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ANGLO-ITALIAN SUMMIT 7 JULY 1982

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Cabinet Office

1 July 1982

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30 June 1982

ANGLO-ITALIAN SUMMIT

7 July 1982

STEERING BRIEF

Brief by the Foreign and Commonwealth Office

1. Anglo-Italian Summits are in principle held twice a year, in practice less regularly. The last took place in London in November 1981. The Prime Minister has seen Senator Giovanni Spadolini, the Italian Prime Minister on several occasions recently: at the Versailles Summit, where she had a brief separate talk with him, at the Bonn Summit and at the European Council. At the meeting in Rome on 7 July the Prime Minister will be accompanied by the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer (who was unable to attend the Summit last November).

INTRODUCTION

2. Senator Spadolini has now been in office for a year. He heads a five party coalition government comprising the Christian Democrats, Socialists, Social Democrats and Liberals, as well as his own Republican party (which commanded only 3% of the Italian vote at the last election). His period as Prime Minister is remarkable, in view of his lack of a broad power base; it already exceeds by four months the post-war average.

Senator Spadolini has earned good marks with the electorate by mediating ably between his coalition partners and for trying to resolve Italy's endemic economic problems. Nevertheless, tension between the Socialists, led by the ambitious Signor Craxi, and the Christian Democrats is growing, and the coalition's future remains doubtful.

OBJECTIVES

3. The Prime Minister will find Senator Spadolini pre-occupied with domestic economic problems. His anti-inflationary policy, the two principal elements of which are reduction of public expenditure and containment of labour costs within a 16% ceiling, is foundering. The private employers federation, Confindustria, have denounced the wage indexation agreement: their hope was to put pressure on the Government and induce the unions to accept a policy of wage moderation. While Senator Spadolini subscribes to the primacy of fighting inflation he is likely to rehearse his concerns about US monetary policies.

4. The Italians are worried about growing threats to the cohesion of the European Community, which enlargement may in their view further undermine. They will be anxious to refurbish Italy's EC credentials, after breaking ranks in May over the sanctions against Argentina, a major parting of the ways from her fellow Europeans. The Italians are likely to press for UK support on the Genscher/Colombo proposals, for increased expenditure on Mediterranean agriculture and other policies which will benefit Italy and the raising of the 1% ceiling.

5. The primary UK objective at the Summit will be generalised, but important: to demonstrate that Italy matters to the UK and that the UK should matter to Italy as much as France and Germany do. Recent differences over the Falklands and on Community questions should not be allowed to affect the normal patterns of cooperation. Italy remains the UK's third most important European partner (after France and Germany) and the similarity of our interests in a number of areas has made her on occasion a useful ally. The Italians will be keen to mend fences with the UK after the Falklands crisis. Signor Spadolini and his Foreign Minister Colombo would have liked to maintain Community solidarity, but the government would have collapsed had a decision to renew sanctions been taken in May. The Italians are now pressing for renewed negotiations with Argentina. We should demonstrate that the only way forward in the aftermath of Argentine aggression lies in restoring the Falkland Islanders' way of life through reconstruction and development, and that fruitful negotiations with Argentina are not a practical possibility.

6. On Community matters the main UK aim will be to impress on the Italians the need for a fair solution of the Budget problem to be found by the end of November, as agreed by the Council, so that this divisive negotiation can be taken off the Community agenda. The Secretary of State may want to invite Signor Colombo, as a senior Community statesman, to give his views on how this can best be achieved; and to invite him to visit London in September. We will also want to explain the importance of the Luxembourg Compromise in political terms in this country; and to make clear our willingness to continue to cooperate in

the further work on the Genscher-Colombo proposals. If enlargement is raised, we should reaffirm the importance we attach to maintaining progress in the accession negotiations.

7. UK and Italian objectives are set out in full at Annexes A and B.

STRATEGY AND TACTICS

8. According to the agenda for the Prime Ministers' meeting proposed by the Italians, discussion is likely to begin with East/West, defence and arms control. This will no doubt be seen in the light of President Reagan's visit to Europe and of Italian concern about transatlantic relations in general. The Prime Minister may wish to argue that although there have been differences between Western Europeans and the Americans on security and defence matters, and now on East/West economic relations also, the gap has been bridged in the field of greatest importance, arms control, by recent US initiatives.

In discussing the prospects for INF/START/MBFR the Prime Minister will wish to enquire about progress on INF siting at Comiso (Sicily), on which the coalition remains firm. Senator Spadolini may wish to exchange views on the UN Special Session on Disarmament, due to end on 9 July, which both he and the Prime Minister have addressed.

9. On international crises, the Italians will want a thorough talk about the Middle East. On Lebanon, discussion may cover possible EC measures against Israel and European participation in a peace-keeping force. (Both topics will have been discussed at the European Council.) The Italians are also concerned about Iran/Iraq, and may hanker after some Community initiative.

The Falklands is best covered in tête-à-tête talks. The Prime Minister may wish to express understanding of the domestic and external pressures which prevented the Italians from renewing Community sanctions against Argentina in May, while regretting the weakened signal this sent to Buenos Aires. The Italians will be interested in our future intentions. They will need to be persuaded that renewed negotiations with Argentina (which Signor Colombo has been advocating) are not a realistic option and that what matters now is the rehabilitation and reconstruction of the Islands. The Prime Minister may wish to stress the importance we attach to the links between Europe and Latin America, and our recognition of the need for the Islanders to establish a satisfactory relationship with Latin American countries. (Bilateral talks on the region have been proposed for the autumn at official level.)

10. The Italians will wish to review the international economic situation, particularly trade and East/West economic relations, after the Versailles Summit and European Council. There is scope for making common cause with the Italians over President Reagan's decision to extend the US embargo on the export of oil and gas equipment to the Soviet Union and recent US action against steel imports from the EC. Their attitude to Japan is coloured by the fact that they have a wider range of quota restrictions than any other EC country. In this connection they originally attempted to prevent the BL Triumph from entering Italy, though they have now accepted that it should do so. We are also concerned about their subsidies to industry. This could lead to an exchange of views on domestic economic policies.

Continued upward pressure on US interest rates has pushed the dollar to record levels against the lira, fuelling inflation through increased energy costs. The Prime Minister and the Chancellor of the Exchequer will wish to paint a positive picture of the prospects for the UK economy. In discussion of Community matters, it will be important to make clear that our commitment to the Community, and to making a success of our membership of it, remain as firm as ever. We regret the difficulties of recent months as much as anybody; they show how important it is to get the budget issue resolved so that we can get on with developing the Community, an objective shared by the UK and Italy.

11. The Summit will provide a good opportunity to underline the importance the UK attaches to industrial collaboration with Italy, where mutually beneficial. Mr Nott will just have met Signor Lagorio for talks on the EH 101 helicopter. Other potential areas for collaboration include the Multi-Role Rocket Launcher and the development of anti-tank guided weapons.

12. There may be occasion for congratulating, or commiserating with, Senator Spadolini over Italy's performance in the World Cup, an international event close to many Italian hearts.

PROGRAMME

13. The Prime Minister will arrive at Rome, accompanied by the Chancellor of the Exchequer, at 1130 on 7 July. (The Foreign Secretary will travel to Italy direct from Yugoslavia on the afternoon of 6 July. The Italian political hierarchy

will be on a State Visit to France that day). The Foreign Secretary will meet Signor Colombo for a working breakfast at the Villa Madama at 0830 on 7 July.

14. After a tête-à-tête with Senator Spadolini, during which Sir G Howe and Mr Pym will hold separate talks, there will be a working lunch, beginning at 1330, for all Ministerial participants hosted by the Italian Prime Minister at the Palazzo Chigi. Plenary talks will begin at 1515, followed by a joint press conference at 1630. Senator Spadolini will host a Government dinner at 1900, during which there may be an opportunity for the Prime Minister to meet the leaders of the parties forming the Government Coalition. The Prime Minister will return to London the same evening, departing from Ciampino airport at 2200 hours.

15. Personality notes on the following are attached at Annex C: Senator Spadolini, Signor Colombo, Senator Andreatta, (Treasury Minister), Senator Formica (Finance), Signor La Malfa (Budget), Signor Berlinguer (Diplomatic Adviser to the Prime Minister), Signor Cagiati (Italian Ambassador at London), Signor Malfatti (Secretary General MFA), Signor Bottai (Director General, Economic Affairs). Annex D lists subjects for discussion. These have been agreed with the Italians. A list of briefs is at Annex E. Basic statistics on Italy are given at Annex F.

RESUME

BRIEF NO 2: Falkland Crisis

16. Italian failure to renew economic sanctions regretted, albeit understood. Support over arms embargo appreciated. Importance of continuing the latter for the immediate future.

BRIEF NO 3: European Community Topics17. (a) Community Budget Problems

Hope Italians will play a helpful role when negotiations on the UK budget problem resume in the autumn. The Foreign and Commonwealth Secretary might seek the views of Sig Colombo on the best approach then and invite him to visit the UK in the autumn.

(b) European Union (including Luxembourg Compromise)

Confirm willingness to continue to contribute constructively to further work on the Genscher/Colombo text. Explain to the Italians the importance to the UK of a member state being able to have a majority decision deferred where it considers important national interests to be involved.

(c) Other Community Issues: Enlargement

Further enlargement of the European Community vitally important for the further strengthening of democracy in Europe. Political benefits from enlargement overriding, although economic costs involved must be kept within bounds.

BRIEF NO 4: United States/European Relations

18. Disappointing that transatlantic relations should have worsened, principally over economic issues, so soon after the Versailles and Bonn Summits. We must impress upon the Americans the need for genuine consultations, preferably through existing rather than new mechanisms, in order to avoid divisions in the Alliance.

BRIEF NO 5: Defence and Arms Control19. (a) UNSSD II

Western speakers brought realism to a rhetorical debate. The Special Session could end in disagreement.

(b) INF, START, MBFR

Importance of NATO holding to the zero option to extract Soviet concessions; and of a positive presentation to the European public of the US proposals on START and the new Alliance initiative on MBFR.

(c) Collaborative Arms Projects

Mr Nott discussed the EH 101 helicopter project, our most important current collaborative business, with Signor Lagorio on 28 June. No specific points for us to raise but if the Italians do we should underline the need to maintain momentum.

(d) UK Defence Policy (post Falkland Islands)

Although our Falklands commitment may require some adjustment to our defence programme any such adjustment will be within the framework for the defence programme established during last year's review.

BRIEF NO 6: East/West Political and Economic Relations

20. The Prime Minister may wish to point to the contrast between the West's success in capturing the high ground on political issues and arms control, and the problems over East/West economic relations, where President Reagan's extension of his measures against the Soviet Union has re-opened a European/American argument which we hoped had been resolved at Versailles. How should the Europeans react? How should we get across to the Russians the message of the West's underlying unity?

BRIEF NO 7: International Economic Issues

21. Wish to strengthen recognition that European economies must put their own house in order and try to reduce inflation as fast as US and Japan have done.

BRIEF NO 8: International Trade Issues

22. Despite much common ground between the UK and Italy on current international trade issues such as Japan, the USA and textiles, the Italians did not help British commercial interests by their anti-Japanese campaign against the BL Triumph Acclaim (largely overcome for the moment) and through heavy subsidies to their textiles industry.

BRIEF NO 9: United Kingdom Economy

23. The brief both considers the state of current policy developments and reviews the outlook for the UK economy.

BRIEF NO 10: Italian Economy

24. The Italian Government should do all it can (within the limits imposed upon it by the need for agreement between the coalition partners on economic management) to curb inflation, increases and the public sector deficit.

BRIEF NO 11: Regional Issues25. (a) Israel/Lebanon

By the time of the Summit either Mr Habib will have succeeded in negotiating the PLO's withdrawal or the Israelis will have attacked West Beirut. Discussion might concentrate on the future of Lebanon, particularly peacekeeping arrangements.

(b) Southern Africa/Namibia

The five encouraged by recent signs of South African flexibility, and have intensified consultations (while keeping them confidential for now) with a view to beginning implementation of the UN plan this year; but to meet the deadline we shall need positive responses from SWAPO and the other Africans. Provision for withdrawal of Cuban troops has now become an essential element in a settlement; although this is an added complication we hope the Ten will recognise the benefits of securing a wider regional stability.

(c) Latin America

Understand given the large Italian overseas population in Latin America (eg Brazil and Argentina) Italian concern over need for good relations between Europe and the nations of that continent. Share this desire. Many countries in South America understood the principles behind our action over the Falklands. Damage done to relations should not be exaggerated.

(d) Iran/Iraq

No direct role for the West to play. Stand ready to support constructive efforts by Islamic states in the region to bring about a negotiated settlement.

(e) Horn of Africa

Traditional Somali/Ethiopian animosity exacerbated by their current international alignments. The Italians more involved than we with the countries of the Horn. What do they think of the prospects for the area?

(f) Central America

Situation remains confused and potentially explosive. We must support US efforts to combat Cuban-backed subversion. The leftward drift in Nicaragua still gives cause for concern. The Italians might be asked whether they think it is worth persisting with substantial aid to the regime there.

BRIEF NO 12: Mediterranean Issues26. (a) Libya

No illusions about Qadhafi's capacity for mischief. Favour cautious dialogue, but modest improvement in relations since 1980 set back by hostile Libyan attitude over Falklands. Marking time.

(b) Malta

Continuing concern at potential Maltese drift towards Soviet Union. Foreign Interference Bill, expected to become law in September, further cause for concern. No justification for exceptional EC aid for Malta (as advocated by Italy).

(c) Cyprus

Reasonable chance of intercommunal talks continuing on course through summer; but prospect of Greek Cypriot recourse to UNGA in autumn, when may need to concert action with Italians and others. Greek Cypriots have reacted strongly to Turkish Prime Minister's recent visit to Northern Cyprus.

BRIEF NO 13: Internal Political Scene

27. Spadolini's coalition government soldiers on but prospects for the future bleak. Relations between principle partners, the Christian Democrats and the Socialists, deteriorating. Centre 'lay' parties continue to make electoral gains, albeit small, at the expense of the Christian Democrats and opposition Communists.

BRIEF NO 14: UK/Italy Nuclear Collaboration

28. Italy has not taken up earlier overtures for collaboration on nuclear reactors. Although UK industry is now preoccupied domestically, it would consider any new specific propositions.

4. To exchange views on domestic economic management and to review outstanding issues following the Versailles Summit.

5. Within the framework of UK commitment to Community membership, to explain the imperative need to find a solution to the EC budget question by November, in order to give the Community a period without further discussion of this divisive issue.

Foreign and Commonwealth Office

1 July 1982

agreement has already been reached, to persuade the Italians of the need, within the framework of the Genscher-Colombo proposals, to clarify the Community's decision-making

ANGLO-ITALIAN SUMMIT, 7 JULY 1982

UK OBJECTIVES

1. To consolidate good working and personal relations between the Prime Minister and the Italian Prime Minister, and to seek to make Anglo-Italian relations as important a factor in Italian thinking as are Italian relations with France and the FRG.
2. To explain to Italian Ministers and also in public eg through a press or TV interview, HMG's attitude towards the Falkland Islands dispute, the future of the Community, and other issues where Italian public opinion has not understood us or has failed to give us full support.
3. While showing that the reasons behind Italy's failure to maintain European Community solidarity over economic sanctions against Argentina are regretted, albeit understood, to describe HMG's longer-term thinking of relations between Europe and Latin America.
4. To exchange views on domestic economic management and to review outstanding issues following the Versailles Summit.
5. Within the framework of UK commitment to Community membership, to explain the imperative need to find a solution to the EC budget question by November, in order to give the Community a period without further discussion of this divisive subject.
6. Unless agreement has already been reached, to persuade the Italians of the need, within the framework of the Genscher-Colombo proposals, to clarify the Community's decision-making

procedures, following the overriding of the Luxembourg compromise on 18 May.

7. To exchange views on transatlantic and East/West relations, defence questions and arms control.

8. To discuss those areas, eg the Mediterranean, Latin America and Eastern and Southern Africa, where the Italians have special experience or interests.

LIKELY ITALIAN OBJECTIVES

1. To allow Senator Spadolini to demonstrate that Anglo-Italian relations remain healthy despite some recent differences over, eg EC sanctions against Argentina and Community questions, and to reconfirm Italy's claim to be a top-table partner.

2. To underline Italy's commitment to greater European integration and to probe UK thinking on the Community's future.

3. Within this framework, to express concern at the growing threats to the Community's cohesion and to put forward ideas for strengthening the Community, including greater concentration and expenditure on new Community policies.

4. To press for early agreement on the Genscher/Colombo proposals on European Union.

5. To compare notes on international and domestic economic issues, especially inflation, unemployment, interest rates and public expenditure.

6. To review the progress of the NATO double decision, including the siting of INF bases and the progress of disarmament negotiations (START will be topical).

7. To discuss East/West relations, including Poland, credits for the Soviet Union and more generally the future directions of Soviet policies.

8. To stress the importance which Italy attaches to close European/Latin American relations and the danger that Italy sees of Soviet gains in the regions at UK expense.

PERSONALITY NOTES

1. Senator Giovanni Spadolini
2. Signor Emilio Colombo
3. Senator Beniamino Andreatta
4. Senator Salvatore Formica
5. Signor Giorgio La Malfa
6. Signor Sergio Berlinguer
7. Signor Francesco Malfatti
8. Signor Bruno Bottai
9. Signor Maurizio Bucci
10. Signor Andrea Cagiati

1. SENATOR GIOVANNI SPADOLINI

Prime Minister (Republican).

Born Florence 1925.

Professor of History at Florence University. Has specialist knowledge of Church-State affairs during and after the Risorgimento and has written several books on the subject as well as a number of political biographies. Editor of 'Il Resto del Carlino' (1955-68) and of 'Corriere della Sera' from February 1968-March 1972 when he was sacked, allegedly because the paper lost money during his editorship. It was generally accepted that there was no political motive for the dismissal.

Senator for Lombardy since June 1972, Spadolini has continued to write articles for the press, especially 'Epoca' and 'La Stampa', and to give lectures, even as Prime Minister. He has been the leader of the PRI group in the Senate and Chairman of the Standing Commission on Education of the Senate. Was Minister for Cultural Affairs and Environment under Moro, 1974-76. He became Party Secretary in September 1979. He is the only Party Secretary at present who chooses to sit in the Senate rather than the Chamber; this reflects his preference for a more orderly form of political debate and dislike of tactical battles in Parliament (always fought in the Chamber). Spadolini formed his government in June 1981 after Forlani resigned. He surprised most observers by his energy and capacity for coalition management, and made a real effort to implement key elements of his government's programme, notably the limiting of inflation to 16% in 1982 and restriction of the PSBR.

Consistently friendly towards Britain. Large, loquacious and somewhat pompous in manner, but can perform quite effectively on television and is popular with journalists. Highly intelligent and occasionally witty. Speaks French and some English. Unmarried.

2. EMILIO COLOMBO

Minister of Foreign Affairs (Christian Democrat).

