



Foreign and Commonwealth Office

London SW1A 2AH

16 April 1984

John L...

M 17/4

h.c.

Prime Minister's Visit to Portugal: Portuguese Accession to the
EEC

You will wish to know that, since the Prime Minister's brief on EC/Portugal (Brief No 4 (Revised) was prepared, the Portuguese tabled on 13 April in Brussels a detailed declaration on agriculture, in response to the Community's declaration of November 1983.

The first indications from Brussels are that the declaration is in a number of respects unrealistic. But it is 136 pages long and the full text is not yet available here. If the subject arises, there should be no need for the Prime Minister to say more than that we are glad that the Portuguese have come forward with a detailed statement and that we shall need time to study it carefully.

As you will have seen, Lisbon telegram number 001 (sic) of 14 April confirms that in the discussion of Community issues the main Portuguese interest will be in hearing the Prime Minister's own account of the prospects in the general post-Stuttgart negotiations.

I am copying this letter to Ivor Llewellyn (MAFF) and to Richard Hatfield (Cabinet Office).

John L...

R B Bone

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

16 APR 1984



UNITED STATES POSTAL SERVICE
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VISIT OF PRIME MINISTER TO PORTUGAL 17/19 APRIL 1984

EC/PORTUGAL

POINTS TO MAKE

1. Community working to most ambitious timetable for completion of accession negotiations of 30 September 1984 . Committed to seeing Portugal member of Community by 1 January 1986.
2. No reason why accession timetable should be affected by post Stuttgart negotiations; on the contrary, both essential stages in work of relaunching Europe of 12.
3. Hard work to bring sense of financial sanity to Community. But vital progress made towards agreement on principles of fundamental importance for future of enlarged Community. Agreement in principle on system of financing directly related to ability to pay: a major step forward of obvious interest to Portugal which must be net beneficiary from EC policies . Substantial measure of agreement in Community on a text which, for the first time, would establish clear and lasting system. Principal feature of this system is that it would be based on relative prosperity in the enlarged Community . Above this basic threshold a member state would be entitled to receive a relief in form of a lower call-up of VAT in the year following that in which relief was due. Clearly proportion of

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GDP represented by a member state's contribution before relief and extent of its compensation once the limit is reached are crucial. That is why it is important to get right the notional figure on basis of which exact parameters would be drawn up. It was not possible to make progress at Foreign Affairs Council. Discussion will however, continue. Remain determined to reach satisfactory solution as soon as possible.

4. Not yet possible to calculate how new approach will affect Portuguese. Unthinkable that Portugal should be net contributor. Generally accepted that arrangements will have to be made, and to take into account time it may take for Portuguese to present projects to trigger EC funds from ESF and ERDF. However, need agreement on precise details of new mechanism and further progress in accession negotiations to permit realistic calculation of potential Portuguese contributions. Once agreement reached, Commission will need to examine urgently. Happy to to keep in touch.

5. One important issue for Portuguese is clearly issue of own resources. In the interests of Community as a whole and of Portuguese as likely net contributor in absence of special arrangements that UK's two conditions should be fulfilled. Considerable progress already made. If we can secure agreement to a lasting

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solution to budget imbalances and other conditions, UK willing to see increase in own resources to 1.4% of VAT in 1986. (If Portuguese say this is not enough): There was discussion at the European Council of a possible further increase in 1988 to 1.6%. Such an increase would require the unanimous approval of national parliaments.

6. Aim now that June European Council should relaunch Community on basis of a package looking forward to interests of a Community of 12. Not only public commitment to accession date and financial groundwork but also policies to develop principles of EEC Treaty. Brussels European Council reached agreement in principle in such areas as:

- . strengthening the internal market, through adoption of standards harmonisation proposals, simplification of trade and customs formalities, liberalisation of public purchasing;
- . liberalisation of services, especially in fields of insurance and transport;
establishment of a common transport policy, including transport infrastructure;
- . UK also pressing for completion of work to develop structural funds in order to promote economic convergence within the Community; these should be

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concentrated on areas of greatest need in the Community and clearly of major importance to Portugal.

