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263805	CABLE	SECTO 17023	4	12/9/1982	B1
263806	CABLE	STATE 349690	14	12/16/1982	B1
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- B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

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SECSTATE ALSO FOR AMBASSADOR HOLMES
E.O. 12356: DECL: OADR
TAGS: NATO, MPOL, PO, MASS, MARR
SUBJECT: PRIME MINISTER BALSEMAO'S VISIT: SENIOR PAF
OFFICER PREPARED TO DISCUSS A-7P PROGRAM

1. C - ENTIRE TEXT

2. DATT LEARNED THIS WEEKEND THAT DURING PRIME MINISTER PINTO BALSEMAO'S VISIT TO THE U.S., 14-17 DEC, HE WILL BE ACCOMPANIED BY AIR FORCE BRIGADEIRO NARCISO MENDES DIAS. MENDES DIAS IS THE PAF DEPUTY FOR OPERATIONS AND WHILE THE ONLY MEMBER OF THE SENIOR STAFF NOT A FULL GENERAL IS ONE OF ITS MORE CAPABLE OFFICERS AS EVIDENCED BY HIS POSITION. IN ADDITION, MENDES DIAS IS ONE OF THE MILITARY ADVISORS ON THE PORTUGUESE TEAM CURRENTLY NEGOTIATING THE US-PORTUGUESE SECURITY AGREEMENT.

3. PAF CHIEF, LEMOS FERREIRA MET PERSONALLY WITH THE PRIME MINISTER ON FRIDAY, 10 DEC, AND ASKED THAT THE PRIME MINISTER DISCUSS THE PURCHASE OF THE 2D A-7 SQUADRON WHILE ON HIS U.S. VISIT. LEMOS FERREIRA HAD PREVIOUSLY GOTTEN THE BLESSING OF THE VICE PRIME MINISTER/ MINISTER OF DEFENSE, DIOGO FREITAS DO AMARAL TO DO THIS. THE PRIME MINISTER AGREED AND ALSO CONCURRED IN TAKING MENDES DIAS WITH HIM TO PROVIDE TECHNICAL INFORMATION WHEN HE DISCUSSES THE A-7 PROJECT. DATT WAS NOT ABLE TO DETERMINE AT WHAT LEVEL THE PRIME MINISTER INTENDED TO RAISE THE SUBJECT, BUT HE WILL CERTAINLY DO SO WITH SECDEF AND MAY ALSO DO SO WITH ACTING SECSTATE.

4. WHILE THE ENTIRE 2D A-7 PACKAGE WILL BE ADDRESSED, THE THRUST OF THE PRIME MINISTER'S POINTS WILL BE THE PORTUGUESE DESIRE THAT THE U.S. DECLARE EXCESS THE P-408 ENGINES ON A TIME-PHASED PROGRAM AND PROVIDE THEM TO PORTUGAL, THUS REDUCING SIGNIFICANTLY THE PORTUGUESE COST. HE MAY ALSO SUGGEST THAT SOME OF THE ENGINES BE PROVIDED WITHOUT OVERHAUL AND WITH SOME 20 TO 40 PERCENT OF ENGINE LIFE TO OVERHAUL LEFT ON THEM. THIS EVIDENTLY WOULD ALLOW THE PAF TO PROGRAM THEM INTO OVERHAUL AT THE PAF'S ALVERCA FACILITY AT A LATER DATE WHEN ADDITIONAL MONIES COULD BE MADE AVAILABLE.

5. MENDES DIAS HAS BEEN DIRECTED TO REMAIN IN WASHINGTON IF NECESSARY TO WORK OUT DETAILS. ROWELL
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MILITARY ADDRESSES FOR POLADS
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SECDEF FOR ISP AND DSAA
E.O. 12356: DECL: OADR
TAGS: NATO, MPOL, PO
SUBJECT: PORTUGUESE MEMORANDUM ON SECOND A-7P SQUADRON
REF: LISBON 8236, DTG 221042Z NOV 82

1. (C) THERE FOLLOWS IN PARAGRAPH FOUR THE EMBASSY'S
INFORMAL TRANSLATION OF A PORTUGUESE AIR FORCE MEMORANDUM
ON THE SECOND A-7P SQUADRON. THE MEMORANDUM, DATED
NOVEMBER 30, WAS PROVIDED BY PORTUGUESE AIR FORCE CHIEF
GENERAL LEMOS FERREIRA