Born in 1920 in Potenza (Basilicata), which he has represented

in Parliament since 1946. Doctor of Law. Like Andreotti another protege of De Gasperi, he became a junior Minister at 28; Minister of Agriculture 1955-58 and for Foreign Trade 1958-59. As Minister for Industry in the following three years he was responsible for organising the nationalisation of the electricity industry (a watershed in Italian politics). He was concurrently in charge of relations with the EC and led the Italian delegation in the first British entry negotiations. As Minister of the Treasury without a break from 1963-70, together with Carli he overcame more than one economic crisis and successfully defended the lira.

Prime Minister of a centre-left government from August 1970 to February 1972. His task was made difficult by intense quabbling within the DC Party, aggravated by his own efforts to put through needed reforms, and by the Socialist overtures to the Communists. Colombo's position became untenable when the Christian Democrats and the Socialists, though parties in the same coalition government, supported different candidates in the presidential election at the end of 1971. Resigned February 1972.

Colombo returned to the Treasury in Andreotti's single party Christian Democrat government, February-June 1972, but occupied the comparatively unimportant post of Minister without Portfolio for relations with the UN during Andreotti's second government. Colombo returned to a senior post, that of Minister of Finance, when Rumor formed his government in July 1973. He once more took over the Treasury in March 1974, remaining there until the General Election in June 1976. Mr Roy Jenkins tried to interest

him in joining the Commission, but he declined. Elected President of the European Parliament in March 1977, he did the job well for more than 2 years. Brought in as Foreign Minister by Cossiga in April 1980, halfway through Italy's EC Presidency, he played an important role in resolving the problem of the UK budget contribution and in making both the Venice Summits in June 1980 a success. His pleasant personality quickly made him popular with his EC colleagues and Pertini himself urged Forlani not to move him from the Foreign Ministry. Colombo retained his post for a third term under Spadolini following the resignation of the Forlani government in May 1981.

Colombo is a devout Catholic. Unmarried, he is said to be a lay Franciscan who has taken a vow of celibacy. A handsome, highly intelligent and hard working man with a quiet sense of humour. Beneath his gentle exterior, he is a capable politician. At the same time, his lack of a real power base was probably his own undoing as Prime Minister. He runs a small faction in the DC Party which in general takes a neutral stand in internal party squabbles. He suffers from catarrh of a rather pronounced kind which makes him restless and twitchy. He retains close links with his home area in the South and was the first Minister on the spot after the earthquake of November 1980.

Colombo has been a good friend of Britain, which he has often visited. Speaks good French but scarcely any English. He likes music and collects old silver. He is ambitious, and travels the world incessantly. His reputation among his EC colleagues has risen steadily.

3. BENIAMINO ANDREATTA

Minister of the Treasury (Christian Democrat).

Born in Trento in 1928. Professor of Economics at the Catholic University of Milan and subsequently at the University of Bologna, where he was Director of the Institute of Economics in the Faculty of Political Science. A liberal economist, he also played a leading role in running a DC Economic research group (AREL) in Rome.

One of the most respected 'technicians' of the DC party, he was for many years an economic adviser to the late Aldo Moro, to whom he was close politically. Elected Senator in 1976 for a constituency near Bologna, he was an active member of the Senate Finance and Treasury Committee from 1976-79 until his appointment as Minister of the Budget on the formation of the Cossiga Government in August 1979. Reappointed Minister without Portfolio, with responsibility for co-ordinating economic policy, in Cossiga's second Government in April 1980. He moved to the Treasury when Forlani formed his first government in October 1980, replacing Pandolfi. His political reputation is as an immensely ambitious, financially scrupulous outsider within the DC. Unusually for a DC Minister, he relies upon able technical advisers many of whom are politically committed to other parties.

A large, talkative man, with a sarcastic sense of humour, well disposed to Britain. Chain smokes a pipe. Normally friendly but can on occasions be surprisingly rude. He speaks good English and studied Economics at Cambridge for a period in the

1960s, as well as in the United States. Known as 'Nino' (the diminutive of his Christian name). Married, with a teenage daughter.

4. SALVATORE FORMICA

Minister for Finance (Socialist).

Born in Bari in 1927 and still lives there. He has a degree in commerce and economy and has spent most of his life in trade. He was elected a Senator in 1979 for a Milan constituency and served on the Budget Commission of the Senate. He became Minister for Transport when the Socialists joined Cossiga's second government in April 1980, retained the post under Forlani, and was appointed Minister for Finance (revenue collection) in Spadolini's government in June 1981.

Married.

5. GIORGIO LA MALFA

Minister for Budget (Republican).

Born in 1939 in Milan, where he lives. He is the son of the famous PRI leader. Ugo La Malfa. He has a degree in law and political economy and has been a university teacher. He was elected a Deputy in 1972 for a Turin constituency and has remained in the Chamber, serving on the Budget and Industry Commissions. He first became Minister for Budget when the

Republicans joined Cossiga's second government in April 1980. He is generally thought to have made a reasonable success of this difficult post, although relations with Andreatta have not always been easy. His fundamental aim is to introduce some measure of medium term planning into the economy rather than leaving recourse always to stopgap solutions for every crisis. Married.

6. SERGIO BERLINGUER

Diplomatic Counsellor to the Prime Minister.

Born at Sassari in 1934; a cousin of Enrico Berlinguer. He has a degree in law from the University of Rome. He joined the Foreign Service in 1959 and worked in the Ministry until being posted to London as Third Secretary in 1962. He stayed there for 10 years, being promoted steadily to Counsellor and filling a number of consular and diplomatic posts. Returning to the Ministry in 1972, he ran the Press Department until seconded to the Prime Minister's office as Deputy Diplomatic Counsellor in 1973. Deputy Head of the Foreign Minister's Office, 1974-76. He then returned to head the Ministry Press Office before being seconded again to the Prime Minister's office as Diplomatic Counsellor in August 1979 (with the rank of Minister Plenipotentiary).

Berlinguer has an English wife and two daughters born in Britain for whom he is seeking UK citizenship. He speaks excellent English and is very well disposed towards us.

7. ANDREA CAGIATI

Ambassador in London.

Born in Rome in 1922. He graduated in law from the University of Siena in 1944. He joined the Foreign Service in 1948 and after the usual period in the Ministry went to Paris in 1950. Vice-Consul in New York in 1953. In 1955 he returned to the Private Office of the MFA Under-Secretary. First Secretary (under Counsellor) in Athens 1957-60. Counsellor in Mexico City 1960-62. After a brief spell at the Italian Mission to the United Nations, he returned to the MFA to head the NATO Department from 1963-66. Appointed Ambassador in Bogota in 1968 but soon returned to the Ministry, working in the Diplomatic Institute (1971) and as Diplomatic Counsellor in the Prime Minister's Office (1972). Ambassador in Vienna, 1973-79. He replaced Ducci as Ambassador in London in January 1980.

As Ambassador in London he began by encouraging his staff to greater activity than some of them had shown under Ducci. He himself is always very prompt in carrying out his instructions, and if he errs it is by excess of zeal rather than the reverse. Able, sharp and ambitious, he defends Italian interests with energy. Despite social pretensions he has found out a good deal about Britain in a short time. Tall and impressive. His wife is German; they make a handsome couple.

8. FRANCESCO MALFATTI

Secretary-General, Ministry of Foreign Affairs.

Born Vienna 1920.

Before entering the Diplomatic Service, had an early career as a Home Civil Servant during the course of which he was Labour Attache to the Italian Embassy in London from 1944-46. Entered the Diplomatic Service in 1947. In his early career served in Geneva, Munich and Paris (where he was nominated Counsellor in 1957). He also served as Italian representative to numerous negotiating missions, some of them to London. Head of the cabinet of the Foreign Minister Saragat (PSDI) in 1963. Followed Saragat to the Quirinale when the latter became President in 1964. Ambassador in Paris from 1969 until his nomination as Secretary-General in September 1977.

Malfatti owed his entry into the Diplomatic Service to the Patronage of the veteran socialist leader, Nenni, who arranged for him to be appointed 'by decree'. He has always professed socialist sympathies. Listed in May 1981 as involved in the 'P2' Masonic Lodge affair but nothing was proved.

Though he does not appear to have been a particularly active ambassador in Paris (apart from nurturing a friendship with Mitterrand), he has been a fairly effective Secretary-General at the MFA, although Ambassadors have not found him very accessible.

Retains warm memories of kindness shown to him in London in 1944.

Works late every night and never goes out socially, although he plays tennis regularly. Can be severe, but helpful when he feels like it. Speaks excellent French.

Married.

9. BRUNO BOTTAI

Director-General of Political Affairs, MFA.

Born in Rome on 10 July 1930. Went to Rome University where he graduated with a degree in Law in July 1952. Joined the Diplomatic Service in 1955, working in the Directorate-General of Economic Affairs. Vice-Consul in Tunis from 1956-58. Second Secretary in the Office of the Italian Permanent Representative to the European Community in Brussels from 1958-61. MFA - Planning Department - from 1961-66. Counsellor in London from 1966-68. MFA - Vice Head of the Minister's Cabinet from 1968-69. Counsellor at the Italian Mission to the Holy See from 1969-70. Seconded to the Council of Ministers as Diplomatic Adviser to the Prime Minister from 1970-72. MFA - Head of News Department - from 1972-76. Vice Director-General of Political Affairs from 1976-79. Italian Ambassador to the Holy See from 1979-81.

A bachelor seen about frequently in Roman society, he is an able and hard-working man chosen by Minister Colombo himself for the important and onerous job of Political Director. Speaks several languages fluently, including English, French, German and Spanish, and is widely read.

10. MAURIZIO BUCCI

Director General for Economic Affairs, MFA.

Born in Isernia in 1923. Graduated in law from Rome University

in 1945. He joined the Foreign Service in 1949, and after a period in the Ministry went to the Italian Delegation to NATO in 1952. He was Vice Consul in Paris from 1955-58 and then went to Luxembourg as First Secretary. In 1961 he was Chef de Cabinet of the Vice President of the EC Commission, promoted to Counsellor in 1962. Counsellor at the Italian Mission to the EC from 1963-68. He then returned to the Ministry to work on economic affairs until posted as Ambassador to Damascus in 1973 and to Brazil as Ambassador in 1976. He became Director General of Economic Affairs at the MFA in November 1979. He would have preferred to stay abroad.

Friendly and helpful, he is less at home in smart Roman society than many of his senior colleagues at the Farnesina. Speaks French and English.

Married.

AGENDA

- A. East-West Political and Economic Relations
- B. Defence Questions and Arms Control
- C. Crises: Falklands (including Central and Latin America), Lebanon, Middle East (including Iran/Iraq)
- D. Regional Issues: Mediterranean, Eastern and Southern Africa
- E. European and Community Issues including Luxembourg Compromise, Budget Questions, European Union and Enlargement
- F. Economic situation (after Versailles, and including credits and contracts with the Soviet bloc)

6. East-West Political and Economic Relations

7. International Economic Issues

8. International Trade Issues

9. UK Economy

10. Italian Economy

11. Regional Issues

(a) Israel/Lebanon

(b) Southern Africa/Namibia

(c) Latin America

(d) Iran/Iraq

(e) Horn of Africa

(f) Central America

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LIST OF BRIEFS

1. Steering Brief
2. Falkland Islands
3. European Community Topics
 - (a) Community Budget Problems
 - (b) European Union including Luxembourg Compromise
 - (c) Other Community Issues: Enlargement
 - (c) (i) Super Sara: reactor safety project
4. US/European Relations
5. Defence and Arms Control
 - (a) UNSSD II
 - (b) INF, START, MBFR
 - (c) Collaborative arms projects
 - (d) UK defence policy (post Falkland Islands)
6. East/West Political and Economic Relations
7. International Economic Issues
8. International Trade Issues
9. UK Economy
10. Italian Economy
11. Regional Issues
 - (a) Israel/Lebanon
 - (b) Southern Africa/Namibia
 - (c) Latin America
 - (d) Iran/Iraq
 - (e) Horn of Africa
 - (f) Central America

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12. Mediterranean Issues

- (a) Libya
- (b) Malta
- (c) Cyprus

13. Italy: Internal Political Scene

14. UK/Italy Nuclear collaboration

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ANNEX F

ITALIAN BASIC STATISTICS

		ITALY	UK
Population (millions)	1979	56.9	55.9
	1980	57.1	56.0
Labour Force (millions)	1979	22.0	26.2
	1980	22.3	26.1
Unemployed (per cent of civilian Labour Force)	1980	8.0	6.9
	1981	8.9	10.5
	March 1982	10.4	11.5
Gross Domestic Product (Billion dollars)	1980	394.0	522.9
	1981	345.1	480.8
GDP per capita (Dollars)	1979	5704	7271
	1980	6899	9337
Annual Rate of Growth of GDP (%)	1980	4.0	1.0
	1981	0.0	-2.0
Annual Rate of Growth of Industrial Production (%)	1979	6.8	3.6
	1980	5.1	-6.1
	1981	-2.2	-4.6
Consumer Prices (change over year earlier (%))	1979	15.7	13.3
	1980	21.2	18.4
	1981	19.3	11.9
Balance of Payments on Current Account (Million dollars)	1979	5414	-1844
	1980	-9844	5754
<u>Defence</u>			
Spending (per cent of GNP)	1980	2.4	5.1
Total Armed Forces	1980	366000 (239300 conscripts)	343646
<u>Trade</u>			
United Kingdom exports to Italy	1980	£1,899.2 million	
	Six months 1981	£906.1 million	
United Kingdom imports from Italy	1980	£2,311.1 million	
	Seven months 1981	£1,328.7 million	

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30 JUNE 1982

ANGLO-ITALIAN SUMMIT

7 JULY 1982

FALKLAND ISLANDS

BRIEF BY FOREIGN AND COMMONWEALTH OFFICE

POINTS TO MAKE

1. We greatly regret Argentina's refusal to confirm that they, like us, regard all hostilities as at an end. Any attempt to prolong the conflict highly dangerous and irresponsible. International community has shared interest in persuading her to desist. Anything Italy could do would be much appreciated.
2. Welcome European Community's stated determination to react immediately if Argentina commits further acts of force. Important that new Argentine Government understand EC solidarity on this point.
3. We hope that Islanders can now live in peace and harmony with their neighbours. Economic and social rehabilitation is the immediate priority. We are also considering further development of the Islands, and possible options for their future political development and security. However, difficult and complex tasks, which cannot be undertaken hurriedly.

/Need

Need to consult Islanders' own wishes. Everyone's best interests lie in a peaceful, secure and prosperous future for the whole region.

4. Defensive. We had been negotiating with Argentina up to the time of the invasion. We made clear our willingness to negotiate provided Argentina withdrew forces voluntarily. She refused to do so. We cannot now, following the fighting and the deaths, resume negotiations with Argentina as if their invasion had never taken place. Not sufficient for Argentines now to say they accept resolution 502 which was directed against their illegal use of force, and which they persistently refused to implement peacefully.

5. Most grateful for Italian arms embargo. Appreciate full cooperation Italian authorities are giving in ensuring that private dealers do not evade it. Hope Italy will be able to continue to operate embargo for some time to come - Argentine intentions still not clear.

6. Effect on Nato commitments. Events in South Atlantic do not alter fact that main threat is from Soviet Union. No question of any weakening in UK's commitment to NATO or major change in thrust of our contribution. Still considering scale of South Atlantic forces required. We will keep in very close touch with our Allies as our thoughts on this develop.

BACKGROUND

EC SANCTIONS

1. The Italian Government supported the EC import ban on goods from Argentina when first imposed on 16 April. However, they did not apply them after 17 May. This is partly because of the strong links existing between Italy and Argentina, many of whose inhabitants are of Italian origin, and partly because of political opposition to sanctions within Italy, which could have led to the Government's downfall if it tried to maintain them. However, the Government continued to speak out strongly in support of the UK.

NEGOTIATIONS WITH ARGENTINA

2. Following the repossession of the Falkands, Sig Colombo wrote to the Foreign and Commonwealth Secretary urging a prompt renewal of the negotiating process, as a demonstration of Britain's traditional political foresightedness and magnanimity. This message was received shortly before the EC Foreign Ministers' meeting at Luxembourg which decided on 21 June to lift sanctions. No formal reply was sent to Sig Colombo, but the Foreign and Commonwealth Secretary thanked him for the message which was useful in preparing for the meeting.

/3...

ARMS EMBARGO

3. The Italians have been very cooperative in following up leads we have given them in individual cases. They have operated their arms embargo strictly. But Italian arms dealers have extensive links with their Argentine counterparts, and the Italian Government is likely to want to lift its arms embargo as soon as possible (although we have had no sign that they are planning to do so ahead of other EC partners or to take a lead within the EC on this). Appreciation for help so far, and an exhortation to keep going for the immediate future, would be appropriate.

NATO COMMITMENTS

4. The publication of the statement on 'Defence Estimates 1982' has made it clear that the UK still sees the main threat as coming from the Soviet Union and that our commitment to NATO remains as strong as ever. Work on the size of the UK South Atlantic force is still going on. It is too early to say what the full effect will be on our NATO commitments. The UK, however, remains committed to the achievement of the NATO goal of a 3% per annum real increase in defence expenditure. The cost of replacing equipment lost during the fighting, and of any future garrison on the Falkland Islands, will be met from money which will be in addition to that provided to meet the NATO 3% aim. All equipment lost in the conflict will be replaced, though not necessarily on a like-for-like basis.

Foreign and Commonwealth Office

30 June 1982

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30 June 1982

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ANGLO-ITALIAN SUMMIT

7 JULY 1982

COMMUNITY BUDGET PROBLEMS

Brief by Foreign and Commonwealth Office

points to make

1. Fear that resumed negotiation this autumn will be difficult. Does the Community no good to have continuing negotiations about this, but problem is real and will not go away. Can we find a lasting solution which enables us to concentrate on Community's real tasks in the 1980s?
2. Foreign Ministers undertook to agree by end November. Should try to stick to that timetable.
3. Believe that Community budget should be broadly in line with goal of economic convergence. Right that Italy as a less prosperous Member State should be net recipient. But by same logic UK public cannot understand why UK should be large net contributor when more prosperous countries are net recipients. Major difficulty for us in sustaining public support for Community in UK.
4. (If suggested that solution lies in expanding non-agricultural policies and increasing own resources) Agree that underlying source of problem is imbalance between Community spending policies, in particular dominant share of CAP in budget and relatively small UK agricultural sector. To ensure resources available for other policies, vital to limit CAP share of budget. But UK problem could not realistically be solved in short term by expansion of other

policies alone - huge expansion would be required with new policies heavily biased to benefit UK.

5. (If raised) Hope problems about financing of 1982 refunds can be sorted out soon.

Additional Points for Foreign and Commonwealth Secretary to make to Sig. Colombo

6. Joined spring negotiation in middle. Have been reflecting on that experience and on how to approach resumption of negotiation in autumn. Have not yet formed detailed views about the way ahead.
7. Know of crucial role you played in 1980 and would be grateful for your advice. What is best approach in autumn? What line will you be taking? How do you assess attitudes of other Member States? What role will Commission play?
8. Would like to discuss this and other topics with you at greater leisure. Would you be able to come to London in September for a day of talks?

Background

9. The agreement to pay the UK refunds in respect of 1982 is currently giving rise to debate in Brussels because the commitment to reduce the normal financing shares of Germany, Italy, Ireland and Greece imposes a large burden on other Member States, particularly France. The Commission has proposed that this alleviation be accomplished by refunds to the four countries through special projects of Community interest, but the French have led the way in attacking this. The main point of difficulty is the idea of refunds to Germany. We have no interest in intervening in this dispute. Foreign Ministers agreed on 22 June to leave it to officials to sort out before the next Foreign Affairs Council.