Progress in Accession negotiations

7. Community and Portugal have made great strides in accession negotiations with 11 major chapters substantially completed. Welcome satisfactory agreement on Customs Union and External Relations chapters. In particular, pleased that able to agree textiles dossier which as Portuguese know, was most sensitive for UK.

Recognise that textiles agreement was regarded as tough in Portugal- equally, seen as very unsatisfactory in UK; must therefore have achieved fair balance.

8. Presidency have set very ambitious timetable for completion of negotiations. Will do our utmost to achieve deadline of end September 1984 for conclusion. Recognise how important target accession date of 1 January 1986 is for Portugal. Ministerial Conference in May will be most important with major negotiation envisaged on Agriculture, Fisheries and Social Affairs.

9. Community declaration in November 1983 on agriculture designed specially to meet Portuguese circumstances. Portuguese must let us know if there are particular problems. Welcome Community agreement

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on 10 April on programme of assistance to help develop Portuguese agricultural structures (worth some 700 MECU from FEOGA guidance, on top of earlier 50 MECU grant aid) to balance proposed transitional arrangements.

10. Community currently elaborating detailed position on fisheries. Portuguese can expect this to be very tough on access provisions, with an eye to Spain. Can hold out little hope for improvements. However, most member states able to support important principle of "biologically sensitive zones" which allows Portuguese to limit fishing by existing member states and more important, by Spaniards.

11. (If raised) See no reason why Portuguese should give way on VAT zero rating of foodstuffs; we will not do so.

EC/Spain:Gibraltar (If appropriate)

12. Community has made it clear to Spain that Spanish restrictions on Gibraltar incompatible with Spain's EC obligations, and Spain recognises that the problem will have to be dealt with; neither we nor Spain wish to see it become a serious obstacle to accession. The Community and Spain have been able to reach satisfactory agreement in context of External Relations chapter and we look for early parallel agreement in context of Social Affairs chapter. (If necessary)

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Restrictions must be lifted no later than signature of Accession Treaty in order to avoid risk of complicating progress of Spanish Accession Treaty in Parliament.

12. Macao (If appropriate)

Look forward to hearing Portuguese Government thinking on Macao. No doubt Portuguese envisage Macao's relationship with the Community as being the same as Hong Kong's (ie it remains outside the Treaty of Rome altogether). We could not envisage Macao receiving better treatment than Hong Kong (and doubt very much whether such a request would receive any support from other Member states) because of trade (especially textiles), right of work and abode etc. Could also make our negotiations with Chinese over Hong Kong's future more difficult. That in turn could diminish confidence in Macao and even prejudice its future.

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BRIEF NO 4 (Revised)

EC/PORTUGAL

ESSENTIAL FACTS

1. Portuguese may fear that lack of progress in the post Stuttgart negotiations will hinder progress in their accession negotiations. The Prime Minister may therefore wish to brief the Portuguese on the follow up to the European Council and stress that delay in reaching agreement in the post Stuttgart negotiations is not affecting progress in the accession negotiations. There is still too much to do on the latter.

2. Eleven chapters in the negotiations out of 16 have been completed (table at Annex A gives details). The Presidency plan is that the May Ministerial Conference between the Community and Portugal should negotiate the three key dossiers of Agriculture, Fisheries and Social Affairs. If the Fisheries timetable is not met and equally, if a Portuguese declaration on Agriculture is not received in good time, the whole negotiating package would fall to the ground. The Presidency also aim to complete the accession negotiations by 30 September 1984 (a timetable publicly accepted by Chancellor Kohl during

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his visit to Portugal in March). This is just feasible for Portugal (if not for Spain). We attach more importance to the proposed accession date of 1 January 1986 which was highlighted in Dr Soares' letter to the Prime Minister of 31 October 1983 and her reply of 31 October 1983 at annex B.