2. (C) THE MEMORANDUM COMPARES WHAT THE PORTUGUESE AIR
FORCE HAD LEARNED IN EARLY NOVEMBER ABOUT OUR DRAFT PRICE
AND AVAILABILITY DATA TO THE VOUGHT PROPOSAL, ON WHICH
THEY WERE BRIEFED IN MID-NOVEMBER. TO SUMMARIZE, THE
PORTUGUESE AIR FORCE:

- TERMS THE PRICE AND AVAILABILITY DATA UNACCEPTABLE
IN TERMS OF PRICE AND DELIVERY.
 - FINDS THE VOUGHT PROPOSAL ATTRACTIVE AND URGES THAT
DISCUSSIONS ON IT BEGIN URGENTLY.
 - NOTES THAT THE VOUGHT PROPOSAL DEPENDS ON U.S. GOVERN-
MENT SUPPLYING ENGINES AS SURPLUS AND WITHOUT COST.
3. (U) OUR RECOMMENDATIONS WERE TRANSMITTED IN REFTEL.

4. (C) BEGIN TEXT OF PORTUGUESE AIR FORCE MEMORANDUM.

SUBJECT: RE-EQUIPMENT OF THE PORTUGUESE AIR FORCE-A-7P
PROGRAM/SECOND SQUADRON

1. SINCE ITS INCEPTION, THE A-7P PROGRAM HAS BEEN
CONSIDERED AS COMPRISING TWO SQUADRONS WITH A TOTAL OF 50
AIRCRAFT (44 SINGLE-SEATERS AND 6 TWO-SEATERS).

2. THE DELIVERY OF THE FIRST SQUADRON OF 20 SINGLE-SEATER
AIRCRAFT IS COMPLETE. MEANWHILE, IN APRIL 1982, THE
PORTUGUESE AIR FORCE ASKED THE U.S. GOVERNMENT FOR A

LETTER OF OFFER AND ACCEPTANCE (LOA) FOR THE SECOND
SQUADRON, THAT IS, FOR 24 SINGLE SEAT A-7P AIRCRAFT
WITH THE IDENTICAL CONFIGURATION AS THE FIRST SQUADRON,
AND SIX TA-7P AIRCRAFT.

3. TO DATE THERE HAS BEEN NO FORMAL RESPONSE TO THIS
REQUEST. HOWEVER, IN EARLY NOVEMBER 1982 WE WERE
INFORMALLY ADVISED OF A DRAFT REPLY CONTAINING "PRICE
AND AVAILABILITY (P&A) DATA".

4. ACCORDING TO THIS DOCUMENT, THE ESSENTIAL CHARACTERIS-
TICS OF THE SECOND SQUADRON PROGRAM WOULD BE AS FOLLOWS:

- . A. AN ESTIMATED COST OF \$211M.
- . B. DELIVERY OF AIRCRAFT TO BEGIN IN SEPTEMBER 1985
AND ENDING IN DECEMBER 1986 WITH AVAILABILITY OF
THE TF-30 P408 ENGINES BEING THE MAIN CONSTRAINT.

5. IN COMPARISON TO THE FIRST SQUADRON, THE ESTIMATED
COST OF \$211M FOR THE 2ND SQUADRON IS NOTORIOUSLY
EXCESSIVE EVEN CONSIDERING INFLATION. IT SHOULD BE
NOTED THAT THE DESIRED AIRCRAFT CONFIGURATION FOR THE
SECOND SQUADRON IS IDENTICAL TO THAT OF THE FIRST
SQUADRON AND THAT THE AIRCRAFT WILL BE STATIONED AT THE
SAME BASE AS THE FIRST SQUADRON. THE ESTIMATE ALSO
EXCEEDS THE \$144 MILLION WHICH THE PORTUGUESE GOVERNMENT,
DEMONSTRATING A NOTABLE EFFORT TO RESOLVE THE PROBLEM,
AUTHORIZED (RULING 957/82 OF 11 OCTOBER).
IT SHOULD BE NOTED THAT THE \$144 MILLION FIGURE CORRE-
SPONDS TO AN ESTIMATE, ALSO INFORMAL, FURNISHED TO US A
SHORT TIME AGO. (MAAG COMMENT: THIS IS AN 18-MONTH OLD
FIGURE OBTAINED FROM VOUGHT AT THE REQUEST OF THE
PORTUGUESE AIR FORCE. END COMMENT.)

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6. ALSO THE DELIVERY SCHEDULE, RESULTING FROM A DELAYED START AND AN EXCEPTIONALLY SLOW PRODUCTION RATE, MAKES THE PROPOSAL UNACCEPTABLE IN OPERATIONAL TERMS. ACTUALLY, UNDER THE BEST ESTIMATES, ONLY AT THE END OF 1986, A 4-YEAR PERIOD, WOULD THE PROGRAM BE COMPLETE. BESIDES, AS IS WELL KNOWN, DELAYS IN DELIVERY TIMES INEVITABLY RESULT IN INCREASED COSTS.