10. The negotiations on 1983 and beyond will resume probably in September. The 30 May 1980 agreement owed much to the mediation efforts of the Italian Presidency and Colombo in particular. The Italians might be encouraged to play a helpful role again in the autumn, especially now that they have a precedent for being excused part of the financing cost. Italy itself was a net contributor in 1978 but now enjoys the largest net receipts from the Community budget. The change has been achieved by increasing Italy's share of receipts from Community policies and in particular the CAP; at successive price-fixings the Italians have obtained improvements in the support mechanisms for Mediterranean agriculture, and they are continuing to press hard for more resources to be devoted to the Mediterranean. The Italians frequently express the view that the only solution to the UK problem lies in increasing own resources and expanding policies other than the CAP. They are strong advocates of doing both for their own reasons. They would expect to be major net recipients from the new expenditure and they are keen for the Community to regain a sense of dynamism and growth.

Foreign and Commonwealth Office
30 June 1982

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GENSCHER-COLOMBO PROPOSALS ON EUROPEAN UNION/LUXEMBOURG COMPROMISE
Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. Will continue to contribute constructively to efforts to reach agreement on a final text of the Genscher/Colombo proposals on European Union.
2. Luxembourg Compromise a very sensitive issue for UK. Ability of Member State to have majority decision deferred where it considers its important national interests are at stake one of the basic elements in the case presented to Parliament in 1971 for membership. Member State must be sole judge of its important interests.
3. Note that Italy was not able to give support to views of five Member States on 20 June that majority voting must be deferred where a Member State considers its important interests are at stake. Understand this in accordance with position taken by Italy in 1966. Nevertheless hope Italy will be able to agree that Community's practice since 1966 of deferring majority voting where major national interests at stake should be continued.

BACKGROUNDGenscher/Colombo Proposals

4. The Genscher/Colombo proposals for an Act on European Union were submitted to the European Council meeting in London on 26/27 November 1981. The European Council invited Foreign Ministers, in consultation with the Commission, to examine and clarify the proposals and report back to a future meeting of the European Council.

5. At their meeting on 20 June, the Foreign Ministers had only a brief discussion and resolved few of the outstanding points. They agreed that the ad hoc group should continue its work under the Danish Presidency. Adoption of a final text is likely to be delayed for some time since the Danes have shown little enthusiasm for the proposals, and may not take place until the German Presidency in the first half of 1983.

6. The proposals do not amount to a great deal in substance. It has been accepted that no Treaty amendment or changes in the formal powers of the institutions will be involved. The proposals will, therefore, merely provide for improvements in the operation of the Community institutions within the framework of the Treaties; improved coordination between Treaty and non-Treaty activities; and the possibility of extending cooperation among the Ten into new areas. Attached to the original proposals was a separate "statement on questions of economic integration" drafted by the Italians. This has now been dropped and a section on Community economic questions has been incorporated into the main text.

7. As one of the two joint authors of the proposals, the Italians attach importance to them and will be anxious to see the exercise brought to a successful conclusion. They may seek an assurance that we will continue to take a constructive line in future work on the proposals.

Luxembourg Compromise

8. At the Foreign Ministers' meeting on 20 June, the Foreign and Commonwealth Secretary made clear the Government's view that where a Member State considers that very important interests are at stake, discussion must be continued until unanimous agreement is reached. This position was supported unreservedly by Denmark and Greece and, with qualifications, by France and Ireland. The others, with varying degrees of emphasis, supported the legal interpretation of the Treaty but did not seek to reopen the Luxembourg Compromise.

9. In the discussion on 20 June Colombo, the Italian Foreign Minister, reaffirmed Italy's original view of the Luxembourg Compromise of 1966, ie. that it was an agreement to disagree, with only the French maintaining the view that majority decisions must be deferred where a Member State considers its important national interests to be at stake. He also argued that the search for unanimity should be confined to the item under discussion without reference to other "unrelated" subjects.

Foreign and Commonwealth Office
29 June 1982

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ANGLO-ITALIAN SUMMIT

7 JULY 1982

OTHER COMMUNITY ISSUES : ENLARGEMENT

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. We regard the further enlargement of the European Community with the accession of Spain and Portugal as very important for the further strengthening of democracy in Europe, and for the mutual benefits that could flow from widening the application of the Common Market.
2. The Community has always accepted that the political benefits which will accrue from enlargement are overriding, although we must obviously ensure that the economic costs involved are kept within reasonable bounds.
3. There will obviously be problems to resolve, not least on agricultural matters. But we think it important to get on with the negotiations, and to concentrate on finding solutions.

French Attitude

4. Not clear what practical effect will be of French attitude towards the accession negotiations. What do Italians think?

../Evolution

Evolution of the Community (if appropriate)

5. The fact that in preparing for further enlargement the Community has to examine its financial arrangements and the operation of existing policies such as agriculture, demonstrates how enlargement stimulates the evolution of the Community. Arrangements which were appropriate 25 years ago may in any case need to evolve to meet changing needs. The proposed Commission study on the problems posed by enlargement for Community policies will be an important contribution. But we need it quickly.

Separate Accession for Portugal or Spain (if raised)

6. Breaking the link between the two sets of the negotiations is not a point we need to consider now. Both negotiations are under way and that is clearly the best way to proceed. There will be considerable economic and political problems in separating these negotiations and I see no reason to address the issue now.

Mediterranean Agriculture (if raised)

7. Fully understand Italian concerns and accept need to safeguard position of Mediterranean farmers within existing Community. Discussions on new arrangements for Mediterranean farmers are under way. See no reason why these discussions and enlargement negotiations should not proceed in parallel.

8. (If raised) Essential that the new wine arrangements, which will form part of the new arrangement for Mediterranean producers, should include adequate safeguards to protect EC alcohol markets against new alcohol distilled from surplus wine

9. Agree on importance of stability in Mediterranean North Africa and role of EC agreements with Southern and Eastern Mediterranean countries and Yugoslavia in this. Commission paper about to be discussed in COREPER.

10. Meanwhile regret Italian position that negotiations with eg Cyprus should be held up until new arrangements for Mediterranean produce worked out within existing Community. EC has contractual obligations to Cyprus, quantities are small and repercussions for political stability and Communist influence in Cyprus could be serious.

BACKGROUND

1. At the European Council, President Mitterrand stressed the difficulties that further enlargement of the Community would cause and left little doubt that the French Government wished to put a long-lasting brake on progress in the accession negotiations. The French for some time have clearly been having serious problems with some aspects of the Spanish accession negotiations, in particular with agriculture. It is not entirely clear whether the French are equally reluctant about the Portuguese. The European Council asked the Commission to prepare an inventory of the problems posed by enlargement for Community policies and for each of the Member States and to make appropriate proposals.

2. The Italians, who share many of the French concerns on Mediterranean agriculture, have not so far cast doubt on accession negotiations, but they are also very concerned about the impact of Spanish accession on their own agricultural interests and have long pressed for substantial additional EC support for Mediterranean agriculture. It would be of interest to know how the Italians themselves now see the accession negotiations in the light of the difficulties the French have raised.

Timetable

3. It remains to be seen whether the French attitude will prompt some Member States to advocate a different timetable for the two sets of negotiations. Our best line for the moment

.../remains

remains to emphasise the importance we attach to progress in both negotiations and to underline the practical and political advantages of having both countries accede together.

Mediterranean Acquis

4. The Mediterranean producers of fruit and vegetables, olive oil and wine (basically Italy, Greece and France) fear with justification that they will be undercut by the Spaniards on enlargement. Negotiations are therefore continuing to establish new arrangements for Mediterranean agricultural products within the existing Community (reforming the so called 'Mediterranean Acquis') before Spanish accession. The Mediterranean producers would like to see agreement on an improvement of their competitive position within the Community by bolstering the market support arrangements. The Agriculture Council is committed to taking decisions on fruit and vegetables and on olive oil by the end of October. The former should not involve major problems but olive oil will be difficult.

5. On wine, there is a point of difficulty on which UK and Italian interests differ. As part of the reform of the Mediterranean acquis new arrangements are under discussion to sanction (and in some cases compel) the distillation of increased amounts of surplus wine into alcohol. The UK with Dutch support is insisting on safeguards to protect the EC alcohol market (eg Scotch whisky and BP's industrial alcohol production). The Italians with French support want more CAP money to support extra distillation operations.

.../The

The issue will be discussed further in the Agricultural Council in due course. There is probably no purpose in raising it in Rome. If the Italians refer to it, it would nevertheless be advisable to underline the importance we attach to safeguards for the existing alcohol market and the inadvisability of penalising the alcohol producers to help Mediterranean wine-growers.

6. We are very prepared to get on with the negotiations on the Mediterranean acquis but see no reason why there should not be parallel discussions on the Agriculture Chapters in the accession negotiations.

7. A by-product of French and Italian concerns on Mediterranean agriculture has been to delay agreement on new trade regime with the Cypriots. At the June Foreign Affairs Council, the Italians made it a condition of agreement to an EC mandate for negotiations with Cyprus that there should be an accompanying declaration saying that there should be no concessions on Mediterranean products for the Mediterranean countries with whom the Community has preferential arrangements until there was agreement on reform of the Mediterranean acquis. This was not acceptable to other Member States.

8. More widely the Italians and French have concerns about the effects of enlargement on the economic and political stability of the North Africa producers of agricultural foods which under their agreements with the EC now have more favourable access arrangements than Spain enjoys. This is a real problem

../with

with no easy answer. The Commission have just produced a paper advocating among other things much greater financial expenditure. Discussion in COREPER is about to take place.

FOREIGN AND COMMONWEALTH OFFICE
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SUPER SARA: REACTOR SAFETY PROJECT

Brief by Foreign and Commonwealth Office

Line to Take (if raised)

1. UK supports research into reactor safety. The last Research Council expressed doubts about this project. These stemmed in part from the recent report by Sir John Adams which was commissioned by the European Commission. We need to be satisfied that the difficulties identified by Adams can be solved and that the project can be completed on time and to cost.

Background

2. The Super Sara project is a major part of the Community's Reactor Safety Programme. The project is to assess the effects of serious damage to fuel in a PWR. It is being carried out at the Community Joint Research Centre at Ispra in Italy.
3. Super Sara was discussed at the Research Council on 30 June, but no final decision was required. We, The Netherlands,

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France and Germany expressed strong doubts about the project. Only the Italians supported the Commission proposals for its continuation.

4. (Not for disclosure)

Super Sara has had a troubled history and has produced no results so far. Cost is now estimated at about £140m - twice the original estimate - and is bound to rise. 160 extra posts have been requested (for which there may not even be enough qualified personnel in Europe). We doubt whether the likely results could justify expenditure of this magnitude. We seriously doubt Ispra's ability to complete the project successfully.

Foreign and Commonwealth Office, London

1 July 1982

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US/EUROPEAN RELATIONS

Brief by Foreign and Commonwealth Office

Points to Make

1. Will always be a difference of opinion and interest among the Allies. Diversity is one of NATO's strengths; Warsaw Pacts's uniformity papers over fundamental differences of national interest.
2. But disappointing that economic issues have soured transatlantic relations so soon after the Versailles and Bonn Summits, eg. trans-Siberian pipeline, steel.
3. Pipeline is the most serious problem. We must work hard to reverse American decision.
4. And must get across to the Americans the importance of genuine consultation, and of give and take. Only the Russians will benefit from Alliance divisions - which cannot be what the Americans want.
- /5.

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5. Need also to educate United States about complexity of East/West relations.

6. Doubt the need for new mechanisms eg. Euro/American friendship act proposed by Colombo, or institutional link proposed by Tindemans. Main task is to make full use of the links that already exist.

7. Particularly important to influence selected individual Americans through high level contacts, especially with Shultz and key men in White House and NSC. Important also not to give the impression in public of damaging Transatlantic split.

ESSENTIAL BACKGROUND

8. Signor Spadolini, like us, will want to put pressure on the Americans for genuine consultations, while playing down Alliance divisions in public.

9. European Council on 28/29 June expressed its concern at the recent American decision to extend the embargo on oil and gas exports to the Soviet Union

to overseas subsidiaries and licensees of US companies. An economic disagreement, but cause is partly political - Reagan's primitive East-West philosophy.

10. [NOT FOR USE] Sceptical about the value of Colombo's /call

call earlier this year for a Euro-American friendship pact. Reminiscent of Kissinger's disastrous call for a New Atlantic Charter in 1973.

11. Also sceptical of Tindeman's call for US/European institutional link, with regular contacts at Ministerial level, though advantage in some closer contacts between US and Commission.

12. See also Annex on Western consultations (restricted distribution).

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UNSSD II

(Brief by Foreign and Commonwealth Office)

Points to Make

1. British and Italian views on disarmament close: good cooperation between our people in Geneva and New York.
2. Western statements at Special Session notable for realism. Gromyko's worthless pledge not to be the first to use nuclear weapons was exposed by subsequent Western speakers. But Soviet agreement to place a part of nuclear installations under IAEA safeguards and apparent readiness to accept on-site inspections for verifying a CW ban are welcome.

Background (may be used)

3. UNSSD II is due to end on 9 July, but we see no sign of consensus on the main items on its agenda: the review of implementation and the comprehensive programme of disarmament. The Session will be a disappointment to the non-aligned and to some sectors of opinion in Western Europe. Further briefing will be submitted later if necessary.
4. Mr Spadolini spoke on behalf of Italy; one of his suggestions was to set up an international organisation for the verification of arms control agreements. We are sympathetic, but think that verification is best considered in relation to specific agreements rather than in the abstract.
5. Italy's views of arms control are similar to our own. They offer useful support in NATO in resisting demands for sweeping measures of nuclear arms control.
6. Signor Andreotti, a former Italian Prime Minister, addressed the Special Session on behalf of the Inter-Parliamentary Union on 23 June.

Foreign and Commonwealth Office
29 June 1982

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DEFENCE AND ARMS CONTROL: INF, START, MBFR

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

INF

1. NATO's commitment to zero option, combined with continued preparations for deployments, beginning to pay dividends. Russians forced to change propaganda tune and, recently, their position on some secondary issues of substance.

2. Can expect further Soviet moves, as dates for first cruise and Pershing II missile deployments approach. Lesson of last two years is that unwavering NATO commitment to modernisation programme offers best prospect of concrete progress on arms control.

START

3. Renewal of strategic arms control and US proposals for reductions warmly welcomed in UK, despite other preoccupations.

/4. NATO

4. NATO should support publicly US proposals for focus on ballistic missiles as most destabilising systems - as in NATO Summit Declaration. But also important that Americans counter Russian propaganda by repeating willingness to include bombers and cruise missiles in strategic role.

MBFR

5. New Western initiative demonstrates Alliance is in earnest. Now look for similarly constructive response from East. Unlikely, but will regain initiative for Alliance. Important vis-à-vis Western public opinion.

ESSENTIAL FACTS

INF

6. Italians have not waived over NATO's INF double decision. Italian anti-nuclear weapon movement is smaller than Western European counterparts although growing. Preparations are under way at Comiso, the cruise missile base in Sicily, although these will not be completed until a few months after the planned late 1983 deployment date.

7. By extending both their unilateral moratorium on longer-range INF deployments and the area of reductions under an INF treaty, to include weapons capable of striking Europe from east of the Urals as well as those /stationed

stationed in Europe, the Russians appear to have accepted Western criticism that their previous position enabled them to target Western Europe with weapons stationed just east of the Urals.

8. NATO's Special Consultative Group still meets regularly to discuss the INF negotiations. The Italians are also members of a restricted 'Inner Group' of the SCG (the other members being the UK, US, FRG and Belgium). They regard their important INF role as a ticket to the NATO top table.

START

9. The talks began on 29 June. Main US objective to reduce element of strategic instability caused by the growth in heavy accurate MIRVed ICBMs capable of a 'first strike' on US land-based missiles. Have proposed major cuts in ballistic missile warhead numbers for a first phase and cuts in 'throw-weight' (aggregate weight of warheads and associated equipment, which is a measure of destructive potential), in a second phase. Russians have been critical but careful not to limit negotiating possibility by going into details.

MBFR

10. Alliance poised to launch new proposal involving single, staged agreement. Comprises present essentially symbolic US and Soviet reductions for Stage I (1 year for reductions, 1 year for verification). But also /requires

requires firm commitments from all direct participants at the outset to take significant reductions over 5 year timetable to reach 900,000 combined common ceiling, subject only to Stage I reductions being satisfactorily verified. Key Western requirements (agreed data, effective verification, specific sub-limits on US and Soviet forces only) still obtain. Draft treaty on these lines previewed and endorsed at Bonn NATO Summit, and will be tabled in Vienna shortly.

11. New approach will be no easier to negotiate than predecessor. But takes significant step towards major Eastern requirement - firm commitments by all participants from the outset. Thus demonstrates seriousness of Alliance commitment to effective agreement, involving significant reductions, in conventional as well as nuclear forces.

12. Presentation of new Western initiative delayed by last-minute French concern over implications of any eventual agreement for Berlin. US and UK have provided French with appropriate assurances. Draft treaty will be tabled in Vienna on 8 July.

Foreign and Commonwealth Office

30 June 1982

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PMVT(82)5c

COPY NO 45

ANGLO-ITALIAN SUMMIT
7 JULY 1982

DEFENCE AND ARMS CONTROL: COLLABORATIVE ARMS PROJECTS

Updated Brief by Ministry of Defence

POINTS TO MAKE

1. Mr Nott discussed the EH101 helicopter project, our most important new collaborative programme, with Signor Lagorio last week. A cornerstone of future Anglo/Italian industrial collaboration. We hope that your Parliament will soon give approval for the necessary defence development funding and that administrative processes thereafter can be kept as short as possible. Essential that we exploit the commercial as well as defence opportunities and trust that Italian Government fully support this. We hope too that you will see the SEA HARRIER as very attractive in the light of its performance in the Falklands and the building by Italy of the GUISEPPE GARIBALDI with its ski-deck. We stand ready to provide further information.

BACKGROUND

2. Some good collaborative programmes. Tornado production is going well; and UK has recently confirmed its intention to procure the SP70 Self-Propelled Howitzer now in advanced development. Scope for new programmes is limited by need not to jeopardise more

important links with France and Germany and by Italian tendency to regard projects principally as a way of securing transfer of technology to build up national capabilities. But there are worthwhile prospects in some areas.

3. EH101. EH101 is an anti-submarine warfare helicopter intended to replace the Sea King in RN service from 1990/91 and to enter service with the Italian Navy (MMI) in a similar timescale. Although larger than Sea King it is being designed to operate from small ships and will be carried by the new Type 23 frigate. Small numbers required for defence needs make programme dependent upon exploiting commercial versions also, for which a substantial market is foreseen. Project definition has recently been completed jointly with Italy and discussions are well advanced on arrangements for launching development as part of an integrated naval/commercial programme. Funding would be provided by UK and Italian MOD, and by Westland and Agusta through their joint company EHI Ltd. On the Italian side the Department of Industry have access to Industrial Development Funds which could help Agusta. Westland are applying for launch aid but this has yet to be considered.