3. There are major divisions of principle in the Community on Fisheries. While the problems Portugal poses on fisheries are modest, they cannot be divorced from the much larger problem of Spain. (Portugal has a variety of fish stocks in her own waters which she wants to reserve for her own fishermen; Spain, with a very large fleet, does not and is relying on access to stocks in existing member states after accession). The Community is therefore likely to propose to Portugal that she be allowed to designate "biologically sensitive zones" beyond her 12 mile coastal zone in which she would be allowed to regulate fishing by a licensing system comparable to the UK "Shetland Box". This would be important for the Portuguese in controlling access by Spanish fishermen - historically very sensitive. However, since Portugal has virtually no historic rights in EC waters, she will receive little benefit by way of access to resources to stocks subject to quotas and TACS. Moreover, we together

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with France, Ireland, FRG and Denmark are arguing that the acquis will need to be extended further before accession to include a number of stocks not currently subject to quota or TAC such as nephrops (scampi), dogfish (rock salmon) and lemon sole. This is unlikely to be welcome news to the Portuguese and the Prime Minister will not wish to get involved in detail.

4. The Community put to Portugal in November a major declaration on agriculture suggesting a "phased approach" by which during a "first phase" of 4 (extendable to 6) years some 84% of Portuguese agriculture (eg horticulture dairy, meat and cereals) would be excluded from the application of the CAP to give Portugal time to develop the necessary infrastructure (marketing organisations etc). During this initial period, Portugal would retain as national own resources the levies, customs duties etc on imports from third countries of the products in question and use the money for agricultural development; she would not during that time be eligible for FEOGA intervention. The phased transition would last for a total of 10 years, whereas conventional transition would apply for the remaining sectors and last 7 years. The Portuguese are prepared to accept this approach as a "basis for negotiation" with the Community but have

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yet to give a considered response. We have no direct interest (except limiting costs) and can afford to offer good offices to the Portuguese.

5. The Portuguese have asked to apply a VAT "0" rate on foodstuffs and agricultural inputs (i.e. fertilisers) as we and the Irish do. This has been resisted by the French and the Commission as an opportunity to attack UK and Irish practice. We are confident about our position under the 6th VAT directive and have told the Portuguese to stick to their guns as we intend to do.

6. A key issue for the Portuguese will be their contributions to the EC budget. After accession Portugal will be the poorest member of the Community with a GDP per head (\$2300) little more than half that of Greece (table at Annex C attached) and indeed in the same World Bank Group as such countries as Rumania and Chile. However, since Portugal's agriculture is weak and she is a major importer of US cereals, without special arrangements she might find herself a net contributor to the EC budget. The Commission have not yet given any indication as to how they propose to ensure that Portugal is a substantial net beneficiary particularly in circumstances where she is unlikely to be able to provide the necessary funds to trigger

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matching contributions from the European Social Fund and the European Development Fund. In the meantime, there have been a number of minor proposals to help the Portuguese, though their total impact is impossible to estimate at this stage.

Pre-Accession Aid

3. The Community has just agreed at the Foreign Affairs Council on 10/11 April on a programme of assistance for Agricultural Structures worth some 700 MECU from FEOGA guidance on top of an earlier 50 MECU programme of grant aid. The Portuguese Finance Minister stressed the importance of the programme in his call on the Secretary of State on 11 April. The UK agreed to both programmes with reluctance. In the case of the 50 MECU aid (the UK contribution to the allocation is set against the UK aid programme) we argued that the Commission had not fully made out the economic case nor explained why this was needed in addition to the Pre Accession Aid package agreed in 1980, which was at the time intended to cover the period to accession. The 1980 package comprised 275 MECU, 150 MECU in loans from EIB own resources, and 125 MECU in grants from the EC budget. A further 75 MECU of EIB loans was agreed in 1983. We were hesitant also about the 700 MECU proposal both on the

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grounds of budgetary cost and in terms of possible implications for IMPS (Integrated Mediterranean Programmes) but finally joined in the consensus.