7. IN VIEW OF THIS, VOUGHT SOUGHT ALTERNATIVE SOLUTIONS AND IN MID-NOVEMBER PRESENTED ITS CONCLUSIONS. THESE CONCLUSIONS INDICATE SUFFICIENTLY THAT THE COMPLETION OF THE PROGRAM IS VIABLE IN TERMS OF INITIAL COST IN ACCORDANCE WITH RULING 957/82 AND IN A TIME FRAME THAT SATISFIES THE OPERATIONAL NEEDS OF THE PORTUGUESE AIR FORCE. THESE CONCLUSIONS NEED HOWEVER TO BE ANALYZED, DISCUSSED, AND EXAMINED WITH THE OBJECTIVE OF FINDING SOLUTIONS THAT DO NOT TAKE THE EASY WAY OUT BY ELIMINATING CERTAIN MATERIAL AND SERVICES OR BY DELAYING THEIR ACQUISITION. THUS, WHILE IT MAY BE ACCEPTABLE TO REDUCE SOME MATERIALS OR POSTPONE THEIR ACQUISITION FOR A WHILE BECAUSE MANY OF THEM ARE NOT IMMEDIATELY NECESSARY, WE CANNOT FORGET THAT WE WILL HAVE TO FIND A POINT OF EQUILIBRIUM WITH THE CERTAIN INCREASE IN COSTS RESULTING FROM THIS SLIPPAGE.

8. THE VOUGHT PROPOSAL IS PRESENTED DIFFERENTLY THAN THE P&A DATA, WHICH MAKES DIFFICULT A COMPARISON OF THE COSTS AND CONTENT OF BOTH DOCUMENTS. HOWEVER, THE FOLLOWING POINTS ARE EVIDENT:

- A. THE REMANUFACTURING COSTS INDICATED IN THE P&A DATA ARE, IN RELATION TO THE FIRST SQUADRON, INCOMPREHENSIBLY INFLATED. THE VOUGHT PROPOSAL SEEMS TO CORRESPOND FAVORABLY WITH THE SAME COSTS OF THE FIRST SQUADRON.
- B. THE P&A DATA STATES \$17,261,720 IS NEEDED FOR 38 ENGINES INCLUDING OVERHAUL AND MODIFICATION. AS INDICATED IN THE VOUGHT PROPOSAL, THIS AMOUNT COULD BE SUBSTANTIALLY REDUCED BY THE GRANT AS SURPLUS OF 24 ENGINES THAT HAVE SOME FLYING TIME REMAINING, AND OF 14 ENGINES THAT WILL REQUIRE OVERHAUL (THE COST OF WHICH IS COVERED IN THE

PROGRAM). THUS, AS THE ENGINES BECOME AVAILABLE, THEY WILL BE INSTALLED IN THE AIRCRAFT UNDER REMANUFACTURE OR OVERHAULED, WHICHEVER IS MORE APPROPRIATE TO MEET THE TIME TABLE ESTABLISHED FOR AIRCRAFT DELIVERY.

C. THE P&A DATA ESTIMATE FOR SUPPORT MATERIAL (GSE) AND SPARE PARTS IS \$27,838,913. NO SPECIFICS ARE GIVEN FOR EITHER OF THESE AREAS NOR IS A RATIONALE GIVEN FOR THEIR SELECTION. THE REQUIREMENTS OF THE FIRST SQUADRON, IN THE OPINION OF THE PORTUGUESE AIR FORCE, SHOULD BE THE PRINCIPAL DETERMINING CRITERION. THE VOUGHT PROPOSAL ESTIMATES THE INITIAL COST TO BE \$3 MILLION. THE LIST (I.E., FOR SUPPORT MATERIAL AND SPARES) SHOULD BE DETERMINED BASED ON PAF EXPERIENCE.

D. IT IS IN THE AREA OF LOGISTICS THAT VOUGHT PROPOSES THE GREATEST COST REDUCTION (\$33.4 MILLION) BY DEFERMENTS AND SELECTIVE ACQUISITION. THIS PROPOSAL, ALTHOUGH PERTINENT, MUST BE CAREFULLY DISCUSSED IN VIEW OF THE FACT THAT DELAY IN ACQUISITION OF MATERIALS AND SERVICES, AS WAS SEEN IN THE FIRST SQUADRON, RESULTED IN INCREASED COSTS, FAR HIGHER THAN ONE WOULD REASONABLY EXPECT.