4. Mr Nott met his Italian counterpart Signor Lagorio on 28 June and it was confirmed that the Italians remain keen on the project. Time is of the essence, however, if EH101 is to enter service shortly after the first Type 23, and the Italian Parliamentary approval process for the defence funding contribution is unlikely to permit a final Italian defence commitment to development launch until early next year; ways of securing an earlier launch are being studied and will be discussed at a meeting between the two countries later this month.

5. There is late disturbing news that French are attempting to interfere. The Italian Government appear to have insufficient Industrial Development Funds to participate in both EH101 and Airbus A320; French are applying indecent pressure for A320 with inducement of substitution of Super Puma (not even used by French Navy) for EH101 and threat of integral package link between ATR42 (Aerospatiale/Aeritalia 42 seat regional airliner of particular importance to Aeritalia work load) and Italian participation in A320. Present Minister of Industry (Marcora) prefers EH101 but is under pressure from De Michelis, Socialist Minister for State Participation who has strong links with French Socialists. There is concern that a possible imminent Italian Government reshuffle might see Marcora moved and replaced by De Michelis. To protect EH101, a draft letter has been submitted by officials to Marcora for him to send to the Foreign Minister and Spadolini seeking their endorsement of Anglo/Italian agreement on a civil version of EH101. Cabinet approval, hopefully next week, would present De Michelis with a fait accompli should he become later Minister for Industry.
6. This information has been given frankly by officials and their confidence must be respected. Assuming Marcora sends the letter, the issue will be fresh in Spadolini's mind and recommendation is that Prime Minister (without going into these details) underline to him the importance UK attaches to EH101 and the integration of the defence and commercial aspects.
7. Missile Projects. Italy is to join the transatlantic Multiple Launch Rocket System Project. She has also shown interest in the European programme to develop new Anti-Tank Guided Weapons; full participation would be difficult to manage but a form of involvement has been offered.

8. Collaborative Exports. Italy has been fairly helpful in export promotion of Tornado/RB199 and Field Howitzer 70, and shares our concern over German restrictions.
9. UK Sales. Opportunities for defence sales are limited as a consequence of Italian policy of developing national capabilities. But Rolls Royce engines have been adopted for prototype AMX ground attack aircraft and A129 anti-tank helicopters. Longer term interest in Rapier and Sea Harrier has increased in the wake of Falklands experience. It would be right to mention the Sea Harrier, its performance in the Falklands (more than 30 Argentinian aircraft downed without loss in aerial combat), and say how attractive it must be to Italy now that the through deck carrier (the Giuseppe Garibaldi) with its ski-deck is nearly ready for service. We will do all we can to detail the Sea Harrier's capabilities (there is an inter-service row in Italy between the Navy and Air Force about it).

Ministry of Defence
6 July 1982

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PMVT(82)5(d)

COPY NO 46

30 June 1982

ANGLO-ITALIAN SUMMIT

7 JULY 1982

DEFENCE AND ARMS CONTROL:

UK DEFENCE POLICY POST FALKLAND ISLANDS

Brief by Foreign and Commonwealth Office

POINT TO MAKE

1. Falklands operation and extra costs of maintaining garrison will be financed by funds additional to existing defence budget. As White Paper published last week made clear, some adjustments to defence policy in light of Falklands experience likely. But no departure from main NATO roles, including major land and air contribution on European mainland, and major maritime effort in eastern Atlantic and Channel.

ESSENTIAL FACTS

2. Falklands operation inevitably involved lowering of level of availability of certain forces (particularly naval) committed to NATO. This will continue to affect /forces

forces providing longer term garrison.

3. Allied concern that Falklands commitments may involve major shifts in UK defence policy. Will be useful to reassure Italians that, while some adjustments may be necessary, principal elements of UK policy as set out in last year's Defence Policy Review will remain unchanged. Fact that we are finding extra money to pay for Falklands operation and garrison will provide extra reassurance.

Foreign and Commonwealth Office

20 June 1982

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PHVT(82)6
30 June 1982

Copy No 45

ANGLO-ITALIAN SUMMIT

7 July 1982

EAST/WEST POLITICAL AND ECONOMIC RELATIONS

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. West has captured the high ground on political and arms control issues. Welcome President Reagan's Westminster address. Alliance has nothing to fear in battle of ideas. Must continue to emphasise failures of Soviet system (agriculture, economy, human rights, Afghanistan, Poland).
2. Next few months important. Resumption of INF negotiations, START talks and possible Reagan/Brezhnev Summit will determine East/West climate. Alliance must give maximum support to Americans, particularly in aftermath of Haig resignation. No prospect Russians will accept need for restraint and compromise unless West is seen to be united and determined.
3. But unity weakened by problems over East-West economic relations. Believe latest American measures towards Soviet Union have done substantial damage to transatlantic relations. Know Nuovo Pignone, like John Brown, was affected by earlier measures. Our officials working closely together to limit damage to our companies, and are assessing wider implications of US measures.
4. European Council right to refer to serious

jeopardy to open world trading systems. But we must try to prevent issue being blown up out of proportion, and exploited by the Russians. Important that in public we should continue to stress underlying unity of Alliance, and our common concern over Poland.

BACKGROUND (Can be used freely)

5. President Reagan's address in Westminster Hall is at Annex A.

6. Haig and Gromyko met for a total of nine hours on 18 and 19 June in the margins of the UN Special Session on Disarmament in New York. They discussed strategic and regional questions in an atmosphere which the Americans described as 'serious' and comparatively unpolemical. According to the Americans there were no surprises, although Gromyko's readiness to contemplate the withdrawal of Cuban troops from Angola after Namibian independence, and his agreement that bilateral 'expert' level talks on Afghanistan should go ahead in Moscow in July, hinted at a slight softening of the Soviet position on these two issues. But this may prove more apparent than real.

7. Haig and Gromyko reaffirmed their support for a Reagan/Brezhnev Summit. There has been speculation that this might take place in a European neutral country in September or October but Haig and Gromyko made no firm arrangements, merely reiterating that a summit should be well prepared.

Economic

8. President Reagan's measures of 16 June extended ban on supply of oil and gas equipment to Soviet Union. Ban now also cover US subsidiaries and licensees. Rotors for Nuoro Pignone's contract for Siberian pipeline (like John

Brown's) also affected by measures of 29 December 1981. Latest measure is extraterritorial and retroactive.

9. At meeting of French, FRG, Italians and UK Economic Directors on 28-29 June in margins of European Council it was agreed to await results of forthcoming meetings with Russians of European turbine manufacturers affected, before we decided whether to examine the feasibility of supplying the Russians with all-European equipment instead. Legal Advisers of countries affected will discuss legal implications of latest US measures.

10. On 30 June the Secretary of State for Trade made an order under Section 1(1) of the Protection of Trading Interests Act 1980, citing the regulations as damaging or threatening to damage our trading interests.

OFFICIAL TEXT



Tuesday, June 8th, 1982

INTERNATIONAL COMMUNICATION AGENCY: U.S. EMBASSY, 55/56 UPPER BROOK STREET, LONDON W1A 2LH

THE ADDRESS BY PRESIDENT REAGAN

TO MEMBERS OF BOTH HOUSES OF PARLIAMENT

in the Royal Gallery, the Palace of Westminster,

Tuesday, June 8th, 1982

The journey of which this visit forms a part is a long one. Already it has taken me to two great cities of the west -- Rome and Paris -- and to the Economic Summit at Versailles. There, once again, our sister democracies have proved that, even in a time of severe economic strain, free peoples can work together freely and voluntarily to address problems as serious as inflation, unemployment, trade, and economic development in a spirit of cooperation and solidarity. Other milestones lie ahead -- later this week. In Germany, we and our NATO allies will discuss measures for our joint defense, and America's latest initiatives for a more peaceful, secure world through arms reductions.

Each stop of this trip is important but, among them all, this moment occupies a special place in my heart and the hearts of my countrymen -- a moment of kinship and homecoming in these hallowed halls.

Speaking for all Americans, I want to say how very much at home we feel in your house. Every American would, because this is one of democracy's shrines. Here the rights of free people and the processes of representation have been debated and refined.

It has been said that an institution is the lengthening shadow of a man. This institution is the lengthening shadow of all the men and women who have sat here, and all those who have voted to send representatives here.

This is my second visit to Great Britain as President of the United States.

My first opportunity to stand on British soil occurred almost a year and a half ago when your Prime Minister graciously hosted a diplomatic dinner at the British Embassy in Washington. Mrs. Thatcher said then she hoped that I was not distressed to find

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staring down at me from the grand staircase a portrait of His Royal Majesty, King George III. She suggested it was best to let bygones be bygones and -- in view of our two countries' remarkable friendship in succeeding years -- she added that most Englishmen today would agree with Thomas Jefferson that "a little rebellion now and then is a very good thing."

From here I will go to Bonn, and then Berlin, where there stands a grim symbol of power untamed. The Berlin Wall, that dreadful gray gash across the city, is in its third decade. It is the fitting signature of the regime that built it. And a few hundred kilometers behind the Berlin Wall there is another symbol. In the center of Warsaw there is a sign that notes the distances to two capitals. In one direction it points toward Moscow. In the other it points toward Brussels, headquarters of Western Europe's tangible unity. The marker says that the distances from Warsaw to Moscow and Warsaw to Brussels are equal. The sign makes this point: Poland is not East or West. Poland is at the center of European civilization. It has contributed mightily to that civilization. It is doing so today by being magnificently uncanceled to oppression.

Poland's struggle to be Poland, and to secure the basic rights we often take for granted, demonstrates why we dare not take those rights for granted. Gladstone, defending the Reform Bill of 1866, declared: "You cannot fight against the future. Time is on our side." It was easier to believe in the inevitable march of democracy in Gladstone's day -- in that high noon of Victorian optimism.

We are approaching the end of a bloody century plagued by a terrible political invention -- totalitarianism. Optimism comes less easily today, not because democracy is less vigorous, but because democracy's enemies have refined their instruments of repression. Yet optimism is in order because, day by day, democracy is proving itself to be a not-at-all fragile flower.

From Stettin on the Baltic to Varna on the Black Sea, the regimes planted by totalitarianism have had more than 30 years to establish their legitimacy. But none -- not one regime -- has yet been able to risk free elections. Regimes planted by bayonets do not take root.

The strength of the Solidarity movement in Poland demonstrates the truth told in an underground joke in the Soviet Union. It is that the Soviet Union would remain a one-party nation even if an opposition party were permitted -- because everyone would join the party.

America's time as a player on the stage of world history has been brief. I think understanding this fact has always made you patient with your younger cousins. Well, not always patient. I do recall that on one occasion Sir Winston Churchill said in exasperation about one of our most distinguished diplomats: "He is the only case I know of a bull who carries his china shop with him."

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Witty as Sir Winston was, he also had that special attribute of great statesmen: the gift of vision, the willingness to see the future based on the experience of the past.

It is this sense of history, this understanding of the past, that I want to talk with you about today, for it is in remembering what we share of the past that our two nations can make common cause for the future.

We have not inherited an easy world -- if developments like the industrial revolution, which began here in England, and the gifts of science and technology have made life much easier for us -- they have also made it more dangerous. There are threats now to our freedom, indeed, to our very existence, that other generations could never even have imagined.

There is, first, the threat of global war. No President, no Congress, no Prime Minister, no Parliament can spend a day entirely free of this threat. And I don't have to tell you that in today's world, the existence of nuclear weapons could mean, if not the extinction of mankind, then surely the end of civilization as we know it.

That is why negotiations on intermediate range nuclear forces now underway in Europe and the "START" talks -- Strategic Arms Reduction Talks -- which will begin later this month, are not just critical to American or Western policy; they are critical to mankind. Our commitment to early success in these negotiations is firm and unshakable and our purpose is clear: reducing the risk of war by reducing the means of waging war on both sides.

At the same time, there is a threat posed to human freedom by the enormous power of the modern state. History teaches the dangers of government that overreaches: political control taking precedence over free economic growth, secret police, mindless bureaucracy -- all combining to stifle individual excellence and personal freedom.

Now I am aware that among us here and throughout Europe, there is legitimate disagreement over the extent to which the public sector should play a role in a nation's economy and life. But on one point all of us are united: our abhorrence of dictatorship in all its forms; but most particularly totalitarianism and the terrible inhumanities it has caused in our time: the great purge, Auschwitz and Dachau, the Gulag and Cambodia.

Historians looking back at our time will note the consistent restraint and peaceful intentions of the West. They will note that it was the democracies who refused to use the threat of their nuclear monopoly in the forties and early fifties for territorial or imperial gain. Had that nuclear monopoly been in the hands of the communist world, the map of Europe, indeed, the world, would look very different today. And certainly they will note it was not the democracies that invaded Afghanistan, or suppressed Polish solidarity, or used chemical and toxin warfare in Afghanistan and Southeast Asia.

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If history teaches anything, it teaches: self-delusion in the face of unpleasant facts is folly. We see around us today the marks of our terrible dilemma -- predictions of doomsday, anti-nuclear demonstrations, an arms race in which the West must for its own protection be an unwilling participant. At the same time, we see totalitarian forces in the world who seek subversion and conflict around the globe to further their barbarous assault on the human spirit.

What, then, is our course? Must civilization perish -- in a hail of fiery atoms? Must freedom wither -- in a quiet, deadening accommodation with totalitarian evil? Sir Winston Churchill refused to accept the inevitability of war or even that it was imminent. He said: "I do not believe that Soviet Russia desires war. What they desire is the fruits of war and the indefinite expansion of their power and doctrines. But what we have to consider here today while time remains, is the permanent prevention of war and the establishment of conditions of freedom and democracy as rapidly as possible in all countries."

This is precisely our mission today: to preserve freedom as well as peace. It may not be easy to see, but I believe we live now at a turning point.

In an ironic sense, Karl Marx was right. We are witnessing today a great revolutionary crisis -- a crisis where the demands of the economic order are colliding directly with those of the political order. But the crisis is happening not in the free, non-Marxist West, but in the home of Marxism-Leninism, the Soviet Union. It is the Soviet Union that runs against the tide of history by denying freedom and human dignity to its citizens. It also is in deep economic difficulty. The rate of growth in the Soviet gross national product has been steadily declining since the fifties and is less than half of what it was then. The dimensions of this failure are astounding; a country which employs one-fifth of its population in agriculture is unable to feed its own people. Were it not for the tiny private sector tolerated in Soviet agriculture, the country might be on the brink of famine. These private plots occupy a bare 3 percent of the arable land but account for nearly one-quarter of Soviet farm output and nearly one-third of meat products and vegetables.

Overcentralized, with little or no incentives, year after year the Soviet system pours its best resource into the making of instruments of destruction. The constant shrinkage of economic growth combined with the growth of military production is putting a heavy strain on the Soviet people.

What we see here is a political structure that no longer corresponds to its economic base, a society where productive forces are hampered by political ones.

The decay of the Soviet experiment should come as no surprise to us. Wherever the comparisons have been made between free and closed societies -- West Germany and East Germany, Austria and Czechoslovakia, Malaysia and Vietnam -- it is the democratic countries that are prosperous and responsive to the needs of their people. And one of the simple but overwhelming facts of our time

is this: of all the millions of refugees we have seen in the modern world, their flight is always away from, not toward, the communist world. Today on the "NATO" line, our military forces face East to prevent a possible invasion. On the other side of the line the Soviet forces also face East -- to prevent their people from leaving.

The hard evidence of totalitarian rule has caused in mankind an uprising of the intellect and will. Whether it is the growth of the new schools of economics in America or England or the appearance of the so-called "new philosophers" in France, there is one unifying thread running through the intellectual work of these groups: rejection of the arbitrary power of the state, the refusal to subordinate the rights of the individual to the superstate, the realization that collectivism stifles all the best human impulses.

Since the exodus from Egypt, historians have written of those who sacrificed and struggled for freedom: the stand at Thermopylae, the revolt of Spartacus, the storming of the Bastille, the Warsaw uprising in World War II.

More recently we have seen evidence of this same human impulse in one of the developing nations in Central America. For months and months the world news media covered the fighting in El Salvador. Day after day we were treated to stories and film slanted toward the brave freedom fighters battling oppressive government forces in behalf of the silent, suffering people of that tortured country.

Then one day those silent suffering people were offered a chance to vote to choose the kind of government they wanted. Suddenly the freedom fighters in the hills were exposed for what they really are: Cuban-backed guerillas who want power for themselves and their backers, not democracy for the people. They threatened death to any who voted and destroyed hundreds of busses and trucks to keep people from getting to the polling places. But on election day the people of El Salvador, an unprecedented 1.4 million of them, braved ambush and gunfire, trudging miles to vote for freedom.

They stood for hours in the hot sun waiting for their turn to vote. Members of our Congress who went there as observers told me of a woman wounded by rifle fire who refused to leave the line to have her wound treated until after she had voted. A grandmother, who had been told by the guerillas she would be killed when she returned from the polls, told the guerillas, "You can kill me, kill my family, kill my neighbors, but you can't kill us all." The real freedom fighters of El Salvador turned out to be the people of that country, the young, the old and the in-between. Strange, but there has been little if any news coverage of that war since the election.

Perhaps they'll say it's because there are newer struggles now. On distant islands in the South Atlantic young men are fighting for Britain. And, yes, voices have been raised protesting their sacrifice for lumps of rock and earth so far away. But those young men aren't fighting for mere real estate. They fight for a cause, for the belief that armed aggression must not be allowed to succeed, and that people must participate in the decisions of government under the rule of law. If there had been firmer support for that principle some 45 years ago, perhaps our generation wouldn't have suffered the blood-letting of World War II.

In the Middle East the guns sound once more, this time in Lebanon, a country that for too long has had to endure the tragedy of civil war, terrorism and foreign intervention and occupation. The fighting in Lebanon on the part of all parties must stop and Israel should bring its forces home. But this is not enough. We must all work to stamp out the scourge of terrorism that in the Middle East makes war an ever-present threat.

But beyond the troublespots lies a deeper, more positive pattern. Around the world today the democratic revolution is gathering new strength. In India, a critical test has been passed with the peaceful change of governing political parties. In Africa, Nigeria is moving in remarkable and unmistakable ways to build and strengthen its democratic institutions. In the Caribbean and Central America, 16 of 24 countries have freely elected governments. And in the United Nations, 8 of the 10 developing nations which have joined the body in the past five years are democracies.

In the communist world as well, man's instinctive desire for freedom and self-determination surfaces again and again. To be sure, there are grim reminders of how brutally the police state attempts to snuff out this quest for self rule: 1953 in East Germany, 1956 in Hungary, 1968 in Czechoslovakia, 1981 in Poland. But the struggle continues in Poland and we know there are even those who strive and suffer for freedom within the confines of the Soviet Union itself. How we conduct ourselves here in the western democracies will determine whether this trend continues.

No, democracy is not a fragile flower; still it needs cultivating. If the rest of this century is to witness the gradual growth of freedom and democratic ideals, we must take actions to assist the campaign for democracy.

Some argue that we should encourage democratic change in right-wing dictatorships, but not in communist regimes. To accept this preposterous notion -- as some well-meaning people have -- is to invite the argument that, once countries achieve a nuclear capability, they should be allowed an undisturbed reign of terror over their own citizens. We reject this course.