EC/SPAIN: GIBRALTAR

4. If opportunity arises, it would be worth explaining to Dr Soares in general terms that the Spaniards have already given the Community a satisfactory undertaking in the context of the External Relations chapter that they will eliminate ^{obstacles to} trade with Gibraltar from accession and that we hope soon to see parallel agreement reached as regards the free movement of individuals (but not the right to take up employment) in the context of the Social Affairs chapter.

5. Macao is described in the Portuguese constitution as a 'territory under Portuguese administration'. It is a full GSP beneficiary for industrial and agricultural products, except for textiles which are negotiated under the MFA. Hong Kong has no special status vis-a-vis the EC, and is treated as a normal third country. When Lord Carrington visited the territory in March 1981, he told Unofficial Members of the Executive and Legislative Councils of Hong Kong that there was no question of Macao being treated more favourably than Hong Kong in the Community. Mr Atkins



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(then Lord Privy seal) repeated this assurance when the issue was raised by the Unofficials during his visit in January 1983.

6. The Portuguese MFA Secretary General promised Sir Anthony Acland in September 1983 that we would receive advance warning of Portuguese intentions on Macao. If the Portuguese seek to obtain "overseas country and territory"(OCT) status for Macao , we should wish to make it clear from the outset that this would be politically unacceptable, so that the Portuguese do not retain any unrealistic expectations.

European Community Department (External)

FOREIGN AND COMMONWEALTH OFFICE

11 April 1984

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STATE OF PLAY IN ACCESSION NEGOTIATIONS

CHAPT	STATE OF PLAY	COMMENT
CAPITAL MOVEMENTS	Agreed in full	
TRANSPORT	Agreed in full	
REGIONAL POLICY	Agreed in full	
EURATOM	Agreed in full	
RIGHTS OF ESTABLISHMENT	Substantially agreed	(except for inclusion of escudo in ECU)
TAXATION	Substantially agreed	(except for Portuguese wish to apply VAT zero rating to food stuffs)
CUSTOMS UNION	Substantially agreed)	(includes transitional (3/4 years arrangements for textiles)
ECSC	Substantially agreed)	7 years transition
EXTERNAL RELATIONS	Substantially agreed)	
HARMONISATION OF LAWS	Substantially agreed	(including Environment and consumer protection but excluding patents)
SOCIAL AFFAIRS	Under negotiation	7 years transition agreed in 6
AGRICULTURE	Under negotiation	(Community have proposed 'Phased approach' with first phase of 4/6 years before CAP regimes apply to over half Portuguese agriculture including fruit and vegetables and cereals).
FISHERIES	Under negotiation	(Community permitting Portugal to have 'biologically sensitive boxes' between 12-200 miles with access to resources largely reserved for Portuguese fishing, Portuguese to receive only very limited access to EC resources). Under discussion in Community.
OWN RESOURCES	To be negotiated	
INSTITUTIONS	To be negotiated	
SPAIN/PORTUGAL	To be negotiated	

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ANNEX - B

10 DOWNING STREET

8 November, 1983

THE PRIME MINISTER

My dear Prime Minister,

Thank you for your letter of 31 October. I am glad to have this chance to reiterate the strength of British support for Portuguese accession and our determination to see democracy in Europe consolidated with the accession of your country to the European Community as soon as possible.

I sympathise with your sense of frustration at the sometimes slow and tortuous progress of your negotiations with the Community. These have in fact made considerable progress; I am particularly glad to see that, following the recent agreement among the Agriculture Ministers on the reform of arrangements for Mediterranean fruit and vegetables, the way is now clear for the Community to get down to serious discussion of the agricultural transitional arrangements with Portugal.

The post-Stuttgart negotiations are obviously of importance for Portugal, since these will change the Community for years to come. Our interest in an outcome which will ensure that no Member State is asked to bear a financial burden disproportionate to its means, and that agricultural expenditure is brought under effective control seems to me to coincide with points which you yourself have raised in your negotiations with the Community. We are doing all we can to bring these negotiations to an early and satisfactory conclusion, to put an end to the Community's internal debate and thus to lay a firm foundation for the essential task of enlargement.