E. ALTHOUGH NOT PRECISELY STATED IN THE VOUGHT PROPOSAL, IT IS ASSUMED THAT THE "FERRY," "STAGING" AND "PACKING, CRATING AND HANDLING" ARE INCLUDED IN THE PREVIOUS PARAGRAPH.

F. IN REFERENCE TO PUBLICATIONS, THE "P&A DATA" INDICATE THAT PUBLICATIONS FOR THE TA-7P MUST BE PREPARED SINCE NONE ARE AVAILABLE. THIS WOULD THEREFORE JUSTIFY THE HIGH \$3,349,400 PUBLICATIONS PRICE. VOUGHT IN ITS PROPOSAL REDUCES THIS COST

BY UTILIZING EXISTING PUBLICATIONS. THIS PROCEDURE WILL BE ACCEPTABLE IF THE SECOND SQUADRON SINGLE-SEAT AIRCRAFT ARE IDENTICAL TO THOSE IN THE FIRST SQUADRON, AND THE TWO-SEATERS THE SAME AS THE TA-7C WITHOUT ANY MODIFICATIONS. VOUGHT,

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VERSION, MAKES ONE OF THE LARGEST COST REDUCTIONS (\$9.4 MILLION), WHILE ALLOWING FOR THE POSSIBILITY OF MINOR MODIFICATIONS IN THE C VERSION TO APPROXIMATE THE P WITHOUT A COST INCREASE. THESE ARE IMPORTANT POINTS TO DISCUSS: THE CONFIGURATION OF THE AIRCRAFT, ESPECIALLY THE TWO-SEAT VERSION, AND THE COST OF THE PUBLICATIONS WHICH SHOULD BE SPECIFIC FOR THESE CONFIGURATIONS. THE PAF WILL ACCEPT THE TA-7C VERSION INSTEAD OF THE TA-7P AS LONG AS THE ABOVE CITED CONDITIONS ARE MET.

- G. THE ACCEPTANCE OF A DIRECT COMMERCIAL CONTRACT WITH VOUGHT, IN CONJUNCTION WITH FMS, WILL, ACCORDING TO THE MANUFACTURER, REDUCE ADMINISTRATIVE COSTS BY \$5.4 MILLION. ALTHOUGH THIS IS AN ATTRACTIVE PROPOSAL, IT MUST BE EVALUATED TO IDENTIFY WHERE IT WILL ELIMINATE DUPLICATION OF COSTS. IT IS ALSO NECESSARY TO CONSIDER WHETHER WHEN CERTAIN ADMINISTRATIVE BODIES ARE ELIMINATED, THEY WILL HAVE TO BE SUBSTITUTED BY OTHERS TO INSURE A SUCCESSFUL OPERATION.

9. IN SUMMARY:

- A. THE PROPOSAL PRESENTED IN THE "P&A DATA" IS NOT ACCEPTABLE IN TERMS OF PRICE AND DELIVERY SCHEDULE.
- B. VOUGHT'S PROPOSAL, ALTHOUGH IT APPEARS VIABLE, URGENTLY REQUIRES FURTHER DISCUSSION AND EXAMINATION.
- C. THE SOLUTIONS PRESENTED BY VOUGHT ARE DEPENDENT UPON THE FOLLOWING ESSENTIAL POINTS:
1. THE GRANTING OF ENGINES, AS SURPLUS AND WITHOUT COST (24 OF WHICH SHOULD HAVE SUFFICIENT FLYING HOURS REMAINING). THIS ACTION DEPENDS ON A U.S. GOVERNMENT DECISION.
 2. PHASED OVERHAUL OF THE REMAINING 14 ENGINES THAT LACK FLYING CAPABILITY. WE ASSUME THE OVERHAUL COST IS INCLUDED IN THE VOUGHT PROPOSAL. THIS MEASURE IS CONSIDERED REASONABLE AND CONSISTENT WITH THE SUGGESTED

DELIVERY SCHEDULE AND IS ACCEPTABLE TO THE PORTUGUESE AIR FORCE.