As for the Soviet view, Chairman Brezhnev repeatedly has stressed that the competition of ideas and systems must continue and that this is entirely consistent with relaxation of tensions and

peace. We ask only that these systems begin by living up to their own constitutions, abiding by their own laws, and complying with the international obligations they have undertaken. We ask only for a process, a direction, a basic code of decency -- not for an instant transformation.

We cannot ignore that fact that even without our encouragement, there have been and will continue to be repeated explosions against repression in dictatorships. The Soviet Union itself is not immune to this reality. Any system is inherently unstable that has no peaceful means to legitimize its leaders. In such cases, the very repressiveness of the state ultimately drives people to resist it -- if necessary, by force.

While we must be cautious about forcing the pace of change, we must not hesitate to declare our ultimate objectives and to take concrete actions to move towards them. We must be staunch in our conviction that freedom is not the sole prerogative of a lucky few, but the inalienable and universal right of all human beings. So states the United Nations' Universal Declaration of Human Rights -- which, among other things, guarantees free elections.

The objective I propose is quite simple to state: To foster the infrastructure of democracy -- the system of a free press, unions, political parties, universities -- which allows a people to choose their own way, to develop their own culture, to reconcile their own differences through peaceful means.

This is not cultural imperialism; it is providing the means for genuine self-determination and protection for diversity. Democracy already flourishes in countries with very different cultures and historical experiences. It would be cultural condescension, or worse, to say that any people prefer dictatorship to democracy. Who would voluntarily choose not to have the right to vote, decide to purchase government propaganda handouts instead of independent newspapers; prefer government to worker controlled unions; opt for land to be owned by the state instead of those who till it; want government repression of religious liberty, a single political party instead of a free choice, a rigid cultural orthodoxy instead of democratic tolerance and diversity?

Since 1917 the Soviet Union has given covert political training and assistance to Marxist-Leninists in many countries. Of course it also has promoted the use of violence and subversion by these same forces.

Over the past several decades, West European and other Social Democrats, Christian Democrats and Liberals have offered open assistance to fraternal political and social institutions, to bring about peaceful and democratic progress. Appropriately for a vigorous new democracy, the Federal Republic of Germany's political foundations have become a major force in this effort.

We in America now intend to take additional steps, as many of our allies have already done, toward realizing this same goal. The Chairmen and other leaders of the National Republican and

Democratic Party organizations are initiating a study with the bipartisan American political foundation to determine how the United States can best contribute -- as a nation -- to the global campaign for democracy now gathering force. They will have the cooperation of Congressional leaders of both parties, along with representatives of business, labor, and other major institutions in our society.

I look forward to receiving their recommendations, and to working with these institutions and the Congress in the common task of strengthening democracy throughout the world.

It is time that we committed ourselves as a nation -- in both the public and private sectors -- to assisting democratic development.

We plan to consult with leaders of other nations as well. There is a proposal, before the Council of Europe to invite Parliamentarians from democratic countries to a meeting next year in Strasbourg. That prestigious gathering could consider ways to help democratic political movements.

This November in Washington there will take place an international meeting on free elections and next spring there will be a conference of world authorities on constitutionalism and self-government hosted by the Chief Justice of the United States. Authorities from a number of developing and developed countries -- judges, philosophers and politicians with practical experience -- have agreed to explore how to turn principle into practice and further the rule of law.

At the same time we invite the Soviet Union to consider with us how the competition of ideas and values -- which it is committed to support -- can be conducted on a peaceful and reciprocal basis. For example, I am prepared to offer President Brezhnev an opportunity to speak to the American people on our television, if he will allow me the same opportunity with the Soviet people. We also suggest that panels of our newsmen periodically appear on each other's television to discuss major events.

I do not wish to sound overly optimistic ... yet the Soviet Union is not immune from the reality of what is going on in the world. It has happened in the past: A small ruling elite either mistakenly attempts to ease domestic unrest through greater repression and foreign adventure, or it chooses a wiser course -- it begins to allow its people a voice in their own destiny.

Even if this latter process is not realized soon, I believe the renewed strength of the democratic movement, complemented by a global campaign for freedom, will strengthen the prospects for arms control and a world at peace.

I have discussed on other occasions, including my address on May 9th, the elements of western policies toward the Soviet Union to safeguard our interests and protect the peace. What I am describing now is a plan and a hope for the long term -- the march of freedom and democracy which will leave Marxism-

Genicism on the ash-heap of history as it has left other tyrannies which stifle the freedom and muzzle the self-expression of the people.

That is why we must continue our efforts to strengthen NATO even as we move forward with our zero option initiative in the negotiations on intermediate-range forces and our proposal for a one-third reduction in strategic ballistic missile warheads.

Our military strength is a prerequisite to peace but let it be clear we maintain this strength in the hope it will never be used. For the ultimate determinant in the struggle now going on for the world will not be bombs and rockets -- but a test of wills and ideas -- a trial of spiritual resolve: The values we hold, the beliefs we cherish, the ideals to which we are dedicated.

The British people know that, given strong leadership, time, and a little bit of hope, the forces of good ultimately rally and triumph over evil. Here among you is the cradle of self-government, the mother of Parliaments. Here is the enduring greatness of the British contribution to mankind, the great civilized ideas: Individual liberty, representative government and the rule of law under God.

I have often wondered about the shyness of some of us in the West about standing for these ideals that have done so much to ease the plight of man and the hardships of our imperfect world. This reluctance to use those vast resources at our command reminds me of the elderly lady whose home was bombed in the blitz; as the rescuers moved about they found a bottle of brandy she had stored behind the staircase, which was all that was left standing. Since she was barely conscious, one of the workers pulled the cork to give her a taste of it. She came around immediately and said: "here now, put it back, that's only for emergencies."

Well, the emergency is upon us.

Let us be shy no longer -- let us go to our strength. Let us offer hope. Let us tell the world that a new age is not only possible but probable.

During the dark days of the second World War when this island was incandescent with courage, Winston Churchill exclaimed about Britain's adversaries: "What kind of a people do they think we are?"

Britain's adversaries found out what extraordinary people the British are. But all the democracies paid a terrible price for allowing the dictators to underestimate us. We dare not make that mistake again. So let us ask ourselves: What kind of people do we think we are? And let us answer: Free people, worthy of freedom, and determined not only to remain so but to help others gain their freedom as well.

Sir Winston led his people to great victory in war and then lost an election just as the fruits of victory were about to be enjoyed. But he left office honorably -- and, as it turned out, temporarily -- knowing that the liberty of his people was more important than the fate of any single leader. History recalls his greatness in ways no dictator will ever know. And he left us a message of hope for the future, as timely now as when he first uttered it, as opposition leader in the Commons nearly 27 years ago: "When we look back on all the perils through which we have passed and at the mighty foes we have laid low and all the dark and deadly designs we have frustrated, why should we fear for our future? We have," said Sir Winston, "come safely through the worst."

The task I have set forth will long outlive our own generation. But together, we, too, have come through the worst. Let us now begin a major effort to secure the best -- a crusade for freedom that will engage the faith and fortitude of the next generation. For the sake of peace and justice, let us move toward a world in which all people are at last free to determine their own destiny.

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82
PMVT(28).7

COPY NO 46

2 JUL 1982

ANGLO-ITALIAN SUMMIT

7 JULY 1982

INTERNATIONAL ECONOMIC ISSUES

Brief by HM Treasury

POINTS TO MAKE

- (i) European inflation rates must come down faster to match falls in US and Japanese rates. As Summit countries reaffirmed at Versailles, lasting recovery can only follow reduction in inflation. European competitiveness needs to be maintained and creation of right climate for investment requires a reduction in uncertainty and in inflationary expectations. This means Europe as a whole needs low inflation which Germany, Japan and the United States have already achieved.
- (ii) Glad to note that OECD expects some recovery in output in European economies, as well as US and Japan, over the next 18 months, although unemployment seems likely to remain high.
- (iii) Welcome Versailles agreement to aim for convergence on counter-inflation policies. This should help to reduce exchange rate fluctuations between major currencies and encourage greater stability in world economy. Hope that new talks between Summit countries - and particularly those whose currencies make up SDR basket - will foster this.
- (iv) Within Europe, important to reverse trend towards greater divergence of economic performance. Major economies should provide example of prudent fiscal and monetary policies producing economic stability within Europe. This the best way to protect Europe from international interest rates and trade tensions.

(v) US interest rates still a problem. European Council right to stress importance of US agreeing on budget for fiscal year 1982. Agreement on details of spending and taxes need to be based on realistic economic assumptions if money markets are to be impressed and US interest rates are to decline.

(vi) Other countries, too, need to play their part in balanced development of world economy. Japan, in particular, should be pressed to place greater reliance on domestic rather than external expansion. Although Japanese current account surplus may not be as large as once feared this year, the prospect for 1983 is for a very large surplus. Depreciation of the yen against European currencies can only exacerbate this trend.

BACKGROUND

World inflation is now adjusting downwards, following the second oil price shock. The price of oil products has adjusted to higher crude prices, but firm policies in most OECD countries have checked the feed-through to prices generally. The increase in consumer prices in OECD countries in the year to April was about 8½ per cent, but there was wide divergence between countries, with a Japanese rate of less than 3 per cent, a US rate of slightly less than 7 per cent, and an average rate for Europe of 11 per cent. Within Europe only Austria, Germany, Switzerland and the Benelux countries have inflation rates notably below 10 per cent. French inflation is around 14 per cent and Italian 15 per cent.

2. The OECD forecasts that GDP in the major European economies will increase by about 1½ per cent this year and 2½ per cent next year. Employment, however, will not begin to recover in the European economies as a whole until next year. Unemployment, in turn, will not level out until the middle of next year and then only at a relatively high level of 10½ per cent, equivalent to more than 17 million people.

3. The OECD area's current deficit may fall to \$15 billion this year, but some countries, notably France and Italy will continue to show significant deficits while Germany and Japan move into increasing surplus.

4. There has been widespread international agreement on the need for greater convergence on counter-inflationary policies - notably at the OECD, IMF Interim Committee and Versailles Ministerial meetings. The Versailles Summit leaders, in particular, agreed to carry forward further discussions on convergence of policies to maintain the value of their currencies. Italy is not, of course, one of the countries whose currency forms part of the SDR basket, but it would be courteous to seek Italian views about the future of this exercise. The main message for countries such as Italy and France, which have relatively poor performance in terms of inflation and relatively slack policies in terms of budget deficits, is the need to put their own houses in order.

5. The rise in US interest rates since the Versailles Summit has been disappointing, and probably reflects uncertainty about both fiscal and monetary policies in the US. The recent European Council meeting "considered that a lowering of interest rates was a pre-requisite for the recovery of the world economy and expressed a hope that the US administration and Congress will take the necessary decisions to resolve the problem of the budget deficit." Although Congress has agreed on a budget deficit for FY83 of \$104 billion, which the Congressional Budget Office immediately re-estimated as \$116½ billion (on less optimistic growth assumptions), what is really needed is agreement on specific details of revenue and expenditure.

6. In the preparations for Versailles and in international ministerial meetings this year, there has been much discussion of the need for balanced growth in the world economy to avoid exchange rate and trade tensions. In particular, Japan's

reliance on external demand for much of its growth in recent years has been criticised and the Japanese have been asked to place greater reliance on domestic expansion. A key aspect of this is the need for the yen to appreciate to reflect the underlying strong fundamental position of the Japanese economy. The OECD forecasts that on current exchange rates Japan will have a current account surplus of more than \$20 billion next year.

PMVT(82)(8)

1 July 1982

COPY NO. 46

ANGLO-ITALIAN SUMMIT
7 July 1982

INTERNATIONAL TRADE ISSUES

Brief by the Department of Trade

Points to Make

1. USA. Provisional US countervailing duties most damaging to EC external steel trade and, indirectly, to the internal market. Unacceptable to treat quasi-capital aid for restructuring, and expenditure on redundancy schemes, as countervailable subsidies. Common Community stance vital. Must keep up pressure to get a negotiated settlement as agreed at European Council.
2. Japan. Recent Japanese import packages welcome, but their impact on EC's trade deficit not likely to be significant. They do not represent the necessary fundamental shift in Japan's trading practices and macro-economic policies. Important to continue to present a united Community front, and pressure on Japan - with US support as far as possible. UK and Italian attitudes to Japanese investment have much in common.
3. Disappointed, incidentally, at recent difficulties

made in Rome over imports of Triumph Acclaim cars. Commission confirm unequivocally that under EC law these are not to be treated as Japanese. Glad objections now apparently withdrawn and greatly hope there will be no further disturbance to free circulation of these Community goods.

4. Textiles. Welcome the fact that UK and Italy worked closely together in EC on policy towards low cost imports. Concerned, therefore, that I now receive more complaints about Italian man-made fibres than about imports from developing countries. Effective Community co-ordination of state aids in this sector essential; less prosperous Member States cannot win subsidy races.

5. French measures. What is Italian assessment? Mitterrand's new talk of "savage determination to ensure recapture of home market" liable to reinforce suspicions throughout rest of EC. Essential to maintain pressure on Commission to ensure respect for Community principles. Otherwise all EC countries will be pressed to interfere with intra-EC Trade. Triumph Acclaim relevant to this too.

Background

6. USA (steel). 11 June "preliminary determinations of subsidy" hit BSC hardest (over 40% alleged), then France, then Belgium, then Italsider (18.3% on sheet and strip).

7. Italian steel exports to USA in 1981 were 768,000 tons

- ours were 574,000 tons. Italians have broadly same interest as UK in attacking the subsidy determination. It would be helpful to find out as much as possible about their intentions, without giving away too much about UK tactics. (BSC has pressed for a bilateral UK settlement and if a negotiated quantity limitation arrangement fails it might be necessary to try this but chances of getting a bilateral are very small).

8. West Siberian Gas Pipeline. See Brief PMVT(82)(6), East/West Political and Economic Relations.

9. Japan. Italy is concerned to be allowed to maintain her national controls on direct imports - quotas on several Japanese products including cars (only 2000 a year) and TVs. She is two-faced about inward investment. Alfa-Romeo plan a joint venture with Nissan to produce 60,000 cars a year from 1983, and Innocenti recently launched a new Jap-engined model. But in 1980 Italy delayed a consignment of UK-made Sony TVs, and in spring 1982 she temporarily obstructed imports of BL's Triumph Acclaim, ostensibly on the quite false grounds that it did not conform with EC origin rules and was therefore Japanese. This might have done wider damage to BL's commercial prospects on the continent and to further UK collaboration with Japanese firms.

10. UK and Italy agree that Japanese investment must bring a genuine strengthening of European productive capacity.

We also broadly agree in our assessment of the inadequacy of the pre-Versailles Japanese import package.

11. Textiles. Sectoral (ie. other than regional) state subsidies to textile industries and proliferating on the continent, while in the UK there are none. Mr Jenkin has written to Commissioner Andriessen. Assistance apparently given to the Italian man-made fibre industry is currently the major target of domestic criticism; while capacity has been cut since 1979 by 31% in the Community as a whole and 41% in the UK, in Italy it has risen by 8%. The UK industry believes Italy is flouting Community rules on state aids; the opacity of Italian subsidies impedes the Commission's policing.

12. French measures. In December 1981 Paris announced a programme to "recapture" the French home market (followed by subsequent proposals for the broader European market). In the Council in January, all Member States except Greece voiced concern. The Commission is still examining the French schemes' compatibility with Community law, and has apparently reached few firm conclusions. Recently (22 June) M. Mitterrand is reported as having told the French Cabinet that the recapture must be pursued with "savage determination", and to have instructed all Ministers to report on the extent to which their administrations are buying French rather than foreign equipment.

13. We have, however, had very few new complaints of cancelled orders, trade distortion etc. This suggests that the French socialist "recapture" slogan may be primarily intended for domestic popular opinion. Nevertheless, it does lead to pressure for HMG "to follow French example". Italy, with experience of wine wars and concerned also for eg. shoe trade, has not been slow to call the French kettle black.

14. GATT ministerial meeting. The meeting (the first at Ministerial level since 1973) will provide a major opportunity for a demonstration of continued commitment to the open trade system. A full preparatory discussion of the EC line will take place at the 19/20 July Foreign Affairs Council. Important that careful advance preparation avoids building up an atmosphere of over-expectation. Italians likely to take a hard line on important areas such as safeguards, agriculture, trade and the developing countries and trade in services. Nevertheless some EC flexibility is a necessary contribution if the meeting is to be a success.

Department of Trade
1 July 1982

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PMVT(82)9
2 July 1982

COPY NO 46

ANGLO-ITALIAN SUMMIT
7 July 1982

UNITED KINGDOM ECONOMY
Brief by HM Treasury

Points to make

- (i) Economic recovery, albeit slow and hesitant, is underway. Despite some flattening out in activity in the autumn, industrial production is now some 2 per cent higher than a year ago; GDP some $\frac{1}{2}$ -1 per cent higher.
- (ii) Prospect is for resumed and continuing, if slow, recovery. This is supported by most independent forecasts, the CSO's cyclical indicators, investment intentions surveys, and so on.
- (iii) The recovery in output last year largely reflected the turnaround in destocking, but over the next 12 months growth is likely to be more broadly based with fixed investment, for example, already showing signs of picking up.
- [(iv) IF PRESSED: The level of unemployment remains deeply worrying. The rate of increase slowed down substantially last year, but the total is still rising. The right answer continues to lie in carrying on with steady economic policies, coupled with a continuing decline in the level of wage settlements,

improvements in productivity, and hence in competitiveness and profitability.]

(v) An encouraging feature has been the reduction in inflation where we are doing rather better than expected at the time of the Budget, with single figures achieved in April. The Budget forecast was for 9 per cent by the end of this year (which may be bettered) and $7\frac{1}{2}$ per cent by the middle of next year.

(vi) Rate of growth of unit labour costs, and other costs, has moderated substantially. Productivity in manufacturing has increased beyond expectation, and cost competitiveness has improved (though we are still some 30 per cent less competitive than 3 years ago). It is encouraging that productive investment by industry has been so robust.

(vii) Company profits, though still very low by historic and international standards, are beginning to improve - up one-quarter between the first and second halves of last year. Company financial position also generally stronger.

(viii) Interest rates have resumed their downward path, and they have now fallen by about $3\frac{1}{2}$ per cent since last autumn. This reflects lower inflation and market confidence that Government borrowing and monetary growth are on course. The future course of interest rates will depend in part on what happens in the US, where rates - both nominal and real - are well above ours. We have had some success in insulating ourselves from the pressures

caused by US interest rates. This has been a consequence of the favourable market perception of our policies, and of our intention to stick to them. We cannot afford to put this at risk.

(ix) Sticking to our medium-term fiscal and monetary strategy is essential. Loss of confidence in us could affect the whole of the gradual recovery we are now seeing.

Background

(i) Activity. GDP fell by 6 per cent between 1979 H2 (last cyclical peak) and 1981 Q2 (trough of current recession), rose about 1 per cent between 1981 Q2 and 1981 4Q then declined by $\frac{1}{4}$ per cent in 1982 Q1. Weakening at turn of year in part reflects impact of severe weather and strikes, but underlying level of output broadly flat in 6 months to March 1982; above levels of last spring. Most independent forecasts, business opinion surveys, and CSO's cyclical indicators expect resumed and continued recovery.