/Like you,

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Like you, we have always believed that the Portuguese and Spanish negotiations should be conducted entirely separately and on their respective merits. We share your hope that your negotiations will be completed during the first half of 1984, with the aim of signing a Treaty as soon as possible thereafter. We should like to see the Spanish negotiations brought to a successful conclusion in a similar timescale and we sympathise with the wish of both Spain and Portugal to enter the Community on 1 January, 1986. That is what we shall be working for.

Yours sincerely

Raymond Sheldrake

His Excellency Dr. Mario Soares

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BRIEF 11
ANNEX A

*Original Containing
Polygram Square
Lima SRX 8PP*

London, 31st October, 1983

My Dear Prime Minister,

I am writing to you in order to raise again the subject of the accession of Portugal to the E.E.C., a subject, to which my Government attaches paramount importance and, consequently, of the next summit meeting in Athens.

On the 28th March 1977 I had the honour of presenting on behalf of the Portuguese Government, the formal demand of Portugal to join the European Economic Community.

The presentation of this request marked the end of an era of political and social agitation in Portugal and was in itself a clear affirmation of my country's new political and economic options.

Five years have elapsed since the solemn opening of negotiations on the 17th October 1978. I regret having to state my disappointment now for the lack of political will that led to the slackening of a process which at the start had the general support of the E.E.C. member states and did not present, already at that time, any unsurmountable difficulties for its conclusion. I must tell you that my disappointment is also shared by all the portuguese who believe in Europe and in its prominent role in the shaping of World economic and political realities.

.../...

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We are well aware of the difficulties the Community has to face but we believe that they can easily be solved if the will to build a stronger Europe prevails over the narrow approach that makes the survival of great political designs dependent on short-term economic interests. As an old European nation, Portugal has the right to participate in the definition and resolution of all the problems which Europe will be confronted with. This is also, I think, in the interest of Europe.

We think that the reinforcement of the European idea cannot be achieved without the strengthening of the solidarity between the North and the South of Europe, through a dialogue that pays due attention to the peculiarities and the specific problems of the different parts of Europe. We think therefore that, although accepting that the accession of Portugal and Spain could be simultaneously effective, that is to say on the 1st of January 1986, Portugal's treaty of accession should be signed earlier than Spain's, and already during the first half of 1984, as the Portuguese dossiers do not present any difficulties for rapid conclusion. This would be the logical result of the separate consideration of each candidature and its appreciation on its own merits, in accordance with the provisions of the Treaty of Rome.

The Portuguese people are going through a period of restraint meant to overcome a serious economic crisis. It is our duty to show now to the Portuguese public opinion the new roads leading to the future, which cannot actually be defined if we do not know whether we can pursue the previously chosen trend which aimed at full E.E.C. membership or, failing that start in a different direction if Europe refuses us. It is now imperative to know if we are really going to join "Europe", under what conditions and when.

Every historical option has a proper time for its fulfilment. The time for the fulfilment of Portugal's European option is gradually coming to an end. It would be an error, in which we are not ready to incur, to further delay the necessary decisions in this matter. Portugal hopes that a decision

will be taken soon because we cannot lose the opportunity to start in a different direction.

We want to be part of a politically and economically coherent Europe, and therefore we are waiting for an unequivocal answer and steps forward from the E.E.C. countries. The Athens Summit and the subsequent months should bring forth the completion of this process.

Yours sincerely,

s) Mario Soares
Prime Minister of Portugal

The Rt. Hon. Margaret Thatcher, MP
Prime Minister,
10 Downing Street,
London, S.W.1.

<u>Country</u>	<u>GDP as a % of total GDP OF A COMMUNITY OF 12</u>	<u>Relative prosperity (GDP per head as % of EC average)</u>
Belgium	3.3	108
Denmark	2.3	142
Germany	26.4	137
Greece	1.4	46
France	21.0	123
Ireland	0.69	63
Italy	14.4	82
Luxembourg	0.14	116
Netherlands	5.3	119
United Kingdom	17.6	100
Spain	6.5	54
Portugal	0.90	28