3. PHASED LOGISTICS SUPPORT. THIS ACTION IS ACCEPTABLE BUT REQUIRES FURTHER DETAILED DISCUSSION AND ANALYSIS SO AS TO AVOID UNCONTROLLED COST INCREASES DUE TO THE STRETCH-OUT.
4. ACCEPTANCE OF THE MODIFIED VERSION OF THE TA-7C SIMILAR TO THE TA-7P TWO-SEATER AIRCRAFT. THIS COULD BE A VALID SOLUTION BUT MUST BE CONSIDERED AND ANALYZED IN TERMS OF COST-EFFICIENCY OF OPERATIONS AND MAINTENANCE. IN ANY CASE, THE PUBLICATIONS MUST BE IN ACCORDANCE WITH THE AIRCRAFT CONFIGURATION FINALLY ACCEPTED.
5. COMBINATION OF FMS AND COMMERCIAL CONTRACTS, WITH EMPHASIS ON THE LATTER. THIS IS ACCEPTABLE AS LONG AS IT WILL RESULT IN A REDUCTION OF COSTS THAT ARE PROPERLY DOCUMENTED.

10. IN CONCLUSION, WE CONSIDER THAT FOR THE PROGRAM TO CONTINUE ON COURSE IT IS NECESSARY AND URGENT:

- A. TO KNOW THE AVAILABILITY DATE OF ENGINES HAVING SOME FLYING TIME REMAINING THAT CAN BE PROVIDED AS EXCESS AND AT NO COST TO THE PROGRAM.
- B. TO INITIATE DISCUSSIONS ON THE VOUGHT PROPOSAL, PORTUGUESE AIR FORCE
GENERAL STAFF CHIEF
ALFRAGIDE
30 NOVEMBER 1982

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E.O. 12356: DECL: OADR
TAGS: MASS, MARR, PO
SU T: MEETING BETWEEN ACTING SECRETARY DAM AND
PORTUGUESE PRIME MINISTER BALSEMAO DECEMBER 15

1. C-ENTIRE TEXT.

2. SUMMARY: THE MEETING BETWEEN ACTING SECRETARY DAM AND PRIME MINISTER BALSEMAO DEALT MAINLY WITH SECURITY NEGOTIATIONS AND SECURITY ASSISTANCE. BALSEMAO INSISTED THAT THE NEGOTIATIONS SHOULD IN THE FIRST INSTANCE INVOLVE ONLY RENEWAL OF THE LAJES AGREEMENT. EXPANSION OF LAJES AND USE OF OTHER FACILITIES COULD BE DEALT WITH IN SUBSEQUENT NEGOTIATIONS. THE ACTING SECRETARY ARGUED THAT A GLOBAL APPROACH WOULD FACILITATE THE ADMINISTRATION'S EFFORTS TO INCREASE ASSISTANCE FOR PORTUGAL. HE ALSO INFORMED BALSEMAO OF THE ADMINISTRATION'S FY 84 PROPOSED BUDGET REQUEST AND INDICATED THAT IT WAS THE INTENTION OF THE ADMINISTRATION THAT MILITARY ASSISTANCE FOR PORTUGAL WOULD REACH THE LEVEL OF ABOUT \$125 MILLION AT A REASONABLE POINT IN THE LIFE OF THE NEW AGREEMENT. HE EMPHASIZED THAT REGARDLESS OF HOW THE NEGOTIATIONS ARE STRUCTURED U.S. ASSISTANCE WOULD BE PROVIDED GLOBALLY. THERE WOULD BE NO INCREMENTAL INCREASE IN THE EVENT OF SERIATIM NEGOTIATIONS. BALSEMAO ALSO RAISED THE SUBJECT OF TIMOR AND ASKED FOR U.S. UNDERSTANDING AND ASSISTANCE. BALSEMAO INDICATED PORTUGAL'S WILLINGNESS TO PARTICIPATE IN THE MNF BUT MADE IT CLEAR THAT FUNDS FOR SUCH PARTICIPATION WOULD HAVE TO COME FROM SOME OTHER SOURCE. END SUMMARY.

3. THE ACTING SECRETARY BEGAN THE MEETING BY SUGGESTING THAT HE AND PRIME MINISTER USE THEIR MEETING TO PREPARE FOR BALSEMAO'S MEETING WITH THE PRESIDENT. HE SUGGESTED THAT BALSEMAO IDENTIFY TWO OR THREE SUBJECTS THAT HE WOULD LIKE TO DISCUSS WITH THE PRESIDENT. BALSEMAO SAID HE WANTED TO EXPLAIN TO THE PRESIDENT INTERNAL DEVELOPMENTS IN PORTUGAL. THE GENERAL SUBJECT OF NEGOTIATIONS AND ASSISTANCE COULD BE DISCUSSED IN

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DETAIL WITH THE ACTING SECRETARY, BUT BALSEMAO SAID HE WANTED TO MENTION IT WITH THE PRESIDENT. ADDITIONALLY, HE WOULD LIKE TO OUTLINE PORTUGAL'S POSITION ON TIMOR AND SOUTHERN AFRICA. FROM THE PRESIDENT HE WOULD APPRECIATE HEARING ABOUT LATIN AMERICA, THE MIDDLE EAST, AND THE OUTLOOK FOR EAST-WEST RELATIONS AFTER BREZHNEV.