Recovery in 1981 largely reflected sharp fall in rate of destocking. Consumers' expenditure and Government consumption broadly flat. Fixed investment broadly flat in 1981, up 4 per cent between 1981 Q4 and 1982 Q1; DOI investment intentions survey suggests rise of 2 per cent in manufacturing, distribution and services fixed investment in 1982.

(ii) Lack of complete trade figures for 1981 and changed documentation procedures make recent figures difficult to interpret. Exports have held up well given earlier loss in competitiveness. In 8 months to April non-oil exports slightly (about $\frac{1}{2}$ per cent) higher than in 1980. Non oil imports have risen - up 12 per cent in same period - in part reflecting reduced rate of destocking and higher output. Current account estimated to be in surplus of £1 billion in first four months of 1982 following £7 billion surplus in 1981.

(iii) UK adult unemployment risen by 1.7 million since mid-1979, and stood at 2.91 million (12.2 per cent) in May. Total unemployment (including school leavers) was 3.06 million (12.8 per cent). Underlying rate of increase in unemployment slowed sharply during 1981 (105,000 per month in 4Q 1980 cf 25,000 per month in H1 1982). Other labour market indicators improved during 1981, eg vacancies - despite slight weakening since February - up by $\frac{1}{5}$ in 2Q 1982 on 2Q 1981, and with more rapid turnover. But little or no further improvement in unemployment or other labour market indicators since turn of year.

(iv) Wages and prices. Increase in earnings in 1980-81 pay round 11 per cent (settlements averaged about 9 per cent), half that of previous pay round. Settlements well inside single figures are now widespread (CBI average for manufacturing 7 per cent) suggesting further moderation in current pay round. 12-monthly increase in RPI 9.5 per cent in May; well inside single figures. Trend now firmly downwards, not upwards as in

1979: recent progress suggests outturn to November this year could well be within Budget time forecast of 9 per cent. [CONFIDENTIAL until 5 June: Manufacturers' input prices rose just $\frac{5}{2}$ per cent in year to June. Corresponding rise in manufacturers' output prices $8\frac{1}{4}$ per cent.

(v) Productivity and Competitiveness (manufacturing). Output per man risen 12 per cent since end-1980. Output per man and output per man-hour 5 and 8 per cent respectively higher than previous cyclical peak (1H 1979). Together with pay moderation, resulted in little increase in unit wage and salary costs during 1981 - rise of less than 3 per cent in year to 1Q 1982 - a rate below average of our competitors and comparable to Germany and Japan. Competitiveness (relative normalised unit labour costs) improved by 10-15 per cent during 1981, but remains about 30 per cent worse than in 1979.

(vi) Company finances. Gross trading profits of ICCs (net of stock appreciation) rose by about one quarter between 1H and 2H 1981, little changed between 4Q 1981 and 1Q 1982. But real pre tax rate of return just $2\frac{1}{2}$ per cent in 1981. Despite rise in company borrowing and deterioration in liquidity in 4Q 1982 (largely reflecting reduced sale of destocking and unwinding of civil service dispute which delayed companies' tax payments), company finances healthier in 1981 as a whole than in 1979 and 1980. Company liquidity improved in 1Q 1982.

(vii) Monetary aggregates. £M3 grew at an annual rate of 13 per cent in 1981-82 target period (from mid-February 1981 to

mid-April 1982) compared with target range of 6-10 per cent. At least part of excess reflected increased market share of banks in mortgage lending. Over the same period, M1 and PSL2 grew at rates of 7 and 12 per cent per annum respectively. In recent months monetary aggregates have grown more slowly; in first 3 months of 1982-83 target period developing favourably in relation to 8-12 per cent target range.

(viii) Interest rate/exchange rates. Interest rates have fallen since turn of year; process temporarily interrupted by Falklands crisis, but now resumed. 3 month inter-bank rate fell from 16 per cent in December to 13 per cent. After falling over 10 per cent during spring and summer 1981, effective exchange rate broadly constant at around 90 since last August.

(ix) Government borrowing. Latest published estimate suggests PSBR £1.9 billion in 1981-82 ($3\frac{1}{2}$ per cent of GDP, compared with $5\frac{1}{2}$ per cent in 1980-81) about £1.7 billion lower than estimated at Budget time. CGBR £1.9 billion in April-May 1982 at time when central government borrowing usually largest.

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2 July 1982

COPY NO: 46

ANGLO-ITALIAN SUMMIT

7 JULY 1982

ITALIAN ECONOMY

Brief by HM Treasury

POINTS TO MAKE

1. Welcome impressive decline in Italian rate of price inflation over the last year (from $20\frac{1}{2}$ per cent to 15 per cent). But earnings still increasing too fast (18 per cent) in comparison with other countries.
2. Prevalence of indexation of wages and public expenditure hinders some European countries (including Italy) from reducing inflation as fast as the US or Japan. But Europe has to retain competitiveness so countries with high inflation must curb indexation. What is Italian government's assessment of chances of reforming 'scala mobile'?
3. Recent EMS realignment should help restore Italy's competitive position, but needs to be reinforced by firm policies and structural adjustment.
4. What is prospect for reducing Italian public sector deficit? Domestic credit still appears to be expanding rapidly, although money supply growth is more modest.

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BACKGROUND

Output and Unemployment

5. GDP fell slightly last year but rose in the first quarter of 1982 by $1\frac{1}{4}$ per cent. The OECD expects continued modest growth, giving an average $1\frac{1}{2}$ per cent growth for the whole year. The underlying trend of industrial production also appears to have risen strongly this year. Unemployment rose to 9.4 per cent of the labour force in January ($2\frac{1}{4}$ million people) but since then output rises seem to have kept it from rising further.

Prices

6. Consumer price inflation has come down from a year-on-year rate of 20.6 per cent in June 1981 to 15.2 per cent in May this year. Manufacturing earnings increased 24 per cent in 1981 and in March were still increasing at a year-on-year rate in excess of 18 per cent; the portents for further reductions in inflation, therefore, are not strong. On June 1 the major private employers' federation, Confindustria withdrew from the national agreement with the unions on indexation of wages, known as the scala mobile (which has been a major factor perpetuating inflation). On June 29 Intersind, the organisation which represents the management of state run companies, also unilaterally withdrew from the scala mobile, and several smaller employers' organisations have said they will not renew it. Because of notice required by the agreement the withdrawals will not have much effect until January 1983, but in the intervening 7 months the employers clearly aim to re-negotiate the agreement and thereby to reduce labour costs below what they would be if the scala mobile continued as at present. Confindustria's withdrawal provoked immediate strikes and a general strike on 25 June (see Brief 13).

Financial

7. The official target of monetary policy is domestic credit

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expansion (DCE) which grew 18.2 per cent in 1981, compared with the targetted 16 per cent growth. By February year-on-year growth was down to 17.2 per cent compared with the target for the whole of 1982 of $15\frac{1}{2}$ per cent growth. The monetary aggregates M1 and M2 grew about 10 per cent last year; their year-on-year growth rates have also decreased this year (to 8-9 per cent by February).

8. Interest Rates peaked in the winter but have since (29 June) dropped a point to 20.6 per cent for 3-month money or $22\frac{1}{4}$ per cent for prime lending.

Foreign Sector

9. The lira was devalued $2\frac{1}{4}$ per cent against the ecu in the EMS realignment of June 12; this was necessary to stop the French devaluation causing an unwanted appreciation. Prior to the realignment the lira had been bottom of the EMS, though well within its 6 per cent limits; now it is near its central rate. The lira's margin for movement, therefore, is now larger. International competitiveness has probably been maintained for the time being but further devaluations may be necessary in due course given the excess of Italy's inflation rate over that of her trading partners: the OECD's average inflation rate in April is estimated at $8\frac{1}{2}$ per cent and manufacturing earnings in the major industrialised countries are increasing at about $9\frac{1}{2}$ per cent - about half the Italian rates.

10. The current account of the balance of payments is improving with a deficit for the first quarter of 1982 estimated at \$3.1bn compared with a \$4.5bn deficit on the first quarter of 1981. In both March and April the current account is provisionally estimated to have achieved a rough balance. The OECD forecasts a deficit for the whole of 1982 of \$7bn, with a similar deficit in 1983.

ECONOMIC POLICIES

11. The 1982 Budget was drawn up in September 1981 with a public sector deficit of 50 trillion lira (11 per cent of GDP); the core

of the budget was passed at the end of April, but the public sector deficit is now estimated to have slipped to almost 80 trillion lira (17 per cent of GDP). Prime Minister Spadolini appealed for economic facts to be faced and would like to reduce the deficit by cutting public spending plans and increasing indirect taxation, but politically he is in no position to carry these measures out and has admitted as such in public (see Brief 13). A supplementary Budget will be necessary later this year.

12. Overshooting of the public sector deficit will almost certainly cause the DCE target to be exceeded in 1982, and could induce the Bank of Italy to try to slow monetary growth still further. Real interest rates to borrowers have risen to 7 per cent as the Bank has not dropped interest rates in line with the fall in the inflation rate.

13. Sig. Spadolini did not welcome Confindustria's withdrawal from the Scala Mobile, as he has been trying to organise trilateral talks on the containment of labour costs and had attempted to persuade employers to start negotiations on the 1982-84 collective bargaining round. The unilateral withdrawals can be taken as an indication of employers' lack of confidence in the government's ability to produce an acceptable agreement.

HM Treasury

1 July 1982

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46

30 June 1982

ANGLO-ITALIAN SUMMIT
7 JULY 1982

ISRAEL/LEBANON

Brief by Foreign and Commonwealth Office

Points to make

1. First priority remains to avert Israeli attack on West Beirut. Have been trying to persuade Americans of disastrous effect this would have on Arab/West relations. Not optimistic that they will exert sufficient pressure.
2. Decisions on a peacekeeping-force will be needed before long. Important to go for expanded UNIFIL first. Otherwise non-UN force difficult to justify in Arab world. Practical difficulties about British participation in either. Would Italians agree to contribute?

ISRAEL/LEBANON

Background (Map attached)

3. After heavy fighting 23-25 June, the ceasefire declared by Israel on 25 June has generally held. Despite optimistic press reports there is no evidence of progress in the negotiations between Mr Habib, the Lebanese government and the PLO about withdrawal of the 6,000 PLO remaining in West Beirut. Israeli forces control a key sector of the Beirut-Damascus road (between Beirut and Bhamdoun) thus neutralizing remaining Syrian forces, and are poised to enter West Beirut if necessary. The Americans have told us that without a negotiated surrender of the PLO, they will not be able to restrain the Israelis.

4. The National Council of Salvation representing the main Lebanese factions has been rendered ineffective by the resignation of the leader of the Muslim/Left-wing National Movement, Mr Walid Jumblatt. Supporters of Mr Jumblatt have also resigned from the government. This does not seem to have hampered Mr Habib's efforts unduly. The Lebanese Prime Minister Mr Wazzan has withdrawn his resignation.

5. At the UN a French draft Security Council resolution calling for an immediate ceasefire, a limited Israeli withdrawal and the return of the PLO to camps was vetoed on 26 June by the US because disarming of the PLO was not specified. A resolution endorsing SCR's 508 and 509 (ceasefire and immediate Israeli withdrawal) was passed by a resumed Special Session of the UN General Assembly on Palestine on 26 June. Only the US and Israel

/voted

voted against. A poorly attended meeting of Foreign Ministers of the Arab League on 26/27 June failed to reach any decision, except to set up a ministerial committee, due to meet in Saudi Arabia on 30 June, to consider ways of securing application of Security Council resolutions on Lebanon.

6. The statement issued on 29 June after the European Council is attached. The Presidency announced later that signature of the EC/Israel 2nd financial protocol (worth 40 million ECUs to Israel) would remain suspended and that a ministerial meeting of the EC/Israel Cooperation Council planned for July had been postponed. The Presidency also noted that no arms sales by the Ten to Israel were taking place. We have suspended approval of licences for exports of military equipment to Israel (worth £3 million in 1981).

7. We have pledged a total of £247,500 (of which £104,000 distributed so far) in humanitarian aid to Lebanon via the ICRC, Lebanese Red Cross, Oxfam and UNRWA. The European Community has pledged over 9 million ECUs (UK share approximately £0.9 million). The Israelis are now allowing UNRWA and most voluntary agencies access to Southern Lebanon in accordance with SCR 512. But despite representations by the Ten the Israelis have refused to give an assurance that Palestinian prisoners will be treated in accordance with the Geneva Conventions.

8. UNIFIL's mandate was extended by the Security Council on 18 June (SCR 511) for two months. The Americans, Israelis and the Lebanese have aired the idea of a non-UN "multinational" force on the Sinai pattern. But the two situations are not parallel and Syrian co-operation with such a force is unlikely. There are practical

practical problems about British participation in either an expanded UNIFIL or a non-UN force. We already provide logistic support to UNIFIL from Cyprus. The Italians contribute a small logistic unit.

9. The British Embassy in West Beirut closed on 28 June and is now operating from the offices of Cyprus Airways in East Beirut. This part of the city is under Christian control and has so far remained unaffected by the fighting. About 400 UK, Commonwealth and other citizens were evacuated by ship from Jounieh (10 miles north of Beirut) on 24 June. There is no demand for a further evacuation at present.

Foreign and Commonwealth Office
30 June 1982

GRPS 420
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FM BRUSSELS 291115Z JUNE 82
TO IMMEDIATE FCO
TELNO 238 OF 29 JUNE

REPEATED FOR INFORMATION IMMEDIATE TO PARIS, WASHINGTON, BONN, BEIRUT
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INFORMATION PRIORITY TO OTHER EC POSTS, UKDEL NATO, UKDEL STRASBOURG,
OTTAWA, OSLO, TOKYO, WELLINGTON, UKMIS GENEVA, LISBON AND MADRID.
INFORMATION SAVING TO OTHER MIDDLE EAST POSTS.

EUROPEAN COUNCIL: LEBANON

THE FOLLOWING STATEMENT WAS ADOPTED BY THE EUROPEAN COUNCIL AT
1200Z TODAY AND RELEASED AT ONCE TO THE PRESS:-

'1. THE TEN MAINTAIN THEIR VIGOROUS CONDEMNATION OF THE ISRAELI
INVASION OF LEBANON. THEY ARE GREATLY CONCERNED ABOUT THE SITUATION
IN THAT COUNTRY AND IN PARTICULAR IN BEIRUT. THEY BELIEVE THAT THE
PRESENT CEASEFIRE MUST AT ALL COSTS BE PRESERVED.

THIS CEASEFIRE SHOULD BE ACCOMPANIED ON ONE HAND BY AN IMMEDIATE
WITHDRAWAL OF ISRAELI FORCES FROM THEIR POSITIONS AROUND THE
LEBANESE CAPITAL AS A FIRST STEP TOWARDS THEIR COMPLETE WITHDRAWAL,
AND ON THE OTHER HAND BY A SIMULTANEOUS WITHDRAWAL OF THE PALESTIN-
IAN FORCES IN WEST BEIRUT IN ACCORDANCE WITH PROCEDURES TO BE
AGREED BETWEEN THE PARTIES.

IN ORDER TO FACILITATE THIS WITHDRAWAL THE SEPARATION OF FORCES
WOULD BE CONTROLLED DURING THIS SHORT TRANSITIONAL PERIOD BY
LEBANESE FORCES AND, BY AGREEMENT WITH THE LEBANESE GOVERNMENT,
BY U.N. OBSERVERS OR FORCES.

2. THE ESTABLISHMENT OF A FINAL PEACE IN THE LEBANON REQUIRES THE
COMPLETE AND PROMPT WITHDRAWAL OF ISRAELI FORCES FROM THAT COUNTRY
AS WELL AS THE DEPARTURE OF ALL FOREIGN FORCES EXCEPT THOSE WHICH
MAY BE AUTHORISED BY A LEGITIMATE AND BROADLY REPRESENTATIVE
GOVERNMENT OF LEBANON WHOSE AUTHORITY WOULD BE FULLY REESTABLISHED
OVER ALL ITS NATIONAL TERRITORY. THE TEN SUPPORT ALL EFFORTS
FOR THE ACHIEVEMENT OF THESE OBJECTIVES.

3. FOR THE PRESENT THE TEN HAVE DECIDED TO CONTINUE THEIR ACTIVITY
TO BRING RELIEF TO THE POPULATION IN DISTRESS AND, IN THIS CONTEXT,
CALL ON ALL PARTIES TO ACT IN ACCORDANCE WITH SECURITY COUNCIL
RESOLUTIONS 511 AND 512 AND TO COOPERATE WITH THE RESPONSIBLE
INTERNATIONAL AGENCIES AS WELL AS WITH UNIFIL. THEY ARE ALSO READY
IN DUE COURSE TO ASSIST IN THE RECONSTRUCTION OF THE COUNTRY.

/ 4. ANXIOUS

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4. ANXIOUS TO INITIATE, OVER AND ABOVE THE SETTLEMENT OF THE LEBANESE PROBLEM, THE LASTING RESTORATION OF PEACE AND SECURITY IN THE REGION, THE TEN WISH TO SEE NEGOTIATIONS BASED ON THE PRINCIPLES OF SECURITY FOR ALL STATES AND JUSTICE FOR ALL PEOPLES. ALL THE PARTIES OF SECURITY SHOULD BE ASSOCIATED WITH THESE AND THUS SHOULD ACCEPT ONE ANOTHER'S EXISTENCE. ISRAEL WILL NOT OBTAIN THE SECURITY TO WHICH IT HAS A RIGHT BY USING FORCE AND CREATING FAITS ACCOMPLIS, BUT IT CAN FIND THIS SECURITY BY SATISFYING THE LEGITIMATE ASPIRATIONS OF THE PALESTINIAN PEOPLE. THE LATTER SHOULD HAVE THE OPPORTUNITY TO EXERCISE THEIR RIGHT TO SELF-DETERMINATION WITH ALL THAT THIS IMPLIES. THEY BELIEVE THAT FOR NEGOTIATIONS TO BE POSSIBLE THE PALESTINIAN PEOPLE MUST BE ABLE TO COMMIT THEMSELVES TO THEM AND THUS TO BE REPRESENTED AT THEM. THE POSITION OF THE TEN REMAINS THAT THE PLO MUST BE ASSOCIATED WITH THE NEGOTIATIONS. THE TEN WISH TO SEE THE PALESTINIAN PEOPLE IN A POSITION TO PURSUE THEIR DEMANDS BY POLITICAL MEANS AND WISH THAT THE ACHIEVEMENT OF THESE SHOULD TAKE ACCOUNT OF THE NEED TO RECOGNISE AND RESPECT THE EXISTENCE AND SECURITY OF ALL."

