliant orator and talker, a famous advocate, highly intelligent and a man of presence. Vain, and cannot resist



royalty. His English is very rusty and h~~is~~ is now at home only in Portuguese and French. Married for the second time in 1960.

SOARES, DR MARIO

PRIME MINISTER AND SECRETARY GENERAL OF THE SOCIALIST PARTY  
(PS)


Born 7 December 1924 in Lisbon, son of a former Republican Minister of Education. Graduated from Lisbon University in 1951 with a degree in History and Philosophy. Was a member of the Communist Party for nine years from the age of 18. He left in protest against its monolithic nature. Co-author of the "Programme for the Democratisation of the Republic" in 1961.

Soares was detained twelve times by the PIDE (Salazar's secret police) and was exiled to Sao Tome in March 1968 for eight months without being charged. After Caetano became Prime Minister, Soares was allowed to return to Portugal and ran as a CEUD (a short lived opposition movement) in Lisbon in the elections in 1969; but after criticising Caetano's African policies he was forced to leave Portugal again. He went to live in France and taught at Vincennes and the Sorbonne. Founder member of Accao Socialista Portuguesa in 1964. This was transformed into the Socialist Party (PS), of which he became the leader, in Munstereifel in Germany in 1973.

The first well known political leader to return to Portugal after the 25 April 1974 coup. He was Minister of Foreign Affairs in the first three provisional governments (May 1974 to March 1975) and Minister without portfolio in the fourth (March to August 1975). Elected to the Constituent Assembly as a deputy for Lisbon in April 1975. Became standard bearer of forces opposed to increasing communist orientation of the 1975 regime. Awarded prize of the International League of Human Rights in 1976 in recognition of the leading part he played in turning the tide against communists in Portugal.

Soares became Prime Minister of first constitutional government which took office in July 1976. Since the revolution, he has attached the highest importance to international contacts, especially those in the Socialist International, of which he is now a Vice President. In August 1978 he was dismissed by President Eanes following the break up of his coalition government. The Socialist Party was not thereafter able to capitalise on its new opposition status, and was resoundingly defeated in the 1979 general election - a setback which did not unseat Soares, though he regarded it as a personal blow.

As Prime Minister he appears to have learned from his previous mistakes in office. He has travelled abroad less, and concentrated on concrete internal measures, introducing tough



economic austerity and combatting corruption. By early 1985 he will want to leave the government to prepare his Presidential campaign. This will create serious problems for the PS/PSD coalition and for the PS in its search for a successor.

Over the years he has moved to the right politically. Originally a Marxist, in recent years he has moved closer to social democracy. Now strongly anti-communist. Adroit politician and attractive personality. Prefers broad brush approach. Author of numerous books, the best known being "Portugal's Struggle for Liberty", an account of the opposition to the Salazar and Caetano regimes, which has been published in several languages including English.

His wife, Maria Barroso, was a well known actress. They were married in 1949 while Soares was serving his fourth prison sentence. She is active politically. Two children, a daughter who is a journalist and a son who is a law student.

Soares speaks a very little English, and some French.

THEMIDO, AMBASSADOR JOAO MANUEL HALL

AMBASSADOR TO LONDON

(Since March 1984)

Born in 1924. Graduate in law from Coimbra University. Entered the Foreign Service in 1946. His postings have included: Tangiers, New Delhi, London (1950-52), Stockholm and Helsinki. He was appointed Ambassador to Rome in 1968 and Washington in 1971. He is conservative and cautious and his preference is for reaction rather than taking the initiative. He is said to have been a very close friend of former President Nixon and Dr Kissinger and retains membership of various clubs in America where he goes on leave.

Married. No children.





TITO DE MORAIS, ENG MANUEL

PRESIDENT OF THE ASSEMBLY OF THE REPUBLIC

Born 1910. Graduated in Engineering and started work in Angola. Imprisoned for his opposition activities during Salazar's regime and went into exile in France and Brazil. First national secretary of the Socialist Party (PS). Elected to the Constituent Assembly (1975) and the Assembly of the Republic (1976). He was Secretary of State for Employment in 1975-76 and Vice President of the Assembly of the Republic through to 1983 when he was elected President of the Assembly. Editor of "Portugal Socialista" the official magazine of the PS.

A grand old man of the Party and always loyal to Soares. He is the second ranking member of the state hierarchy, acting for the President of the Republic when the latter is out of Portugal.

Married with children.

VALLADA, ENG PAULO

MAYOR OF OPORTO

Born 1932. Graduated in Civil Engineering at University of Oporto. Went to Mozambique as young man. Returned to Oporto in 1975 and has since made alot of money in property development. Appointed President of Oporto Industrial Association 1979. Elected Mayor of Oporto in December 1982. Paid a sponsored visit to UK in February this year.

He is strongly pro-British and talks ardently of the need to rebuild trading links between Britain and northern Portugal - "where the work gets done". He is particularly keen to attract fresh investment in new technologies. Hard working. A great talker, but also a doer and generally respected. Energetic and ambitious.

Speaks little English. Prefers French. A widower with two children.

VEIGA SIMAO, PROF JOSE

MINISTER FOR INDUSTRY

Born 1929. Graduated in Engineering and Chemistry from University of Coimbra. Became lecturer in science at Coimbra and took PhD in Physics at Cambridge (Fitzwilliam House). Special interest in nuclear physics on which he has lectured in Cambridge and Manchester. Minister of Education in Caetano's government. A liberal, he later resigned from the Government.

Joined the Socialist Party (PS) in 1983 and elected a deputy. Appointed Minister of Industry because of experience. Has had difficult time as Minister and has argued with Minister of Finance; but overall making some headway despite budgetary constraints. Paid sponsored visit to UK in November 1983, during which he met Mr Norman Tebbit and Mr Kenneth Baker.

His English is very good. Married.