4. BALSEMAO THEN REVIEWED THE STATUS OF SECURITY NEGOTIATIONS. BEGINNING IN 1980, HE SAID, THE U.S. HAD ASKED FOR EXTENDED FACILITIES IN PORTUGAL, INCLUDING HOMEPORTING OF AN AIRCRAFT CARRIER, EXPANDED POL FACILITIES AT LAJES, USE OF MAINLAND CIVILIAN AIRFIELDS AND USE OF BEJA AIRBASE. THE NEGOTIATIONS THAT HAD BEGUN DECEMBER 6 SHOULD DEAL ONLY WITH EXTENSION OF THE CURRENT AGREEMENT ON USE OF LAJES WHICH EXPIRES FEBRUARY 4. PORTUGAL IS WILLING AND READY TO NEGOTIATE AN EXTENSION. AN AGREEMENT COULD BE REACHED VERY QUICKLY ALTHOUGH IT WOULD BE NECESSARY TO COMPLETE NEGOTIATIONS OF TECHNICAL AND LABOR AGREEMENTS FIRST. BALSEMAO SAID TH GOP FOUND THE GLOBAL APPROACH PROPOSED BY THE U.S. TO BE VERY DIFFICULT. EXTENDING ADDITIONAL FACILITIES WOULD INCREASE THE RISK FOR PORTUGAL AND THIS WOULD NEED TO BE TAKEN INTO ACCOUNT. GLOBALIZING THE NEGOTIATIONS WOULD COMPLICATE THINGS. IT WOULD RUN THE RISK OF DELAYING AGREEMENT ON RENEWAL OF LAJES.

5. FOREIGN MINISTER FUTSCHER PEREIRA EXPLAINED THAT THE GOP WAS NOT REJECTING THE IDEA OF A GLOBAL AGREEMENT BUT THAT THE FIRST STAGE IN ANY AGREEMENT WOULD HAVE TO BE RENEWAL OF LAJES ACCORD. THE PRIME MINISTER AGREED THAT HE WAS NOT EXCLUDING THE POSSIBILITY OF A GLOBAL AGREEMENT BUT SAID THE GOP WOULD HAVE TO BE CONVINCED THAT PORTUGAL WOULD GET WHAT IT NEEDS AND DESERVES.

OTHERWISE NEGOTIATIONS WOULD HAVE TO PROCEED ONE STEP AT A TIME.

6. ACTING SECRETARY RESPONDED THAT THE U.S. SEES GREAT ADVANTAGE IN REACHING A BROADER AGREEMENT PROMPTLY. IN DEALING WITH CONGRESS THE ADMINISTRATION WOULD BE MUCH BETTER OFF IF IT COULD SHOW THAT AGREEMENT HAD BEEN REACHED FOR EXPANDED USAGE. AMBASSADOR HOLMES CONFIRMED THAT THE U.S. STRONGLY PREFERS A GLOBAL APPROACH. SERIATIM NEGOTIATIONS ARE OF COURSE POSSIBLE BUT U.S. ASSISTANCE WILL INEVITABLY BE BASED ON A GLOBAL FIGURE. THERE WOULD BE NO POSSIBILITY OF INCREMENTAL INCREASES. TO SUGGEST OTHERWISE WOULD RAISE FALSE EXPECTATIONS.

7. WITH REGARD TO SECURITY ASSISTANCE THE ACTING SECRETARY SAID THE ADMINISTRATION HAD SERIOUS PROBLEMS WITH THE CONGRESS IN FISCAL YEAR 83 THAT HAD NOTHING TO DO WITH PORTUGAL. THE CONGRESS IS RELUCTANT TO PASS ANY FOREIGN ASSISTANCE BILL. A CONTINUING RESOLUTION IS LIKELY TO BE PASSED, BUT THE ADMINISTRATION STILL DOES NOT KNOW WHAT RESOURCES IT MIGHT HAVE. PORTUGAL SHOULD BE ASSURED THOUGH THAT THERE IS NO COUNTRY MORE IMPORTANT TO THE U.S. THAN PORTUGAL AND THE ADMINISTRATION WILL DO THE BEST IT CAN IN ALLOCATING ANY DISCRETIONARY FUNDS AVAILABLE IN FY 83. FOR FY 84 THE PRESIDENT WILL PROPOSE TO THE CONGRESS \$105 MILLION IN MILITARY ASSISTANCE (\$60 MILLION GRANT, \$45 MILLION CREDIT) AND \$40 MILLION ESF. IN FUTURE YEARS THE ACTING SECRETARY SAID THE ADMINISTRATION WOULD AIM AT AN UPWARD TREND WITH MILITARY ASSISTANCE REACHING