FCO PLEASE PASS SAVING ADDRESSEES

JACKSON

[REPEATED AS REQUESTED]

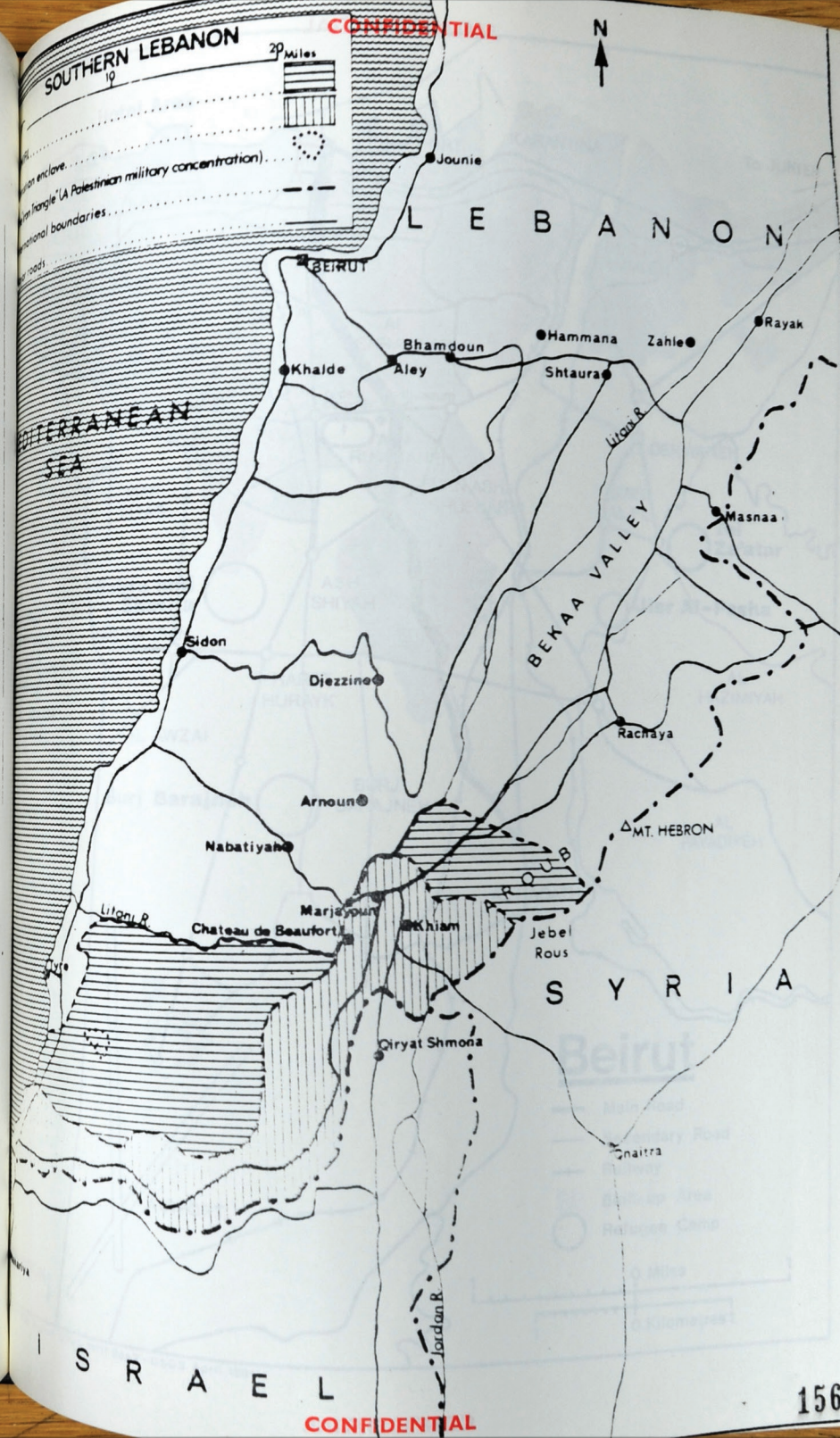
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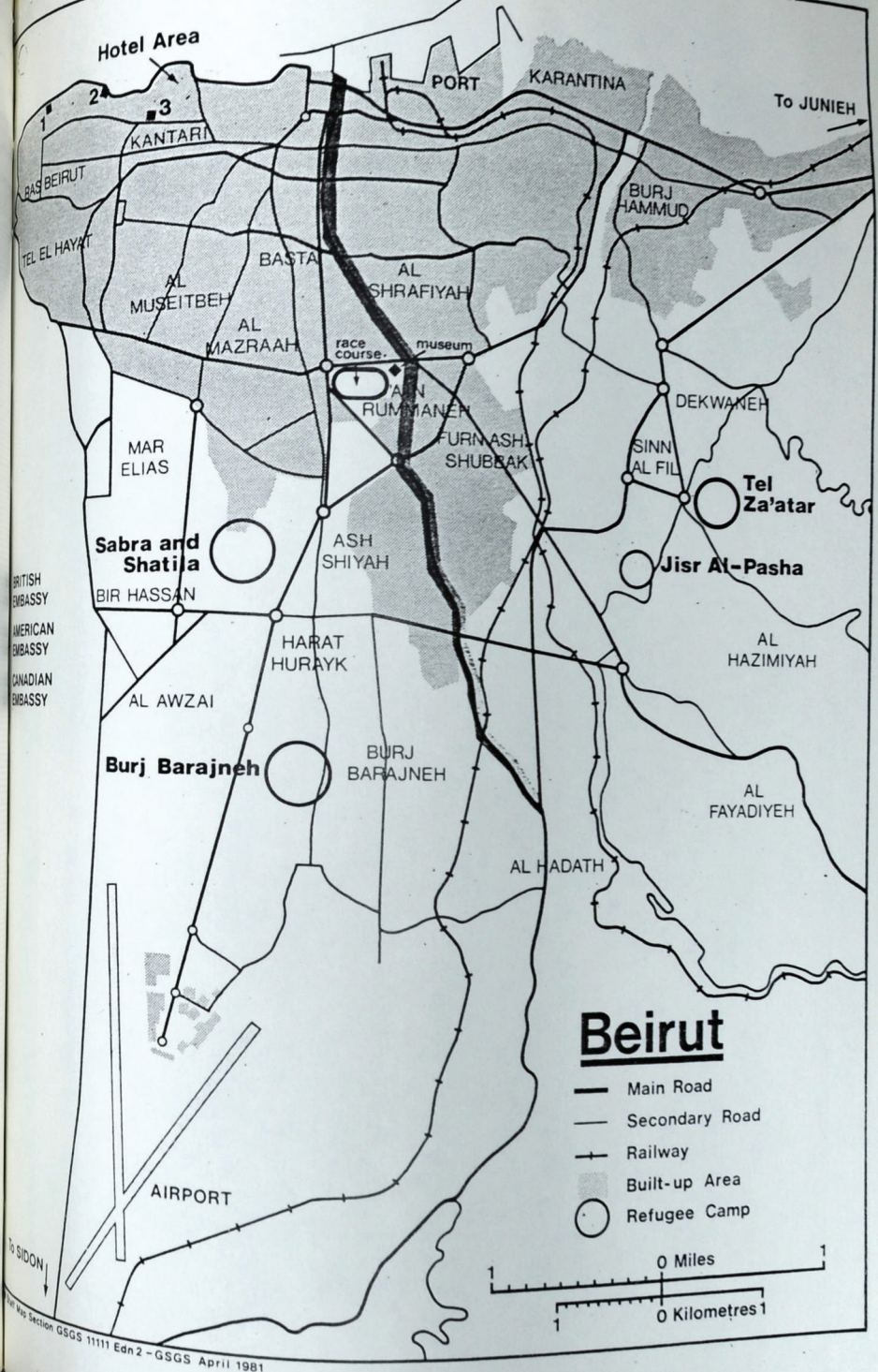
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ARAB/ISRAEL DISPUTE

- 2 -

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PMVT(82)11(b)
29 June 1982

Copy No. 46

Anglo-Italian Summit

7 July 1982

Southern Africa/Namibia

Brief by Foreign and Commonwealth Office

Points to Make

FIVE COMMITTED TO SEARCH FOR NAMIBIA SETTLEMENT

1. Five remain united in their determination to achieve settlement New South African flexibility, compounded with Front Line States' and SWAPO's earnest wish to end war, gives real chance now of beginning implementation of SCR 435 well before end of 1982, and possibly as soon as August. But to meet this deadline we shall need flexible and positive responses to our proposals.

2. Hope that Italians will use their influence with SWAPO and FLS to seize this possibly unique opportunity to remove South Africa peacefully from Namibia, and persuade them not to be distracted by groundless suspicions on points of detail.

NEXT STEPS

3. Five are stepping up informal consultations with the parties. Americans, on behalf of the Five, engaged in high level discussions with South Africans in Washington. Five hope soon to begin talks with all Front Line States and SWAPO, possibly in New York, with parallel discussions with South Africans in

Washington. Proximity talks or all-party conference might follow. Five have not finalised or presented proposals to any of the parties concerned therefore press reports that 'South Africa has accepted phase 2' are premature.

POSSIBILITY OF WIDER REGIONAL SETTLEMENT

4. Simultaneous agreement on Cuban withdrawal has now become an essential element in a Namibia settlement. Though not part of the Five's mandate, each of the Five has agreed to support American efforts to secure this. Cuban withdrawal would enable South African Government to justify to its electorate its willingness to allow implementation of UN Plan despite South African recognition that SWAPO are likely to come to power in Namibia. Current negotiations, which are likely to be difficult, therefore provide chance of wider regional settlement with ensuing benefit to whole region.

Background [For Use Freely Except Where Shown Otherwise]

ITALIAN ATTITUDES TO SOUTHERN AFRICA

5. The Italians adopt a low profile on Southern Africa, although they keep themselves well informed. They support the efforts of the Five. Mr Sam Nujoma, President of SWAPO, visited Rome and had talks with the Italian Government and the Vatican (meeting the Pope) in February.

RECENT NEGOTIATIONS

6. In mid-May the South Africans told the Americans that they were willing to move rapidly to implementation of Security Council Resolution 435 and showed signs of flexibility on nearly all the outstanding issues. Foreign Ministers of the Five agreed (in

Luxembourg) to take up the South African challenge. The Front Line States have responded commendably to informal consultations carried out in Lusaka, Luanda and Dar es Salaam by a team of senior officials from the Five: their Heads of State met, with SWAPO, in Dar es Salaam on 14 June, and in their confidential reply to the Five made clear their broad acceptance of several of our proposals for moving the negotiations forward. The South Africans have also responded positively. [NOT FOR USE: In particular they are prepared to select - though not to announce - the electoral system for the Constituent Assembly before implementation. This has been one of SWAPO's concerns.]

NEXT STEPS

7. The Five have now established enough common ground between the parties to begin parallel talks in Washington and New York next week. Several problems remain: for instance, SWAPO's wish for assembly points for their forces within Namibia (undoubtedly unacceptable to the South Africans), and the question of Cuban withdrawal.

WITHDRAWAL OF CUBAN TROOPS FROM ANGOLA

8. Although not part of the settlement, the Five have agreed to support American negotiations aimed at securing withdrawal of Cuban troops from Angola during implementation of the UN Plan. General Walters, President Reagan's roving Ambassador, visited Dar es Salaam, Lusaka and Luanda in early June to explain clearly to the Tanzanians, Zambians and Angolans that the South Africans (and the US) are unlikely to be able to contemplate a Namibian settlement, without a simultaneous agreement on withdrawal of Cuban and other foreign troops from

Angola, in return for firm assurances against further South African attacks on Angola. Although reluctant to accept any formal link between the two issues, and adamant that the question is purely for the Angolans to decide, some at least of the other Front Line States have so far been reasonably receptive to private arguments about the inevitability of a link and the benefits for all of a wider settlement. Recent South African public statements have however led to an inevitable hardening of Angola's attitude.

Foreign and Commonwealth Office
29 June 1982

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PMVT(82)10C

30 June 1982

COPY NO 46

ANGLO-ITALIAN SUMMIT

7 July 1982

REGIONAL ISSUES: LATIN AMERICA

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. With large Italian communities in South America and important trading links, fully understand Italy's concern over relations. Share Italy's wish to restore/reinforce good relations with the countries of Latin America. But Latin America not a single entity; common features, including language - but different attitudes and priorities. Falklands crisis highlighted these differences. Approach to the region therefore needs to take account of this.
2. Should not exaggerate damage done by crisis. OAS reluctance to impose sanctions on UK indicates majority of States value their relations with UK and Europe. Most Latin American countries' reaction was restrained. Many, especially those with territorial disputes of their own (Colombia, Guyana, Ecuador, Chile) privately relieved that a successful precedent had not been set for resolving territorial claims by force of arms rather than by peaceful negotiation in accordance with international law. Argentina's neighbours have long been apprehensive over her territorial ambitions.
3. UK has been making a major effort in relations with Latin America for some time. Falklands crisis has placed strain on relations in some particular cases but we do not expect this to be a lasting or insuperable obstacle. Several countries have already assured us that our relations remain excellent (Brazil, Mexico, Colombia, Chile).

/Aim

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Aim to continue working on a country-by-country basis and building on past efforts.

4. Welcome arrangements in hand for bilateral talks between officials on Latin America.

5. Continue to support EC efforts to improve relations with Latin America. In particular, favour an early resumption of the EC/GRULA (the Group of All American States) dialogue at ambassadorial level and of the negotiations to conclude the non-preferential Cooperation Agreement with the Andean Pact.

BACKGROUND

Italian Interests in Latin America

6. One of the largest communities in South America, particularly in Brazil and also in Argentina where a large proportion of the population is of Italian origin. The region is a more important trading partner for Italy than the UK. For instance, Italy imported twice as much from Argentina and her exports were substantially higher. In recognition of Italy's strong interest it has been agreed, at our initiative, that officials should have bilateral discussions on Latin America in October.

Latin America and the Falklands

7. Latin American public support for the Argentine cause has of course been strong and vociferous, notably at the meetings of the Rio Treaty signatories. However, a number of Latin American Governments - notably Mexico, Brazil, Colombia, Paraguay, Chile, Costa Rica - maintained a remarkably restrained official line. They and others have made clear their concern at the example of Argentine aggression. No country took any public or direct action to downgrade relations with Britain or attack our commercial interests. Practical military support for Argentina has been offered by only a few States, and has been limited and secretive. In real, rather than propaganda, terms the Latin American reaction must have been a considerable setback for Argentina.

/British

British Interests: economic

8. Latin America accounts for 5.5% of world GNP and 5% of world trade. It is the richest, most industrialised and fastest-developing region in the Third World, its total GNP being roughly equal to that of the Indian sub-continent, SE Asia and Africa combined. Although British exporters have so far failed to capitalise sufficiently on the opportunities, the area offers a substantial and fast-growing market and considerable major project business. Latin America in 1980 took 2.24% of our exports worth £1000m and accounted for 2.04% of our imports. British investments in the main South American countries and Mexico amounted to £850m, of which £200m was invested in Argentina. Loans by banks based in the UK total \$32.5 billion.

British Interests: political

9. We have sought in recent years to repair previous neglect and to demonstrate that we take Latin America seriously. We have sought to play our part in buttressing stability and democracy in the region. Our political objectives in Latin America are broadly shared by our Community partners: and the accession of Spain and Portugal will give fresh impetus to the Community's efforts to consolidate and develop its relations with the region. The region has close historical and cultural affinities with Europe and, whatever the Third World labels, is generally pro-Western in its underlying sympathies and concerned to balance its inevitable links with the US with developed European contacts. We are currently reviewing our future policy towards Latin America in consultation with posts. A number of Ministerial visits in both directions are already planned for the second half of the year as part of an overall programme aimed at reinforcing our relations with the region.

FOREIGN AND COMMONWEALTH OFFICE
30 June 1982

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PMWT (82) 11d

COPY NO 46

1 July 1982

ANGLO-ITALIAN SUMMIT

7 July 1982

IRAN/IRAQ

Brief by Foreign and Commonwealth Office

POINTS TO MAKE:

West's Role

1. Little we can do to stop the war. Ten's statement on 24 May calling for early negotiated settlement was expression of our concern. Any attempt to play direct role could alienate the Iranians further and be counter-productive. It is for Islamic states in the region to accept this responsibility and to use their influence on belligerents.

Action at the UN

2. Withdrawal of remaining Iraqi forces from Iranian territory is welcome step. Makes it easier for UK to support well-considered initiative in UN. Any resolution would have to satisfy both belligerents if it was to be more than rhetoric.

Other mediation efforts

3. Non-Aligned Movement and Islamic Conference appear to recognise that for the moment they have no further role to play. Algerians may still be trying.

/BACKGROUND NOTE

BACKGROUND NOTE:

Withdrawal of Iraqi Forces

4. Saddam Hussein announced on 20 June the withdrawal of remaining Iraqi forces from Iranian territory, thus effectively meeting one of the Iranian conditions for a ceasefire and negotiated settlement. This latest Iraqi olive branch is a welcome step. It reduces the immediate threat of Iranian invasion of Iraqi territory.

Other Iranian demands

5. But Saddam Hussein has not been let off the hook yet. The Iranians continue to demand reparations, condemnation of Iraq as the aggressor, the return of Iraqi exiles and the downfall of Saddam Hussein. The Saudis and the Gulf States are reported to be prepared to offer money (US\$25 billion) to Iran and the Iraqis are on record as accepting a tribunal: but the return of exiles and the toppling of Saddam Hussein may not at present be realistic.

Downfall of Saddam Hussein

6. Saddam Hussein's personal identification with the war may have exposed him to challenge from within the Ba'ath Party, or from the armed forces who have played until recent years, a traditional role in Iraqi politics. But he has survived threats in the past. His re-election as Secretary General of the Ba'ath Party last month may be evidence that he has consolidated his position and united the Party behind him. The downfall of

/Saddam

Saddam Hussein and the emergence of a regime sympathetic to or a surrogate of Tehran would have serious implications for the security and stability of the region, and for Iraq's relations with the West. For us, the Devil we know may be preferable to the Devil we do not.

Action at the UN

7. Because of their treatment by the UN when Iraq launched her war in September 1980, Iranians will be enraged by anything short of an even-handed resolution. Ill-considered and ill-timed resolution (of Jordanian initiative on 31 May) leading to a veto or non-compliance could damage UN role in future mediation. If UN action is to be effective it must command Iranian support or acquiescence. Iraqis have started to stimulate support for action by the UN Security Council and are working on a draft resolution which they may want the Non-Aligned Movement to sponsor.

Other mediation efforts

8. The Iranians are annoyed by a recent decision taken at Havana to proceed with the Baghdad Summit in September. They could well attempt to make the meeting impossible on security grounds and will be unlikely to accept the NAM as valid mediators. The Islamic Conference made a fresh and fruitless attempt in late May to mediate. Both organisations may now simply go through the motions for form's sake. The Algerians who played honest brokers in the negotiation of the 1975 Algiers Agreement between Iran and Iraq (the latter abrogated it unilaterally in 1980) may be prepared to try their hand again.

FOREIGN AND COMMONWEALTH OFFICE
29 JUNE 1982

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PMVT(82)(11e)
-2 JUL 1982

COPY NO 46

ANGLO-ITALIAN SUMMIT

7544
~~30 JUNE~~ 1982

THE HORN OF AFRICA

BRIEF BY FOREIGN AND COMMONWEALTH OFFICE

POINTS TO MAKE

1. Continuing instability increases risks to Western interests to the Gulf. Soviet interests served by Libya/Ethiopia/South Yemen pact but Libyans probably the main instigator, gaining opportunities for meddling in the Horn in return for some financial help to Ethiopia. Italian impressions?
2. In Ethiopia, Mengistu seems to be surviving failure of Red Star Campaign. No sign he is ready seriously to improve human rights or compensate expropriated Western companies. Difficult to have constructive relations until he does.
3. Somalia's President Siad Barre in difficulties. Contradictory indications of his intentions. What do Italians think?