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THE LEVEL OF \$125 MILLION ANNUALLY FOR THE DURATION OF THE AGREEMENT. BALSEMAO ASKED IF THE \$125 MILLION WOULD BE GRANT. THE ACTING SECRETARY SAID IT WOULD NOT, BUT HE COULD NOT BE SPECIFIC ABOUT THE MIX. THE WHOLE QUESTION OF ASSISTANCE AND WHAT THE ADMINISTRATION COULD PROVIDE WOULD OF COURSE BE CONTINGENT ON CONGRESSIONAL ACTION. THE ACTING SECRETARY SAID HE WAS CONFIDENT THAT THE CONGRESS WOULD BE RESPONSIVE TO THE ADMINISTRATION'S REQUEST HOWEVER.

8. BALSEMAO AGAIN EXPLAINED PORTUGAL'S OBJECTION TO GLOBALIZATION OF THE NEGOTIATIONS. AGAIN HE TALKED ABOUT THE INCREASED RISK, NOTING THAT THE EMERGENCE

OF SOCIALIST GOVERNMENTS IN GREECE AND SPAIN MIGHT INCREASE U.S. RELIANCE ON PORTUGAL AND THEREFORE INCREASE THE RISK TO PORTUGAL.

9. BALSEMAO PROMISED TO CONSIDER CAREFULLY THE INFORMATION ABOUT SECURITY ASSISTANCE PROVIDED BY

THE ACTING SECRETARY. HE MADE THE POINT HOWEVER THAT THE MIX BETWEEN THE GRANT AND CREDIT PORTIONS WOULD BE PARTICULARLY IMPORTANT. THE TERMS OF THE FMS LOANS WERE NOT PARTICULARLY GOOD. LOANS CAN BE GOTTEN FROM OTHER SOURCES.

10. BALSEMAO SAID THAT IN COMPARING THE ASSISTANCE THE U.S. PROVIDES PORTUGAL AND OTHER RECIPIENTS HE HAD CONCLUDED THAT PORTUGAL, THE RELIABLE FRIEND, IS NOT BEING TREATED AS THE RELIABLE FRIEND. HE SAID THERE IS A GROWING FEELING IN PORTUGAL THAT PERHAPS IT HAS BEEN TOO RELIABLE. BALSEMAO SAID HE DID NOT AGREE, BUT IT WAS NECESSARY FOR HIM TO TAKE INTO ACCOUNT THAT SUCH VIEWS EXISTED. THE ACTING SECRETARY SAID THE U.S. NEVER DOUBTED PORTUGAL'S RELIABILITY. THE U.S. HAS CONFIDENCE IN PORTUGAL AND THE TWO COUNTRIES HAVE MANY SHARED INTERESTS.

11. FOREIGN MINISTER FUTSCHER PEREIRA SAID THE FY 83 AND 84 AND FUTURE YEAR ASSISTANCE FIGURES THE ACTING SECRETARY PRESENTED WERE ENCOURAGING, BUT HE POINTED OUT THAT IN FY 82 THE ADMINISTRATION HAD NOT BEEN ABLE TO GET NEAR WHAT IT HAD REQUESTED. THE IMPORTANT QUESTIONS, HE SAID, IS WHETHER THE ADMINISTRATION CAN GIVE ANY ASSURANCES THAT THE CONGRESS WILL APPROPRIATE WHAT THE ADMINISTRATION REQUESTS. THE ACTING SECRETARY SAID IT IS IMPOSSIBLE TO GIVE ABSOLUTE ASSURANCES. NEVERTHELESS THE ADMINISTRATION ACCORDS PORTUGAL VERY HIGH PRIORITY AND INTENDS TO DO ITS BEST TO PROVIDE THE ASSISTANCE NECESSARY. MOREOVER THERE ARE NO ANTI-PORTUGAL FEELINGS ON CAPITOL HILL.