BACKGROUND

4. The present Ethiopian regime depends heavily upon the Soviet Union for economic and military support, and in many fields copies the Soviet model. At present there are some 1000 Soviet advisers in the country, nearly as many East Germans, and 11,000 Cuban troops. But the Russians do not have things all their way; Ethiopian nationalism is still a force. Also the regime is becoming more coherent: factions within the leadership no longer murder each other; and what remains a Provisional Military Government no longer murders potential opponents as a

/matter

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matter of course. Somalia's weakness removes the threat of a second invasion of the Ogaden (where the Cubans are stationed). But the regime has not succeeded in bringing to an end the insurgency in Eritrea, where a large part of its army is tied down and where the "'hearts and minds'" campaign (known as Red Star) seems to have failed.

5. Externally Ethiopia has over the past 18 months sought improved relations with neighbouring states, including Kenya and Sudan. But this improvement was put at risk by the signature last August of a provocatively worded Treaty of Friendship and Cooperation with Libya and South Yemen. This secured \$150 million for Ethiopia in return for cooperation in Libya's efforts to undermine stability in the area, and to ferment opposition to United States policy. Although the Russians do not appear to have masterminded this treaty, they are likely to welcome the threat it poses to more moderate states, such as Sudan, and to Somalia in particular (where the United States have a Military Access Agreement).

6. The Ethiopian economy is in poor shape, despite its considerable agricultural potential. The World Bank are expected to provide funds for agriculture and education. Ethiopia also qualifies for a substantial share of the European Development Fund. The Italians are the main bilateral donors (around \$25 million per annum plus technical assistance). British aid remains frozen. One obstacle to its renewal is the regime's failure to provide compensation for British business assets nationalised when it took power.

7. A second difficulty is Ethiopia's abysmal record on human rights. Despite some 16,000 unpublicised releases up to June 1981, and amnesty for 470 detainees last September, many

/thousands

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thousands of political prisoners, among them most of the surviving members of the Ethiopian Royal Family, are still detained without trial. In addition, the Ethiopians embarked last autumn on a series of arbitrary actions against Christian organisations, particularly the Mekane Yesus and Baptist churches.

8. Somalia is also in a mess. President Siad Barre still enjoys the support of the army, which brought him to power in 1969. But corruption and clan quarrels are rife; and there is increasing discontent, encouraged by Ethiopia, in northern (ex-British) Somalia. All that Barre has to show for his campaign in 1977 to seize the Ogaden is some 700,000 refugees. The cumbersome single party apparatus, established during Barre's flirtation with the Soviet Union, offers no help in solving the country's political or economic ills. The latter are acute; and although Barre has been making tentative efforts to liberalise the economy, he also uses the party structure to suppress critics.

9. Somalia, with few natural resources, relies heavily on foreign assistance. Italy and West Germany are the main donors; and Saudi Arabia has for the past two years given most of the oil Somalia needs. The British aid programme is small, running at about £1.5 million a year; but we have contributed substantially to refugee relief; the cost in the current year is around £3 million.

Foreign and Commonwealth Office
30 June 1982

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GOVERNMENT

PMVT(82)11(f)

COPY NO. 46

30 JUNE 1982

ANGLO-ITALIAN SUMMIT

7 JULY 1982

CENTRAL AMERICA

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. Situation remains confused and potentially explosive. We share US concern at risks from instability and Cuban-backed subversion. But we must also speak out against human rights abuses in El Salvador, Guatemala and Nicaragua.
2. In El Salvador right-wing gained upper-hand in elections but a political compromise has been worked out involving participation in government for all major parties. We must support US efforts to achieve a satisfactory outcome.
3. Concerned at continuing leftward drift in Nicaragua. Leading opposition figures now leaving the country. Pro-Soviet stance increasingly evident. Do Italians still think it is

worth persisting with substantial aid to Nicaraguan regime? We have considerable doubts.

4. Situation in Guatemala still confused. Prospects for stability bleak.

5. No immediate signs of an increased threat from Guatemala to Belize, but British garrison will remain for an appropriate period. How are Italian relations with Belize?

BACKGROUND

El Salvador

6. The elections of 28 March left the right-wing parties in control of the Constituent Assembly. But after four weeks of infighting and US pressure the moderate Sr Alvaro Magaña was appointed interim President of the Republic. The Christian Democrats have three posts in his new Government. But the extreme right-wing ARENA party control three key Ministries and clearly exercise considerable influence.

7. The right-wing have already forced the suspension of the previous government's land reform policies which the US Government strongly backed. This could exacerbate US Congressional opposition to further economic and military assistance on which El Salvador depends.

8. Killings, allegedly by right-wing death squads, are increasing again. Victims include prominent Christian Democrats. Unusually some arrests have been made. However,

prospects for a negotiated solution with the armed opposition remain poor.

9. Close party links with the Salvadorean Christian Democrats cause the Italian Government to be particularly concerned at the recent setbacks.

Nicaragua

10. The leftward draft continues: 5,000-6,000 Cuban "advisers"; military build-up helped by Cuba, the Soviet Union and Eastern Europe; commitment to Marxism-Leninism reaffirmed. Up to 2,000 more Cubans are reported to have arrived recently, allegedly to help in reconstruction work after flood damage.

11. A State of Emergency is in force. The pretext is alleged US destabilisation, the threat posed by right-wing Nicaraguan exiles based in the USA and Honduras. Civil rights are suspended and the media censored. Prominent opposition figures have fled the country.

12. A Nicaraguan delegation to Moscow (4-9 May) was received by President Brezhnev. Aid worth \$167 million over five years was promised. But little help was offered for Nicaragua's short-term economic needs. The Russians are likely to discourage any exaggerated expectations of economic assistance. Following a European tour by another Junta member a number of promises of aid were reported to have been secured, including one from Italy.

13. The atmosphere of US/Nicaragua relations remains distinctly sour. The two countries have agreed to resume dialogue, but the Americans do not seem optimistic and the

chances of success must be slim.

Guatemala

14. On 23 March a 3-man military junta seized power in a bloodless coup. The coup leader General Rios Montt, a 'born-again Christian' previously known as a leftist, later dissolved the Junta and assumed full power. The regime over-all political orientation and life expectancy remain in doubt. Despite some encouraging signs, the prospects for improving Guatemala's appalling human rights records are poor.

Belize/Guatemala Dispute

15. Guatemala broke off negotiations over the long-standing Belize dispute in 1981 before Belize became independent. On independence she severed consular relations with the UK (having already broken diplomatic relations). Hopes that negotiations might be resumed, (with US help) were dashed by the 23 March coup. The new regime have made inconsistent statements about Belize: some suggesting a conciliatory approach, others vigorously propounding Guatemala's claim. Further moves towards settlement seem unlikely until Guatemala's internal situation is more settled.

16. British Forces will remain in Belize for an appropriate period to assist with external defence. No date has been fixed for their withdrawal.

Italy/Belize

17. Italy is about to establish (non-resident) diplomatic relations with Belize.

Foreign and Commonwealth Office
30 June 1982

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PMVT (82) 12(a)

Copy No. 45

30 JUNE 1982

ANGLO-ITALIAN SUMMIT

7 JULY 1982

LIBYA

Brief by Foreign and Commonwealth Office

Points to Make

1. No illusions about Qadhafi's capacity for mischief, though economic problems at home and wish to present responsible image as OAU Chairman may temper activities.
2. OAU Chairmanship will give Qadhafi an important voice in Africa. Some risk to Western interests eg Namibia. Must be vigilant.
3. Favour cautious dialogue, but modest improvement in relations set back by hostile attitude over Falklands. Now marking time.

- 1 -

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Background

4. Libya a former Italian colony. Substantial Italian trade interests (importing 15% of their oil) and expatriate community of 15,000 (about 8,000 Britons). Italians remain wary of suspected Libyan involvement in terrorism in Italy and mischief in Sicily. Qadhafi has been pressing for an official visit to Rome but the Italians have so far resisted.
5. UK exports to Libya in 1981 were worth around £500m. We buy no Libyan oil. Rapid and unforeseen decline in demand for and the price of oil combined with inflexible policy have resulted in a daily production half that of 1981, and a dramatic slump in Libya's revenue. Short term prospects dim, medium and long term bright.
6. Qadhafi is due to assume the OAU Chairmanship in August but the Tripoli Summit is threatened by a dispute (not of Libyan making) within the OAU over the membership of the Western Sahara's so-called government in exile, the Sahara Arab Democratic Republic.
7. Qadhafi is disappointed at lack of Soviet response to invasion of Lebanon.

Foreign and Commonwealth Office
30 June 1982

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PMVT (82) 12 (b)

28 JUNE 1982

COPY NO 45

ANGLO-ITALIAN SUMMIT

7 JULY 1982

BRIEF NO 12: MEDITERRANEAN ISSUES: (b) Malta

BRIEF BY FOREIGN AND COMMONWEALTH OFFICE

POINTS TO MAKE

Malta/Soviet Union

1. Continued concern at possible Maltese drift towards Soviet Union. Italian assessment of current state of play? Views as to ways of countering Russian influence? [Defensive] No difficulty in joining some general endorsement of Maltese neutrality, but have not been asked by Mintoff to make statement of our own, nor as non-Mediterranean power would we consider it appropriate.

Foreign Interference Bill

2. If Bill becomes law in September, concerned that it would pose problems for all foreign information and cultural activities. How do Italians assess risks to their own interests? Scope for preventive action? Impact on internal political situation in Malta?

EC/Malta

3. Glad that agreement reached on extension of present autonomous trade regime until December. [Defensive] Cannot agree that exceptional aid should be given to Malta in present circumstances. Maltese should solve their internal problem to release the unspent 13 mecu from the First Financial Protocol.

/BACKGROUND

BACKGROUND

Malta/Soviet Union

4. In 1981 Malta concluded agreements with the Soviet Union on bunkering, shipping, trade and air services, and finally a neutrality agreement (Malta had earlier concluded a neutrality agreement with Italy which is unique in providing for aid). Malta and the Soviet Union are now exchanging Embassies. Following Mintoff's election victory in December the pro-Soviet tone of the Maltese Labour Party press has if anything increased, but limits may be imposed by Soviet reluctance to meet Mintoff's demands for a financial trade-off and his wish to keep in with the Italians.

5. Italian policy towards Malta basically conciliatory. Fishing for others to make statements supporting Maltese neutrality. French, Greeks, Algerian and Tunisians have obliged with statements but no guarantees or aid.

Foreign Interference Bill

6. The primary purpose of the Bill is to clamp down on Nationalist broadcasts from a private television station in Sicily. But its provisions are draconian. In effect, and with very limited exceptions, it prohibits almost any action by foreign nationals, or a Maltese national not ordinarily resident in Malta, without written permission of Minister of Foreign Affairs. The Bill is arguably in contravention of provisions of European Convention on Human Rights on freedom of expression, peaceful assembly and freedom of association. The Maltese have reacted with characteristic impatience to Italian expressions of concern.

EC/Malta

7. At the Foreign Affairs Council on 22 June the Italians argued strongly, but without success, in favour of a Commission
/proposal

proposal that 10 mecu of exceptional aid should be given to Malta in order to provide a new political impetus for EC/Malta relations. It was agreed that the autonomous trade regime should be extended and no exceptional aid given. (Malta will not accept loans under existing financial protocol because by Maltese law public financing is subject to a maximum of 3% interest.)

Foreign and Commonwealth Office
28 June 1982

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PMVT (82) 12 (c)

28 JUNE 1982

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ANGLO-ITALIAN SUMMIT

7 JULY 1982

BRIEF NO 12: MEDITERRANEAN ISSUES: (c) Cyprus

BRIEF BY FOREIGN AND COMMONWEALTH OFFICE

POINTS TO MAKE

Intercommunal Talks

1. Now reasonable prospect of talks keeping on course throughout the summer. For the moment no special action with the UN or the parties seems called for. Good atmosphere and real if limited progress achieved in the talks this year generally encouraging. But neither side has yielded on any point of real substance; long term prospects not rosy. We must continue to give UN full support.
 2. President Kyprianou likely to seek recourse to the UNGA in the autumn, especially with impending Presidential election (due before end February 1983). Will only serve to demonstrate to Greek Cypriots that the talks offer only feasible way forward. But Turkish side seem certain to react badly. May need to concert our positions again in early autumn.
- Turkish Prime Minister's Visit to Northern Cyprus
3. Greek Cypriots have protested widely about this visit. Its repercussions seem now to be fading, but plans to introduce a central bank and to make Turkish lira official currency in the north provocative; may create difficulties for intercommunal talks.

/BACKGROUND

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Intercommunal Talks

4. President Kyprianou and Mr Denktash (President of the 'Turkish Federated State of Cyprus') met Sr Perez de Cuellar separately in New York in early June. Meetings went well and no immediate prospect of breakdown in intercommunal talks.
5. Since the tabling of the UN 'evaluation' in November 1981 the talks have taken on a new lease of life and were recently speeded up from one to two meetings a week. Areas of evaluation still to be discussed include territory and safeguards for the Turkish Cypriots; both will be difficult and deadlock may well have been reached by the end of the summer.
6. Greek Cypriot threats of recourse to UNGA worrying. But less objectionable than other recent ideas on 'internationalisation' (international conference, appointment of mediator) apparently favoured by Papandreou, who sees no future in talks until Turkish troops withdraw from Cyprus.

Turkish Prime Minister's Visit to Northern Cyprus

7. Ulu's visit, though deliberately low-key, was clearly intended to counterbalance Papandreou's visit to Cyprus in March. The Turks have said that the new economic measures proposed during the visit are aimed at achieving greater economic stability in the North, and deny that they are trying to integrate the Turkish Cypriot economy, or to set up a separate economy in the North. But the Greek Cypriots may choose to interpret them as further evidence of the futility of the intercommunal dialogue; and our own ability to conduct business in Cyprus would be adversely affected by the displacement of the Cyprus pound in the North. We have made these points to the Turks.

Consultation with European Partners

8. We have periodic and strictly confidential official /discussions

discussions of Cyprus with French, Germans and Italians at Head of Department level. Last meeting in Paris on 24 May. Next meeting envisaged in London early autumn.

Foreign and Commonwealth Office
28 June 1982

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29 June 1982

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ANGLO-ITALIAN SUMMIT
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ITALIAN INTERNAL POLITICAL SCENE

Brief by the Foreign and Commonwealth Office

1. The present five-party coalition Government continues to survive thanks to the mediating skill of its Prime Minister, Republican Senator Giovanni Spadolini. The coalition comprises (in order of importance) the Christian Democrats (DC), the Socialists (PSI), the Social Democrats, the Republicans and the Liberals; it has already exceeded the average life-span for post-war Italian governments (8 months). Despite all Spadolini's efforts, and his attempt to rely less on 'summit' meetings between party secretaries, differences between the partners mean that the government has been little more effective than its predecessors in tackling Italy's fundamental problems. The country thrives despite, not because of, its governments. Elections are not due till 1984 but could come sooner.

2. Senator Spadolini made a vigorous start last June at tackling Italy's fundamental economic problems. Helped by external factors, he has succeeded in reducing inflation from 22% then to 15.2% now. But the public sector deficit is huge and growing, and much remains to be done. Necessary measures to cut public spending, contain labour costs, and increase Government revenue are politically

controversial; lasting agreement on a programme is unlikely to be forthcoming.

3. Senator Spadolini, the first non-DC Prime Minister of the post-war Republic, is under pressure from the PSI and its ambitious leader, Signor Craxi. Signor Craxi exploits every opportunity to increase his party's influence on government policy and to attract new votes. He has his sights on the Prime Ministership, but is wary of provoking a government crisis for fear that the electorate might penalise his party in an ensuing election. Meanwhile the DC remain in some disarray, showing no signs of the promised party 'renewal' and obliged to react to the forcing tactics of the PSI. The Party Congress in May elected Signor De Mita to replace Signor Piccoli as Party Secretary, in the hope that he would deal more firmly with Signor Craxi's pretensions, but he has yet to show his hand. DC popularity remains static.

4. Significant political opposition in Italy comes only from the Communists (PCI). They have moved towards greater independence of Moscow, and have sought to find a 'third way' between capitalism and socialism as practised in Eastern Europe. Many of the militants at the party's base are confused, and in recent local elections the PCI lost several percentage points, mainly to the PSI although the other lay parties also gained.

5. El Salvador and the Falklands are recent examples of foreign policy issues which have split the coalition. More immediate domestic pressure has resulted from the decision by the private employers federation, Confindustria, to withdraw from the voluntary

'Scala Mobile' agreement on wage indexation. Confindustria's move, though not effective till next January, has already led to a series of strikes including a general strike on 25 June. Meanwhile a major financial scandal is emerging in the wake of the death (in London) of Signor Calvi, head of the Banco Ambrosiano. ENI, the state oil company, is alleged to be involved.

6. Most major institutions of the Italian state function at a low level of efficiency. Urban terrorism, by the Red Brigades and (to a lesser extent) by the extreme right, remains a serious threat, but the security forces have made good use of information provided by 'repentant' captured terrorists. They have made more than 300 arrests since the release of the kidnapped US Brigadier Dozier.

7. There has for years been a contrast between Italy's rapid economic advance and the immobility of Italian politics. This is unlikely to change, even though Senator Spadolini has a reputation for honesty and has tried to introduce some procedural reforms, such as strengthening the co-ordinating role of the Prime Minister's office. Many Italians remain disillusioned with all politicians, except the veteran Socialist President, Pertini, who is widely respected for his outspoken honesty.

Foreign and Commonwealth Office
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UK/ITALY NUCLEAR COLLABORATION

Brief by the Foreign and Commonwealth Office

Defensive Brief

Line to take

1. Italy did not take up our earlier offer to propose areas for collaboration. With the Sizewell enquiry pending this is a difficult time for British industry to contemplate major new commitments, though obviously we should still be glad to consider any specific propositions.

Background

UK/Italy Nuclear Collaboration

2. The UK has no existing bilateral arrangements with Italy in this field although both countries participate in a number of multilateral projects under the EC and Nuclear Energy Agency. For example, the UK and Italy work closely together in the Community's fusion programme and we give full support to Italy's proposal for an important non-JET fusion project (RFX) to be
/based

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based at Padua for which the Italians are seeking Community financial support.

3. The last contact at senior level was a sponsored visit by Professor Colombo, the chairman of the Italian National Commission for Nuclear Energy (CNEN) in June 1981. At that time the Italians proposed collaboration with the UK on reactor design and development. The UK nuclear industry was sceptical about the assistance the Italians could provide, particularly on the Pressurised Water Reactor (PWR) design. However, Dr Franklin, the Chairman of the National Nuclear Corporation, invited Professor Colombo to suggest topics for further discussion. The Italian side has not followed up this invitation.

4. UK industry is now fully tied up with preparations for the Sizewell public enquiry. They will be very reluctant to accept any collaborative venture that might distract their attention from the UK domestic programme, probably for the next year.

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