12. THE FOREIGN MINISTER SAID HE UNDERSTOOD THAT A GLOBAL AGREEMENT WOULD GIVE THE ADMINISTRATION BETTER LEVERAGE ON CAPITOL HILL, BUT THERE WAS A LINGERING DOUBT IN PORTUGAL THAT THE ADMINISTRATION WOULD BE ABLE TO GET WHAT IT ASKED FOR. HE THEN SUGGESTED THAT THE MINISTER OF FINANCE COMMENT ON THE VALUE OF FMS GUARANTEED CREDITS. FINANCE MINISTER SALGUEIRO DEPRECATED CREDITS AND ARGUED THAT GRANTS ARE MUCH MORE IMPORTANT GIVEN PORTUGAL'S DIFFICULT ECONOMIC SITUATION. HE ALSO SAID THAT THE GOP COULD GET LOANS FROM OTHER SOURCES. PM DIRECTOR HOWE, THE ACTING SECRETARY AND AMBASSADOR HOLMES ALL POINTED OUT THAT FMS GUARANTEED LOANS

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PROVIDE CERTAIN ADVANTAGES NOT AVAILABLE FROM
COMMERCIAL SOURCES.

13. IN CONCLUDING THIS PORTION OF THE DISCUSSION PINTO BALSEMAO REITERATED THAT THE GOP WANTS TO PROCEED WITH NEGOTIATIONS PROMPTLY; THE FIRST STEP IS TO SEPARATE LAJES RENEWAL FROM THE EXPANDED FACILITIES QUESTION. IT IS POSSIBLE THAT PORTUGAL WOULD ULTIMATELY AGREE TO A GLOBAL ACCORD BUT IT WOULD NOT START IN THAT DIRECTION.

14. BALSEMAO THEN RAISED THE QUESTION OF TIMOR, REVIEWING BRIEFLY THE EVOLUTION OF THE PROBLEM SINCE INDONESIA TOOK OVER IN 1976. HE NOTED THAT THE U.S. HAD OPPOSED PORTUGAL'S EFFORTS TO RAISE THIS ISSUE WITH THE UN BUT HE URGED THAT THE U.S. CONSIDER WHAT IT MIGHT BE ABLE TO DO EITHER WITH THE SECRETARY GENERAL OR WITH THE INDONESIANS TO HELP THE PORTUGUESE FIND A WAY TO SAVE FACE. THE ACTING SECRETARY SAID THE U.S. WAS SYMPATHETIC WITH PORTUGAL'S CONCERNS BUT DID NOT BELIEVE THERE WAS ANYTHING THE U.S. COULD USEFULLY DO. ANY SOLUTION WOULD HAVE TO BE WORKED OUT AMONG THE PARTIES INVOLVED. IF THE UN COULD PROVIDE A FRAMEWORK FOR NEGOTIATIONS, FINE; BUT THE U.S. DOES NOT THINK IT WOULD BE PRODUCTIVE TO PRESS THE ISSUE AND WORSEN THE PROBLEM. BALSEMAO ASKED IF THAT MEANT THAT PORTUGAL COULD NOT COUNT ON THE U.S. FOR ASSISTANCE. THE ACTING SECRETARY SAID THAT THE U.S. WOULD SUPPORT EFFORTS FOR CONCILIATION.

15. BALSEMAO THEN TURNED TO THE QUESTION OF PORTUGUESE PARTICIPATION IN THE MULTINATIONAL FORCE FOR LEBANON. HE SAID THE GOVERNMENT HAD LOOKED CAREFULLY AT LEBANESE PRESIDENT GEMAYAL'S REQUEST. THERE WERE POLITICAL PITFALLS BECAUSE OF PUBLIC MEMORIES OF THE AFRICAN WARS. THE GOVERNMENT HAD ISSUED A CAUTIOUSLY POSITIVE PUBLIC STATEMENT, AND IT WOULD PROBABLY BE PREPARED TO SAY YES IF SOME WAY COULD BE FOUND TO FUND THE EXPENSE OF THE PORTUGUESE CONTINGENT, AN ESTIMATED \$15 MILLION ANNUALLY. THE ACTING SECRETARY SAID THE U.S. SUPPORTS EXPANSION OF AN MNF AND EXPLAINED ITS FUNCTION. HE SAID VARIOUS POSSIBILITIES FOR FINANCING THE COST OF THE PORTUGUESE AND OTHER CONTINGENTS ARE BEING EXPLORED.

16. AS THE MEETING ENDED BALSEMAO EXPRESSED CONCERN THAT THE MOU BETWEEN THE U.S. AND PORTUGAL ON MILITARY PROCUREMENT HAD YIELDED NO BENEFITS FOR PORTUGAL. HE MADE A BRIEF PITCH FOR U.S. FORCES UTILIZATION OF PORTUGUESE REPAIR AND MAINTENANCE FACILITIES.

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